



# Power Assets Holdings Ltd. 電能實業有限公司

(Stock Code: 6)

## Interim Report 2014



SYNERGY



EXPERTISE



NEW MARKET



GLOBAL FOOTPRINT



CUSTOMER SERVICE



SUPPLY RELIABILITY



CLEANER AIR



WORLD CLASS ASSETS



COMMITMENT

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014	2013	Change
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Profit attributable to shareholders	<b>56,544</b>	4,772	+1,084.9%
One-time gain from spin-off	<b>52,928</b>	—	
Electricity business — Hong Kong	<b>666</b>	1,773	-62.4%
Investments — Outside Hong Kong	<b>3,137</b>	3,073	+2.1%
All other items	<b>(187)</b>	(74)	N/A
Profit excluding one-time gain	<b>3,616</b>	4,772	-24.2%
Earnings per share	<b>\$26.49</b>	\$2.24	+1,084.9%
Dividend per share	<b>\$0.67</b>	\$0.65	+3.1%

This Interim Report has been posted in both the English and Chinese languages on the Company's website at [www.powerassets.com](http://www.powerassets.com). If, for any reason, shareholders 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.

Shareholders 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 Rooms 1913-1914, 19th Floor, Hutchison House, 10 Harcourt Road, Hong Kong or to the share 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@powerassets.com](mailto:mail@powerassets.com).



## CONTENTS

2	Corporate Information
3	Key Dates and Share Information
4	Chairman's Statement
8	Financial Review
11	Unaudited Consolidated Statement of Profit or Loss
12	Unaudited Consolidated Statement of Comprehensive Income
13	Unaudited Consolidated Statement of Financial Position
14	Unaudited Consolidated Statement of Changes in Equity
15	Unaudited Condensed Consolidated Cash Flow Statement
16	Notes to the Unaudited Interim Financial Statements
31	Corporate Governance
40	Other Information

# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

FOK Kin Ning, Canning (*Chairman*)  
TSAI Chao Chung, Charles (*Chief Executive Officer*)  
CHAN Loi Shun  
Andrew John HUNTER  
Neil Douglas MCGEE  
WAN Chi Tin

### Non-executive Directors

LI Tzar Kuoi, Victor  
Frank John SIXT

### Independent Non-executive Directors

IP Yuk-keung, Albert  
Ralph Raymond SHEA  
WONG Chung Hin  
WU Ting Yuk, Anthony

### Audit Committee

WONG Chung Hin (*Chairman*)  
IP Yuk-keung, Albert  
Ralph Raymond SHEA

### Remuneration Committee

WONG Chung Hin (*Chairman*)  
FOK Kin Ning, Canning  
Ralph Raymond SHEA

### Company Secretary

Alex NG

### Principal Bankers

Bank of China (Hong Kong) Limited  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
The Hongkong and Shanghai Banking Corporation Limited  
Mizuho Bank, Ltd.

### Solicitors

Mayer Brown JSM  
Woo, Kwan, Lee & Lo

### Auditor

KPMG

### Registered Office

Rooms 1913-1914,  
19th Floor, Hutchison House,  
10 Harcourt Road, Hong Kong  
Telephone: 2122 9122  
Facsimile: 2180 9708  
Email: mail@powerassets.com

### Website

www.powerassets.com

### Share Registrar

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716,  
17th Floor, Hopewell Centre,  
183 Queen's Road East, Wanchai, Hong Kong  
Website: www.computershare.com  
Email: hkinfo@computershare.com.hk

### ADR (Level 1 Programme) Depository

Citibank, N.A.  
Shareholder Services  
P.O. Box 43077, Providence,  
Rhode Island 02940-3077, U.S.A.  
Website: www.citi.com/dr  
Email: citibank@shareholders-online.com

### Investor Relations

For institutional investors, please contact:  
CHAN Loi Shun (*Executive Director*) or  
Ivan CHAN (*Chief Financial Officer*)

For other investors, please contact:  
Alex NG (*Company Secretary*)

Email: mail@powerassets.com  
Telephone: 2122 9122  
Facsimile: 2180 9708  
Postal Address: G.P.O. Box 338, Hong Kong  
Address: Rooms 1913-1914,  
19th Floor, Hutchison House,  
10 Harcourt Road, Hong Kong

## KEY DATES AND SHARE INFORMATION

### Key Dates

<b>Interim Results Announcement</b>	24 July 2014
<b>Ex-dividend Date</b>	25 August 2014
<b>Record Date for Interim Dividend</b>	26 August 2014
<b>Payment of Interim Dividend (HK\$0.67 per share)</b>	4 September 2014
<b>Financial Year End</b>	31 December 2014

### Share Information

<b>Board Lot</b>	500 shares
<b>Market Capitalisation as at 30 June 2014</b>	HK\$144,596 million
<b>Ordinary Share to ADR Ratio</b>	1:1

### Stock Codes

The Stock Exchange of Hong Kong Limited	6
Bloomberg	6 HK
Thomson Reuters	0006.HK
ADR Ticker Symbol	HGKGY
CUSIP Number	739197200

# CHAIRMAN'S STATEMENT

## Pursuing Long-term Growth with Global Horizons

I am pleased to present the 2014 interim results for Power Assets.

Following a spin-off exercise completed on 29 January 2014, we have reduced our ownership of The Hongkong Electric Company, Limited ("HK Electric"). The spin-off has allowed the Group to focus exclusively on its long-term growth strategy of creating a low-risk, diversified portfolio of investments in the electricity and gas industries worldwide, in particular businesses which yield stable revenues within regulated, well-structured markets.

While actively pursuing portfolio expansion, we aspire to achieve global diversification with minimal risk. Our due diligence process includes detailed evaluation of all potential opportunities, covering every aspect of the operations of the potential investment to satisfy ourselves of its profitability and sustainability.

Our portfolio includes investments in the UK, mainland Europe, Asia, North America and Australasia covering generation, transmission and distribution, with the UK serving as our single largest market.

## Half Year Results

The Group's unaudited profits for the six months ended 30 June 2014 amounted to HK\$56,544 million. This includes a one-time gain of HK\$52,928 million from the spin-off in January 2014. Excluding this one-time gain, the Group's unaudited profits were HK\$3,616 million (2013: HK\$4,772 million).

## Interim Dividend

The board of directors has declared an interim dividend of HK\$0.67 (2013: HK\$0.65) per share, payable on 4 September 2014 to shareholders whose names appear in the Company's Register of Members on 26 August 2014.

## Expansion of Presence in Australian Natural Gas Distribution Market

During the period the Group formed a joint venture with Cheung Kong Infrastructure Holdings Limited and Cheung Kong (Holdings) Limited with a view to acquiring up to the entire interest in Envestra Limited, one of Australia's largest natural gas distribution companies, other than the 17.46% interest currently held by Cheung Kong Infrastructure. With Power Assets holding a one-third interest in the joint venture representing no less than 10.85% and up to 27.51% in Envestra Limited, the proposed acquisition is expected to enhance and complement our existing presence in the Australian market.

Envestra's natural gas distribution network serves over 1.2 million customers in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

## **Operations**

As the overall economic climate improved globally, the Group achieved steady results during the period under review.

The UK remained the Group's strongest-performing market during the period. All of our four UK operating companies delivered satisfactory performance. UK Power Networks, Wales and West Utilities, and Seabank benefited from stable performance while Northern Gas Networks delivered higher returns as a result of efficiencies achieved through streamlining teams and operations and tighter cost controls.

UK Power Networks continued the next 8-year price control reset process with the industry regulator, Office of the Gas and Electricity Markets ("Ofgem"). In this process, revised business plans were submitted to Ofgem in March 2014 and the regulator's Initial Proposals are due to be published at the end of July 2014. During the period Wales and West Utilities achieved the Asset Management System standard (ISO55001) which was only released in January 2014. Our operating companies met or surpassed all the relevant performance and environmental standards set by Ofgem and continued to achieve strong customer satisfaction ratings.

In Australia, revenues increased on the back of higher tariffs but the overall contribution was impacted by a lower exchange rate of Australian dollar when compared with the same period of last year. SA Power Networks is developing proposals for the 2015-2020 regulatory period, which will be submitted to the Australian Energy Regulator in October 2014.

In mainland China, our power plants in Zhuhai and Jinwan continued to improve their emissions control facilities through measures such as the adoption of wet electrostatic precipitator technology and upgrades of flue gas desulphurisation equipment. These initiatives enabled them to meet the new National Environmental Protection standards that have come into effect in 2014. Our wind farms in Yunnan and Hebei implemented engineering innovations to increase productivity and reliability.

The Netherlands is home to a new member of the family: AVR, an energy-from-waste company acquired in August 2013. During the period under review AVR's operations were stable and the performance met expectations.

## **CHAIRMAN'S STATEMENT** *(Continued)*

In New Zealand, Wellington Electricity completed its acquisition of transmission line assets linking a new 60 MW wind farm to its network.

Our generation businesses in Canada improved revenues through steam sales and plant efficiencies and delivered positive performance as a result of favourable natural gas market conditions. The Thailand generation business also delivered steady performance.

Our investment in Hong Kong maintained its track record of high standards in reliability, affordability and customer service. During the period, a major public consultation exercise was conducted by the Hong Kong government to determine the future fuel mix for electricity generation. We believe that increasing the proportion of natural gas used to generate power in Hong Kong will be the right option for maintaining electricity supply reliability and keeping tariffs competitive, while reducing pollutants and carbon emissions.

### **Outlook**

In January 2014, the Group received HK\$59 billion in cash from the spin-off of the Hong Kong electricity business, bringing total cash on hand as at 30 June 2014 to HK\$64 billion. These funds will enhance the Group's financial strength and place it in an advantageous position as we plan for future investment.

The Group will continue to proactively search for suitable investment opportunities throughout the world, especially focusing on high-quality investments in stable, well-regulated power and gas markets such as Australasia, North America, UK and continental Europe. As the global economy continues to improve, the Group is optimistic about identifying suitable businesses that fit our overall investment criteria and maximize shareholder value over the long term.

In the UK and Australia, the respective regulators are in the process of setting the parameters for the operations and revenues of electricity distribution companies for the next regulatory period. Our operating companies will continue to engage with the regulators to complete the requisite submissions.



In Hong Kong, the public consultation on the future fuel mix for electricity generation will have a significant impact on the development of HK Electric. The Group supports and endorses HK Electric's proposal to increase the proportion of gas-fired generation.

I thank the board of directors and all our employees for their diligence and commitment, and our shareholders and other stakeholders for their long-term support of our strategy and aspirations.

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

Hong Kong, 24 July 2014

# FINANCIAL REVIEW

## Financial Performance

Profit attributable to shareholders for the six months ended 30 June 2014 amounted to HK\$56,544 million. This includes a one-time gain of HK\$52,928 million from the spin-off of HK Electric in January 2014. Excluding this one-time gain, the Group's unaudited profits were HK\$3,616 million (2013: HK\$4,772 million), dropped by 24.2%, mainly due to a reduction of interest in HK Electric from 100% to 49.9%.

Investments in the United Kingdom delivered satisfactory results for the six months ended 30 June 2014 of HK\$2,355 million (2013: HK\$2,348 million). This was mainly contributed by stable performance, improved efficiency and tighter costs control.

Investments in Australia recorded slightly lower earnings of HK\$394 million (2013: HK\$442 million) due to lower exchange rate of the Australian dollar when compared with the same period of last year despite higher tariffs and regulated revenues.

The current period's performance of our coal-fired plants in mainland China was higher than the same period of last year mainly due to major overhauls in the Zhuhai Power Plant which were completed in the first half of last year.

Investment in the Netherlands, which was acquired in August 2013, commenced contribution to the Group with expected results. Investments in Canada, Thailand and New Zealand maintained stable earnings.

Our investment in Hong Kong electricity businesses, which our share has been reduced from 100% to 49.9% since 29 January 2014, contributed earnings of HK\$666 million.

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2014 interim dividend of HK\$0.67 per share (2013: HK\$0.65 per share) represented a 3.1% growth.

## Capital Expenditure, Liquidity and Financial Resources

The Group's capital expenditure and investments were primarily funded by cash from operations, dividends and other repatriation from investments. Total unsecured bank loans outstanding at 30 June 2014 were HK\$11,357 million (31 December 2013: unsecured bank loans and debt securities in issue totalling HK\$22,348 million). In addition, the Group had bank deposits and cash of HK\$64,238 million (31 December 2013: HK\$7,894 million) and no undrawn committed bank facility at 30 June 2014 (31 December 2013: HK\$2,300 million).

## Treasury Policy, Financing Activities and Debt Structure

The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from dividends and other repatriation from investments, are generally placed on short term deposits denominated primarily in Australian dollars, Hong Kong dollars, pounds sterling and United States dollars. The Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

The Group's financial profile remained strong during the period. Upon the spin-off of HK Electric, Standard & Poor's ("S&P") assessed the Company's stand-alone credit profile to be "a+" as the lower recurring cash flow was mitigated by the lower debt stemming from the deconsolidation. However, as S&P has adopted a new group rating methodology which caps the rating of an entity to that of its controlling entity/major shareholders, the long term credit ratings of the Company was lowered from "A+" to "A-" with a stable outlook on 29 January 2014. As at 30 June 2014, the net cash position of the Group amounted to HK\$52,881 million (31 December 2013: net debt HK\$14,454 million).

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

- (1) 9% were in Euro, 40% were in Australian dollars and 51% were in pounds sterling;
- (2) 100% were bank loans;
- (3) 100% were repayable between 2 and 5 years;
- (4) 78% were in fixed rate and 22% were in floating rate.

The Group's policy is to maintain a portion of its debt at fixed interest rates. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the 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.

## **FINANCIAL REVIEW** *(Continued)*

The Group's principal foreign currency exposures arise from its investments outside Hong Kong. Foreign currency transaction exposure also arises from settlement to vendors which is not material and is managed mainly through purchases in the spot market or utilisation of foreign currency receipts of the Group. Currency exposure arising from investments outside Hong Kong is, where considered appropriate, mitigated by financing those investments in local currency borrowings and by entering into forward foreign exchange contracts. Foreign currency fluctuations will affect the translated value of the net assets of investments outside Hong Kong and the resultant translation difference is included in the Group's reserve account. Income received from the Group's investments outside Hong Kong which is not denominated in Hong Kong dollars is, unless otherwise determined, converted into Hong Kong dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2014 amounted to HK\$17,080 million (31 December 2013: HK\$29,107 million).

### **Charges on Group Assets**

At 30 June 2014, the Group's interest in an associate of HK\$557 million (31 December 2013: HK\$529 million) had been pledged as part of the security to secure financing facilities granted to the associate.

### **Contingent Liabilities**

As at 30 June 2014, the Group had given guarantees and indemnities totalling HK\$895 million (31 December 2013: HK\$909 million).

The Company had given guarantees and indemnities in respect of bank and other borrowing facilities made available to and financial commitments of subsidiaries totalling HK\$12,242 million (31 December 2013: HK\$11,507 million). The entire amount, while being a contingent liability of the Company, is reflected in the Consolidated Statement of Financial Position of the Group.

### **Employees**

The Group continues its policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30 June 2014, excluding directors' emoluments, amounted to HK\$91 million (2013: HK\$537 million). As at 30 June 2014, the Group employed 14 (31 December 2013: 1,839) permanent employees. The reduction in the remuneration costs and the number of permanent employees arose due to the spin-off of HK Electric and the resulting transfer of most employees to HK Electric on 1 January 2014. No share option scheme is in operation.

## UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

(Expressed in Hong Kong dollars)

	Note	2014 \$ million	2013 \$ million Restated
<b>Turnover</b>	5	<b>1,432</b>	5,488
Direct costs		<b>(304)</b>	(2,032)
		<b>1,128</b>	3,456
Gain on disposal of subsidiaries	23	<b>52,928</b>	—
Other net income/(loss)		<b>573</b>	(24)
Other operating costs		<b>(816)</b>	(420)
<b>Operating profit</b>		<b>53,813</b>	3,012
Finance costs		<b>(229)</b>	(343)
Share of profits less losses of joint ventures		<b>2,301</b>	2,210
Share of profits less losses of associates		<b>789</b>	353
<b>Profit before taxation</b>	6	<b>56,674</b>	5,232
Income tax:	7		
Current		<b>(48)</b>	(392)
Deferred		<b>(2)</b>	40
		<b>(50)</b>	(352)
<b>Profit after taxation</b>		<b>56,624</b>	4,880
Scheme of Control transfers to:			
Tariff Stabilisation Fund		<b>(80)</b>	(107)
Rate Reduction Reserve		<b>—</b>	(1)
		<b>(80)</b>	(108)
<b>Profit for the period attributable to equity shareholders of the Company</b>		<b>56,544</b>	4,772
<b>Earnings per share</b>			
Basic and diluted	8	<b>\$26.49</b>	\$2.24

The notes on pages 16 to 30 form part of these unaudited interim financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the period are set out in note 19.

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

(Expressed in Hong Kong dollars)

	2014 \$ million	2013 \$ million Restated
<b>Profit for the period</b>	<b>56,544</b>	<b>4,772</b>
<b>Other comprehensive income for the period</b>		
<b>Items that will not be reclassified to profit or loss</b>		
Remeasurement of net defined benefit asset/liability	(40)	—
Share of other comprehensive income of joint ventures and associates	(181)	42
Income tax relating to items that will not be reclassified to profit or loss	54	(21)
	<b>(167)</b>	<b>21</b>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translating operations outside Hong Kong, including joint ventures and associates	1,461	(2,050)
Net investment hedges	(514)	641
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	35	154
Reclassification adjustments for amounts transferred to profit or loss	—	3
Reclassification adjustments for disposal of subsidiaries	(20)	—
Amounts transferred to the initial carrying amount of hedged items	—	4
	<b>15</b>	<b>161</b>
Share of other comprehensive income of joint ventures and associates	63	125
Income tax relating to items that may be reclassified subsequently to profit or loss	(33)	(74)
	<b>992</b>	<b>(1,197)</b>
	<b>825</b>	<b>(1,176)</b>
<b>Total comprehensive income for the period attributable to equity shareholders of the Company</b>	<b>57,369</b>	<b>3,596</b>

The notes on pages 16 to 30 form part of these unaudited interim financial statements.

## UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

(Expressed in Hong Kong dollars)

	Note	(Unaudited) 30 June 2014 \$ million	(Audited) 31 December 2013 \$ million
<b>Non-current assets</b>			
Fixed assets			
— Property, plant and equipment		14	44,063
— Assets under construction		—	3,058
— Interests in leasehold land held for own use under finance leases		19	2,001
		<u>33</u>	<u>49,122</u>
Interest in joint ventures	9	39,309	36,354
Interest in associates	11	33,390	8,257
Other non-current financial assets		67	67
Derivative financial instruments	16	39	283
Deferred tax assets		25	42
Employee retirement benefit assets		4	618
		<u>72,867</u>	<u>94,743</u>
<b>Current assets</b>			
Inventories		—	948
Trade and other receivables	12	673	1,647
Fuel Clause Recovery Account		—	1
Current tax recoverable		4	4
Bank deposits and cash	13	64,238	7,894
		<u>64,915</u>	<u>10,494</u>
<b>Current liabilities</b>			
Trade and other payables	14	(2,821)	(4,109)
Bank overdrafts — unsecured	13	—	(3)
Current portion of bank loans and other interest-bearing borrowings	15	—	(500)
Current tax payable		—	(340)
		<u>(2,821)</u>	<u>(4,952)</u>
<b>Net current assets</b>		<u>62,094</u>	<u>5,542</u>
<b>Total assets less current liabilities</b>		<u>134,961</u>	<u>100,285</u>
<b>Non-current liabilities</b>			
Bank loans and other interest-bearing borrowings	15	(11,357)	(21,845)
Derivative financial instruments	16	(734)	(549)
Customers' deposits		—	(1,900)
Deferred tax liabilities		—	(5,955)
Employee retirement benefit liabilities		(118)	(559)
		<u>(12,209)</u>	<u>(30,808)</u>
<b>Rate Reduction Reserve</b>		—	(3)
<b>Tariff Stabilisation Fund</b>		—	(36)
<b>Net assets</b>		<u>122,752</u>	<u>69,438</u>
<b>Capital and reserves</b>			
Share capital	17	6,610	2,134
Reserves		116,142	67,304
<b>Total equity attributable to equity shareholders of the Company</b>		<u>122,752</u>	<u>69,438</u>

The notes on pages 16 to 30 form part of these unaudited interim financial statements.

## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(Expressed in Hong Kong dollars)

\$ million	Attributable to equity shareholders of the Company						Total
	Share capital	Share premium	Exchange reserve	Hedging reserve	Revenue reserve	Proposed/ declared dividend	
Balance at 1 January 2013	2,134	4,476	1,585	(1,124)	52,059	3,905	63,035
Changes in equity for the six months ended 30 June 2013:							
Profit for the period	—	—	—	—	4,772	—	4,772
Other comprehensive income	—	—	(1,409)	212	21	—	(1,176)
Total comprehensive income	—	—	(1,409)	212	4,793	—	3,596
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(3,905)	(3,905)
Interim dividend (see note 19)	—	—	—	—	(1,387)	1,387	—
Balance at 30 June 2013	<u>2,134</u>	<u>4,476</u>	<u>176</u>	<u>(912)</u>	<u>55,465</u>	<u>1,387</u>	<u>62,726</u>
<b>Balance at 1 January 2014</b>	<b>2,134</b>	<b>4,476</b>	<b>982</b>	<b>(759)</b>	<b>58,550</b>	<b>4,055</b>	<b>69,438</b>
Changes in equity for the six months ended 30 June 2014:							
Profit for the period	—	—	—	—	56,544	—	56,544
Other comprehensive income	—	—	947	45	(167)	—	825
Total comprehensive income	—	—	947	45	56,377	—	57,369
Transfers on 3 March 2014 (see note 17)	4,476	(4,476)	—	—	—	—	—
Final dividend in respect of the previous year approved and paid	—	—	—	—	—	(4,055)	(4,055)
Interim dividend (see note 19)	—	—	—	—	(1,430)	1,430	—
<b>Balance at 30 June 2014</b>	<b><u>6,610</u></b>	<b><u>—</u></b>	<b><u>1,929</u></b>	<b><u>(714)</u></b>	<b><u>113,497</u></b>	<b><u>1,430</u></b>	<b><u>122,752</u></b>

The notes on pages 16 to 30 form part of these unaudited interim financial statements.



## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2014

(Expressed in Hong Kong dollars)

	<b>2014</b>	2013
	<b>\$ million</b>	\$ million
<b>Net cash generated from operating activities</b>	<b>1,540</b>	3,743
<b>Net cash generated from investing activities</b>	<b>34,004</b>	1,267
<b>Net cash generated from/(used in) financing activities</b>	<b>23,400</b>	(1,709)
<b>Net increase in cash and cash equivalents</b>	<b>58,944</b>	3,301
<b>Cash and cash equivalents at 1 January</b>	<b>5,294</b>	5,385
<b>Effect of foreign exchange rate changes</b>	<b>—</b>	(6)
<b>Cash and cash equivalents at 30 June</b>	<b>64,238</b>	8,680

The notes on pages 16 to 30 form part of these unaudited interim financial statements.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1. Review of unaudited interim financial statements

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

## 2. Basis of preparation

These unaudited consolidated 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 the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

The interim financial statements and selected explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Upon adoption of HKFRS 11, the Group re-evaluated its involvement in joint arrangements. Certain investments which have in the past been classified by the Group as associates meet the definition of joint ventures under HKFRS 11 and a reclassification has been made accordingly. The Group also reclassified investments in jointly controlled entities as joint ventures.

This change in accounting policy has been applied retrospectively with consequential adjustments to comparatives for the period ended 30 June 2013 as follows:

	<b>As previously reported \$ million</b>	<b>Effect of adoption of HKFRS 11 \$ million</b>	<b>As restated \$ million</b>
<b>Consolidated statement of profit or loss for the period ended 30 June 2013</b>			
Share of profits less losses of joint ventures	135	2,075	2,210
Share of profits less losses of associates	2,428	(2,075)	353

The change in accounting policy has no impact on the financial position and the financial results of the Group.

Upon the spin-off of the Group's Hong Kong electricity business in January 2014, the principal activities of the Group changed from generation and supply of electricity to investment in electricity and gas operations. Interest income from loans to joint ventures and associates as well as dividends from other financial assets are included in "Turnover" instead of "Other net income/(loss)". Comparatives for the period ended 30 June 2013 are restated as follows:

	<b>As previously reported \$ million</b>	<b>Effect of change of principal activities \$ million</b>	<b>As restated \$ million</b>
<b>Consolidated statement of profit or loss for the period ended 30 June 2013</b>			
Turnover	4,792	696	5,488
Other net income/(loss)	672	(696)	(24)

### **3. Changes in accounting policies**

The HKICPA has issued a few amendments to HKFRSs and a new interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non- Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) — Interpretation 21	Levies

The adoption of these amendments to HKFRSs and new interpretation of HK(IFRIC) have no material impact on the Group's result and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

## 4. Segment reporting

The analyses of the principal activities of the operations of the Group during the period are as follows:

2014								All other activities	Total
	Sales of electricity	Investments					Sub-total		
		Hong Kong	United Kingdom	Australia	Mainland China	Others			
\$ million									
<b>For the six months ended 30 June</b>									
<b>Revenue</b>									
Turnover	682	339	275	45	86	745	5	1,432	
Gain on disposal of subsidiaries	—	—	—	—	—	—	52,928	52,928	
Other net income	2	—	—	—	3	3	115	120	
<b>Reportable segment revenue</b>	<b>684</b>	<b>339</b>	<b>275</b>	<b>45</b>	<b>89</b>	<b>748</b>	<b>53,048</b>	<b>54,480</b>	
<b>Result</b>									
Segment earnings	484	339	275	33	89	736	(638)	582	
Gain on disposal of subsidiaries	—	—	—	—	—	—	52,928	52,928	
Depreciation and amortisation	(149)	—	—	—	—	—	(1)	(150)	
Bank and other interest income	1	—	—	—	—	—	452	453	
Operating profit	336	339	275	33	89	736	52,741	53,813	
Finance costs	(20)	(59)	(139)	—	(11)	(209)	—	(229)	
Share of profits less losses of joint ventures and associates	483	2,067	258	224	57	2,606	1	3,090	
Profit before taxation	799	2,347	394	257	135	3,133	52,742	56,674	
Income tax	(53)	8	—	(4)	—	4	(1)	(50)	
Profit after taxation	746	2,355	394	253	135	3,137	52,741	56,624	
Scheme of Control transfers	(80)	—	—	—	—	—	—	(80)	
<b>Reportable segment profit</b>	<b>666</b>	<b>2,355</b>	<b>394</b>	<b>253</b>	<b>135</b>	<b>3,137</b>	<b>52,741</b>	<b>56,544</b>	
<b>At 30 June</b>									
<b>Reportable segment assets</b>	<b>24,467</b>	<b>31,057</b>	<b>8,191</b>	<b>4,778</b>	<b>4,328</b>	<b>48,354</b>	<b>64,961</b>	<b>137,782</b>	
<b>Reportable segment liabilities</b>	<b>—</b>	<b>(6,626)</b>	<b>(4,706)</b>	<b>(3)</b>	<b>(1,088)</b>	<b>(12,423)</b>	<b>(2,607)</b>	<b>(15,030)</b>	

\$ million	Sales of electricity		Investments				All other activities	Total
	Hong Kong	United Kingdom	Australia	Mainland China	Others	Sub-total		
		Restated	Restated	Restated	Restated	Restated	Restated	Restated
For the six months ended 30 June								
Revenue								
Turnover	4,784	268	304	40	84	696	8	5,488
Other net income/(loss)	14	—	—	—	3	3	(80)	(63)
Reportable segment revenue	<u>4,798</u>	<u>268</u>	<u>304</u>	<u>40</u>	<u>87</u>	<u>699</u>	<u>(72)</u>	<u>5,425</u>
Result								
Segment earnings	3,386	268	304	27	87	686	(114)	3,958
Depreciation and amortisation	(986)	—	—	—	—	—	1	(985)
Bank and other interest income	—	—	—	—	—	—	39	39
Operating profit	2,400	268	304	27	87	686	(74)	3,012
Finance costs	(142)	(48)	(153)	—	—	(201)	—	(343)
Share of profits less losses of joint ventures and associates	—	2,098	291	148	25	2,562	1	2,563
Profit before taxation	2,258	2,318	442	175	112	3,047	(73)	5,232
Income tax	(377)	30	—	(4)	—	26	(1)	(352)
Profit after taxation	1,881	2,348	442	171	112	3,073	(74)	4,880
Scheme of Control transfers	(108)	—	—	—	—	—	—	(108)
Reportable segment profit	<u>1,773</u>	<u>2,348</u>	<u>442</u>	<u>171</u>	<u>112</u>	<u>3,073</u>	<u>(74)</u>	<u>4,772</u>
At 30 June								
Reportable segment assets	<u>52,508</u>	<u>24,122</u>	<u>7,698</u>	<u>5,192</u>	<u>3,145</u>	<u>40,157</u>	<u>9,121</u>	<u>101,786</u>
Reportable segment liabilities	<u>(27,427)</u>	<u>(5,359)</u>	<u>(4,720)</u>	<u>(3)</u>	<u>(1)</u>	<u>(10,083)</u>	<u>(1,550)</u>	<u>(39,060)</u>

## 5. Turnover

Group turnover represents interest income from loans granted to joint ventures and associates, and dividend from other financial assets.

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>\$ million</b>	\$ million
		Restated
Sales of electricity	<b>676</b>	4,765
Electricity-related income	<b>6</b>	19
Interest income	<b>700</b>	656
Dividend	<b>45</b>	40
Others	<b>5</b>	8
	<u><b>1,432</b></u>	<u>5,488</u>
Share of revenue of joint ventures	<u><b>9,400</b></u>	<u>7,925</u>

## 6. Profit before taxation

	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>\$ million</b>	\$ million
Profit before taxation is arrived at after charging/(crediting):		
Finance costs		
Interest on borrowings	<b>230</b>	384
Less: Interest capitalised to fixed assets	<b>—</b>	(31)
Interest transferred to fuel cost	<b>(1)</b>	(10)
	<b>229</b>	343
Depreciation		
Depreciation charges for the period	<b>155</b>	1,015
Less: Depreciation capitalised to fixed assets	<b>(9)</b>	(59)
	<b>146</b>	956
Amortisation of leasehold land	<u><b>4</b></u>	<u>29</u>

## 7. Income tax

	Six months ended 30 June	
	2014	2013
	\$ million	\$ million
Current tax	48	392
Deferred tax	2	(40)
	<u>50</u>	<u>352</u>

Taxation is provided for at the applicable tax rate on the estimated assessable profits less available tax losses. Deferred taxation is provided on temporary differences under the liability method using tax rates applicable to the Group's operations in different countries.

A subsidiary of the Company has paid to the Australian Taxation Office ("ATO"), a total of \$490 million (A\$67 million) being 50% (which percentage is based on ATO customary practice) of the tax in dispute, including interest and penalties, claimed by the ATO pending resolution of a dispute regarding the deductibility of certain fees paid by that subsidiary for income tax purposes. The subsidiary is of the view that the fees are deductible and that no amount should be payable to the ATO and that the amount paid is expected to be recovered from the ATO. The subsidiary has obtained legal advice and will vigorously defend its position.

## 8. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$56,544 million for the six months ended 30 June 2014 (2013: \$4,772 million) and 2,134,261,654 ordinary shares (2013: 2,134,261,654 ordinary shares) in issue throughout the period.

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2014 and 2013.

## 9. Fixed assets

\$ million	Site formation and buildings	Plant, machinery and equipment	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total fixed assets
Net book value at 1 January 2014	8,444	35,619	3,058	47,121	2,001	49,122
Additions	—	6	80	86	—	86
Transfers between categories	3	61	(64)	—	—	—
Disposals	—	(2)	—	(2)	—	(2)
Disposal of interests in subsidiaries	(8,415)	(35,547)	(3,074)	(47,036)	(1,978)	(49,014)
Depreciation/amortisation	(21)	(134)	—	(155)	(4)	(159)
<b>Net book value at 30 June 2014</b>	<b><u>11</u></b>	<b><u>3</u></b>	<b><u>—</u></b>	<b><u>14</u></b>	<b><u>19</u></b>	<b><u>33</u></b>
Cost	26	6	—	32	30	62
Accumulated depreciation and amortisation	(15)	(3)	—	(18)	(11)	(29)
<b>Net book value at 30 June 2014</b>	<b><u>11</u></b>	<b><u>3</u></b>	<b><u>—</u></b>	<b><u>14</u></b>	<b><u>19</u></b>	<b><u>33</u></b>

## 10. Interest in joint ventures

	30 June 2014 \$ million	31 December 2013 \$ million
Share of net assets	29,543	26,976
Loans to unlisted joint ventures	9,497	9,197
Amounts due from unlisted joint ventures	269	181
	<b><u>39,309</u></b>	<b><u>36,354</u></b>
Share of total assets of joint ventures	<b><u>99,190</u></b>	<b><u>93,680</u></b>



## 11. Interest in associates

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Share of net assets	<b>28,275</b>	3,430
Loans to unlisted associates	<b>5,035</b>	4,752
Amounts due from unlisted associates	<b>80</b>	75
	<b><u>33,390</u></b>	<b><u>8,257</u></b>

## 12. 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:

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Within 1 month	<b>1</b>	606
1 to 3 months	<b>—</b>	30
More than 3 months but less than 12 months	<b>—</b>	13
Trade debtors	<b>1</b>	649
Other receivables	<b>666</b>	908
	<b>667</b>	1,557
Derivative financial instruments		
— held as cash flow/fair value		
hedging instruments	<b>4</b>	2
Deposits and prepayments	<b>2</b>	88
	<b><u>673</u></b>	<b><u>1,647</u></b>

Trade with customers is carried out on credit and invoices are normally due within 1 month after issued.

### 13. Bank deposits and cash

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	<b>64,186</b>	5,256
Cash at bank and on hand	<b>52</b>	41
Bank overdrafts	<b>—</b>	(3)
	<hr/>	<hr/>
Cash and cash equivalents in the consolidated cash flow statement	<b>64,238</b>	5,294
Bank overdrafts	<b>—</b>	3
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	<b>—</b>	2,597
	<hr/>	<hr/>
	<b>64,238</b>	<b>7,894</b>
	<hr/> <hr/>	<hr/> <hr/>

### 14. Trade and other payables

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Due within 1 month or on demand	<b>28</b>	830
Due after 1 month but within 3 months	<b>43</b>	286
Due after 3 months but within 12 months	<b>2,668</b>	2,991
	<hr/>	<hr/>
Creditors measured at amortised cost	<b>2,739</b>	4,107
Derivative financial instruments		
— held as cash flow/fair value hedging instruments	<b>82</b>	2
	<hr/>	<hr/>
	<b>2,821</b>	<b>4,109</b>
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Bank loans	<u>11,357</u>	<u>10,883</u>
Hong Kong dollar notes	—	5,480
United States dollar notes	<u>—</u>	<u>5,982</u>
Current portion	<u>—</u>	<u>11,462 (500)</u>
	<u>—</u>	<u>10,962</u>
Total	<u><b>11,357</b></u>	<u><b>21,845</b></u>

## 16. Derivative financial instruments

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Derivative financial instruments used for hedging:		
— Cross currency swaps	—	242
— Interest rate swaps	<b>(72)</b>	(102)
— Forward foreign exchange contracts	<u><b>(701)</b></u>	<u>(406)</u>
Total	<b>(773)</b>	(266)
Current portion of derivative financial instruments	<u><b>78</b></u>	<u>—</u>
	<u><b>(695)</b></u>	<u>(266)</u>
Represented by:		
Derivative financial instruments assets	<b>39</b>	283
Derivative financial instruments liabilities	<u><b>(734)</b></u>	<u>(549)</u>
	<u><b>(695)</b></u>	<u>(266)</u>

## 17. Share capital

	Number of shares	30 June 2014 \$ million	31 December 2013 \$ million
<i>Issued and fully paid:</i>			
Voting ordinary shares:			
At the beginning of the period/year	2,134,261,654	<b>2,134</b>	2,134
Transfers from share premium	—	<b>4,476</b>	—
At the end of the period/year	<u>2,134,261,654</u>	<u><b>6,610</b></u>	<u>2,134</u>

As at 31 December 2013, 3,300,000,000 ordinary shares, with par value of \$1 each, were authorised for issue. The new Companies Ordinance (Cap. 622) that came into effect on 3 March 2014 abolishes authorised share capital, par value and share premium, in respect of the share capital of Hong Kong companies. As a result, the amount of share premium of the Company is amalgamated with the share capital.

## 18. Fair value measurement

### (a) Recurring fair value measurements

	Level 2 30 June 2014 \$ million	31 December 2013 \$ million
<b>Financial assets</b>		
Derivative financial instruments:		
— Interest rate swaps	39	41
— Forward foreign exchange contracts	4	2
— Cross currency swaps	—	242
	<u><b>43</b></u>	<u>285</u>
<b>Financial liabilities</b>		
Derivative financial instruments:		
— Interest rate swaps	(111)	(143)
— Forward foreign exchange contracts	(705)	(408)
Fixed rate notes subject to fair value hedges	—	(4,456)
	<u><b>(816)</b></u>	<u>(5,007)</u>

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

Unlisted available-for-sale equity securities, amounts due from joint ventures and associates, 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 and 31 December 2013.

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

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

## 19. Interim dividend

The interim dividend declared by the Board of Directors is as follows:

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$ million</b>	<b>\$ million</b>
Interim dividend of \$0.67 per ordinary share (2013: \$0.65 per ordinary share)	<b><u>1,430</u></b>	<b><u>1,387</u></b>

## 20. Capital commitments

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

	<b>30 June 2014</b>	<b>31 December 2013</b>
	<b>\$ million</b>	<b>\$ million</b>
Contracted for:		
Capital expenditure for fixed assets	<b><u>—</u></b>	<b><u>783</u></b>
Authorised but not contracted for:		
Capital expenditure for fixed assets	<b>3</b>	10,555
Investment in joint ventures	<b><u>5,073</u></b>	<u>206</u>
	<b><u>5,076</u></b>	<b><u>10,761</u></b>

## 21. Contingent liabilities

	<b>30 June 2014 \$ million</b>	31 December 2013 \$ million
Guarantees given in respect of:		
— Joint venture	<u><b>895</b></u>	<u>909</u>

There is a claim by the ATO against the Company relating to tax disputes concerning the South Australian electricity distribution businesses, SA Power Networks and Victoria Power Networks, which own the CitiPower and Powercor businesses. The Company has sought legal advice since the dispute arose and is of the view that the Company has a good case to resist the claim and will vigorously defend its position.

## 22. Material related party transactions

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

### (a) Shareholder

- (i) A wholly owned subsidiary of the Company entered into an agreement with a wholly owned subsidiary of Cheung Kong Infrastructure Holdings Limited (“CKI”), a substantial shareholder holding approximately 38.87% of the issued shares of the Company. Pursuant to the agreement, the subsidiary of the Company undertook a turnkey solution project for the subsidiary of CKI at a consideration of \$27 million. The project was completed in March 2014. The transaction constitutes a connected transaction under the Listing Rules for the Company.
- (ii) Outram Limited (“Outram”), a subsidiary of the Company, reimbursed CKI \$17 million (2013: \$16 million) being the actual costs incurred for providing the operation and management services to Outram and its subsidiaries for the period. The transaction constitutes a continuing connected transaction under the Listing Rules for the Company.

## **(b) Joint ventures (restated)**

- (i) Interest income received/receivable from joint ventures in respect of the loans to joint ventures amounted to \$425 million for the six months ended 30 June 2014 (2013: \$352 million). At 30 June 2014, the total outstanding interest-bearing loan balances were \$9,497 million (31 December 2013: \$9,197 million). The outstanding balances with joint ventures are disclosed in note 10.
- (ii) Tax credit claimed under the consortium relief received/receivable from a joint venture in the United Kingdom amounted to \$8 million for the six months ended 30 June 2014 (2013: \$30 million).

## **(c) Associates (restated)**

- (i) Interest income received/receivable from associates in respect of the loans to associates amounted to \$275 million for the six months ended 30 June 2014 (2013: \$304 million). At 30 June 2014, the total outstanding interest-bearing loan balances were \$5,035 million (31 December 2013: \$4,752 million). The outstanding balances with associates are disclosed in note 11.
- (ii) Other operating costs included support service charge recovered by an associate amounted to \$18 million (2013: \$Nil) for the total costs incurred in the provision or procurement of the general office administration and other support services and office facilities.
- (iii) The Company entered into a gas sales contract (the "Gas Supply Contract") with Guangdong Dapeng LNG Company Limited to purchase natural gas and on-sold the gas to its associate at cost. During the period, the aggregate amounts paid by the associate in discharge of obligations owing by the Company were \$145 million. The contract was novated to the associate on 1 April 2014. The amounts charged were based on gas prices which were determined based on the gas price formula under the Gas Supply Contract.

## **23. Disposal of subsidiaries**

The Company completed the spin-off and separate listing of the Group's Hong Kong electricity business which is operated by The Hongkong Electric Company, Limited ("HK Electric"), by way of the listing of the share stapled units jointly issued by HK Electric Investments and HK Electric Investments Limited ("HKEI") on the Main Board of The Stock Exchange of Hong Kong Limited on 29 January 2014. The Group's total consideration of the disposal of 100% holding of HK Electric includes cash and 49.9% interests in the total issued share stapled units of HKEI. The Group ceased to have control over HKEI. Thereafter, HKEI became an associated company of the Group. Details of the net assets disposed and the gain on disposal are as follows:

## 23. Disposal of subsidiaries (Continued)

	\$ million
Fixed assets	49,014
Net employee retirement benefit assets	132
Net derivative financial instruments	278
Inventories	848
Trade and other receivables	1,203
Cash and bank balances	1,148
External borrowings	(11,500)
Amount due to Power Assets Holdings Limited	(27,445)
Trade and other payables	(2,375)
Fuel Clause Recovery Account	(101)
Current tax payable	(186)
Customers' deposits	(1,910)
Deferred tax liabilities	(5,952)
Tariff Stabilisation Fund	(119)
	<hr/>
Net assets	<u>3,035</u>
Cash	32,026
Interests in HKEI	24,031
	<hr/>
	56,057
Direct costs for disposal	(114)
	<hr/>
Consideration received	<u>55,943</u>
Gain on disposal of subsidiaries before release of hedging reserve	52,908
Release of hedging reserve	20
	<hr/>
Gain on disposal of subsidiaries	<u>52,928</u>
Analysis of net cash inflow of cash and cash equivalents arising on disposal:	
Cash consideration	32,026
Cash and cash equivalents disposed	(1,148)
Direct costs for disposal	(114)
	<hr/>
	<u>30,764</u>

## 24. Comparative figures

Certain comparative figures have been reclassified to conform to current period's presentation.



# CORPORATE GOVERNANCE

## Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value. The Group's corporate governance policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2014, except as noted hereunder.

The Company does not have a nomination committee as provided for in code provision A.5. At present, the Company does not consider it necessary to have a nomination committee as the full Board is responsible for reviewing the structure, size and composition of the Board and the appointment of new Directors from time to time having regard to the Group's Board Diversity Policy. The Board as a whole is also responsible for reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer (which was re-titled from Group Managing Director on 29 January 2014).

Mr. Holger Kluge, who was an Independent Non-executive Director, retired from the Board with effect from the conclusion of the annual general meeting of the Company held in May 2014. Following the retirement of Mr. Kluge, the Company had three Independent Non-executive Directors and its Audit Committee had two Independent Non-executive Directors, which fell below the required numbers under Rules 3.10A and 3.21 of the Listing Rules respectively. In order to meet such requirements, Mr. Wu Ting Yuk, Anthony was appointed as an Independent Non-executive Director of the Company on 3 June 2014, and Mr. Ip Yuk-keung, Albert, an Independent Non-executive Director of the Company, was appointed as a member of the Audit Committee with effect from the same day. Following the above appointments, the numbers of Independent Non-executive Directors and Audit Committee members of the Company are in compliance with Rules 3.10A and 3.21 of the Listing Rules respectively.

## **CORPORATE GOVERNANCE** *(Continued)*

The 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 Audit Committee has reviewed the procedures for reporting possible improprieties in financial reporting, internal control or other matters. In addition, the Company has established the policy on handling of inside information and securities dealing for compliance by the Company's employees.

### **Board of Directors**

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, evaluation of the performance of the Group, and oversight of management. 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, the Board consists 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 by shareholders at the annual general meeting once every three years pursuant to the articles of association of the Company.

The positions of the Chairman and the Chief Executive Officer are held by separate individuals. The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Board to ensure that the Board acts in the best interests of the Group. In addition to Board meetings, the Chairman holds two meetings annually with Non-executive Directors without the presence of Executive Directors. The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations.

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

## Model Code for Securities Transactions by Directors

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as the Group's 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 six months ended 30 June 2014.

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

## Changes of Information of Directors

The changes in the information of Directors since the publication of the 2013 annual report and up to 4 August 2014 (the latest practicable date prior to the printing of this interim report) are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

### Name of Director

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Ip Yuk-keung, Albert	Appointed as an Independent Non-executive Director of Lifestyle International Holdings Limited
	Appointed as an Executive Director and the Chief Executive Officer of LHIL Manager Limited which is the trustee-manager of Langham Hospitality Investments, and Langham Hospitality Investments Limited
	Re-designated from an Independent Non-executive Director to a Non-executive Director of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust
Wu Ting Yuk, Anthony	Removed from the register of certified public accountants of the Hong Kong Institute of Certified Public Accountants for a period of two years

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.

## **CORPORATE GOVERNANCE** *(Continued)*

### **Internal Control**

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

The Internal Audit team, operating under a support services sharing arrangement with HK Electric Investments Limited pursuant to an agreement dated 14 January 2014 which come into effect on 29 January 2014, provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the Group's business operations. Internal Audit staff members 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 prepares its yearly audit plan which is reviewed and approved by the Audit Committee. The scope of work performed by Internal Audit 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 comprises three members, two of whom are Independent Non-executive Directors. It is chaired by Mr. Wong Chung Hin and the other members are Mr. Fok Kin Ning, Canning and Mr. Ralph Raymond Shea.

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

### **Audit Committee**

The Audit Committee comprises three Independent Non-executive Directors. It is chaired by Mr. Wong Chung Hin and the other members are Mr. Ip Yuk-keung, Albert (from 3 June 2014) and Mr. Ralph Raymond Shea. Mr. Holger Kluge was a member of the Committee and he ceased to be a member on his retirement from the Board on 15 May 2014.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review of the Group's financial reporting and internal control systems, the interim and annual financial statements, and corporate governance and compliance matters. The Committee also meets regularly with the Company's external auditor to discuss the audit process and accounting issues. The terms of reference of the Audit Committee are published on the Company's website and Hong Kong Exchanges and Clearing Limited's website.

### **Communication with Shareholders**

The Company has established a range of communication channels between itself and its shareholders 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.powerassets.com](http://www.powerassets.com) and meetings with investors and analysts. All shareholders have the opportunity to put questions to the Board at general meetings, and at other times by emailing or writing to the Company.

Shareholders 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 Company.

The Company handles share registration and related matters for shareholders through Computershare Hong Kong Investor Services Limited, the Company's share registrar.

The Board has adopted a shareholder communication policy which provided a framework to promote effective communication with shareholders.

### **Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 30 June 2014, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("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 Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

## CORPORATE GOVERNANCE (Continued)

### Long Positions in Shares of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Total	Approximate % of Shareholding
Li Tzar Kuoi, Victor	Interest of child or spouse	Family	151,000 )	829,750,612	38.87%
	Beneficiary of trusts	Other	829,599,612 ) (Notes 1(a), 2 and 3)		
Tsai Chao Chung, Charles	Beneficial owner	Personal	4,022	4,022	≈0%

### Long Positions in Shares of Associated Corporation

#### HK Electric Investments and HK Electric Investments Limited

Name of Director	Capacity	Nature of Interests	Number of Share Stapled Units Held	Total	Approximate % of Issued Share Stapled Units
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 ) (Note 4)	4,715,240,218	53.36%
	Beneficiary of trusts	Other	4,707,370,218 ) (Notes 1(b), 2 and 3)		
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000	2,000,000	0.02%
Tsai Chao Chung, Charles	Beneficial owner	Personal	880	880	≈0%

#### Notes:

- (1) (a) These shares are held by subsidiaries of Cheung Kong Infrastructure Holdings Limited ("CKI").
- (b) Such share stapled units of HK Electric Investments and HK Electric Investments Limited ("HKEI") comprise:
- (i) 4,409,300,000 share stapled units of HKEI held by Quickview Limited, a wholly-owned subsidiary of the Company; and
  - (ii) 298,070,218 share stapled units of HKEI held by a number of subsidiaries of Hyford Limited, which is a wholly-owned subsidiary of CKI.

- (2) *The discretionary beneficiaries of each of The Li Ka-Shing Unity Discretionary Trust ("DT1") and another discretionary trust ("DT2") are, inter alia, Mr. Li Tzar Kuoi, Victor, his wife and children, and Mr. Li Tzar Kai, Richard. Each of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1", which is the trustee of DT1) and Li Ka-Shing Unity Trustcorp Limited ("TDT2", which is the trustee of DT2) holds units in The Li Ka-Shing Unity Trust ("UT1") but is not entitled to any interest or share in any particular property comprising the trust assets of the said unit trust. Li Ka-Shing Unity Trustee Company Limited ("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 ("TUT1 related companies") hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Certain subsidiaries of CKH in turn together hold more than one-third of the issued share capital of Hutchison Whampoa Limited ("HWL"). A subsidiary of HWL in turn holds more than one-third of the issued share capital of CKI.*

*The entire issued share capital of TUT1 and of the trustees of DT1 and DT2 are owned by Li Ka-Shing Unity Holdings Limited ("Unity Holdco"). Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor are respectively interested in one-third and two-third of the entire issued share capital of Unity Holdco. TUT1 is only interested in the shares of CKH by reason only of its obligation and power to hold interests in those shares in its ordinary course of business as trustee and, when performing its functions as trustee, exercises its power to hold interests in the shares of CKH independently without any reference to Unity Holdco or any of Mr. Li Ka-shing and Mr. Li Tzar Kuoi, Victor as a holder of the shares of Unity Holdco as aforesaid.*

*By virtue of the above and as a discretionary beneficiary of each of DT1 and DT2 and as a Director of CKH, Mr. Li Tzar Kuoi, Victor is taken to have a duty of disclosure in relation to the shares of CKH held by TUT1 as trustee of UT1 and TUT1 related companies, the shares of HWL held by the subsidiaries of CKH, the shares of CKI held by the subsidiary of HWL, the shares of the Company held by the subsidiaries of CKI, the share stapled units of HKEI held by the subsidiaries of Hyford Limited, and the share stapled units of HKEI held by Quickview Limited under the SFO as a Director of the Company.*

- (3) *Mr. Li Tzar Kuoi, Victor, by virtue of his interests as described in Note (2) above and as a Director of the Company, is also deemed to be interested in the shares of subsidiaries and associated corporations (within the meaning of Part XV of the SFO) of the Company held through the Company under the SFO.*
- (4) *Such share stapled units of HKEI comprise:*
- (a) *2,700,000 share stapled units of HKEI held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOF"). By virtue of the terms of the constituent documents of LKSOF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOF; and*
  - (b) *5,170,000 share stapled units of HKEI held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.*

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of 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 by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## CORPORATE GOVERNANCE (Continued)

### Interests and Short Positions of Shareholders

As at 30 June 2014, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company 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 Company and the Stock Exchange were as follows:

### Substantial Shareholders

#### Long Positions in Shares of the Company

Name	Capacity	Number of Shares Held	Approximate % of Shareholding
Interman Development Inc.	Beneficial owner	186,736,842 (Note 1)	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 (Note 1)	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 (Note 1)	13.07%
Monitor Equities S.A.	Beneficial owner & interest of controlled corporation	287,211,674 (Note 1)	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Cheung Kong Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 2)	38.87%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison International Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Hutchison Whampoa Limited	Interest of controlled corporations	829,599,612 (Note 3)	38.87%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	829,599,612 (Note 4)	38.87%
Li Ka-Shing Unity Trustee Company Limited as trustee of The Li Ka-Shing Unity Trust	Trustee	829,599,612 (Note 5)	38.87%
Li Ka-Shing Unity Trustee Corporation Limited as trustee of The Li Ka-Shing Unity Discretionary Trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-Shing Unity Trustcorp Limited as trustee of another discretionary trust	Trustee & beneficiary of a trust	829,599,612 (Note 6)	38.87%
Li Ka-shing	Founder of discretionary trusts & interest of controlled corporations	829,599,612 (Note 6)	38.87%



## Other Persons

### Long Positions in Shares of the Company

Name	Capacity	Number of Shares Held	Approximate % of Shareholding
Capital Research and Management Company	Investment Manager	124,226,500 (Note 7)	5.82%
The Capital Group Companies, Inc.	Investment Manager	126,198,500 (Note 7)	5.91%

#### Notes:

- (1) *These are direct or indirect wholly-owned subsidiaries of Hyford Limited ("Hyford") and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in Note (2) below.*
- (2) *Cheung Kong Infrastructure Holdings Limited ("CKI") is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (1) above as it holds more than one-third of the issued share capital of Hyford indirectly. Its interests are duplicated in the interest of Hutchison Whampoa Limited ("HWL") in the Company described in Note (3) below.*
- (3) *HWL is deemed to be interested in the 829,599,612 shares of the Company 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 829,599,612 shares of the Company 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 shares of the Company 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 shares 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) *Capital Research and Management Company ("CRMC") is a wholly-owned subsidiary of The Capital Group Companies, Inc. ("CGCI"). As such, the interests of CRMC of 124,226,500 shares are notified by CGCI and are duplicated in the interests of 126,198,500 shares of the Company notified by CGCI.*

Save as disclosed above, as at 30 June 2014, there was no other person (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## OTHER INFORMATION

### Interim Dividend

The Board of Directors has declared an interim dividend for 2014 of HK\$0.67 per share. The dividend will be payable on 4 September 2014 to shareholders whose names appear in the Company's Register of Members at the close of business on Tuesday, 26 August 2014, being the record date for determination of entitlement to the interim dividend. To qualify for the interim dividend, all transfers accompanied by the relevant share certificates should be lodged with the Company's share 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 Tuesday, 26 August 2014.

### Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the six months ended 30 June 2014.

### Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the provision of financial assistance by the Group to certain affiliated companies, a combined statement of financial position of the affiliated companies as at 30 June 2014 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

Combined statement of financial position of the affiliated companies <i>as at 30 June 2014</i>	HK\$ million
Non-current assets	327,796
Current assets	15,409
Current liabilities	(24,625)
Non-current liabilities	(243,742)
Net assets	<u>74,838</u>
Share capital	25,777
Reserves	<u>49,061</u>
Capital and reserves	<u>74,838</u>

As at 30 June 2014, the consolidated attributable interest of the Group in these affiliated companies amounted to HK\$42,887 million.