

# FINANCIAL REVIEW

## FINANCIAL PERFORMANCE AND DISTRIBUTION

The Trust Group's revenue and audited consolidated profit for the year ended 31 December 2015 were HK\$11,210 million (2014: HK\$10,504 million) and HK\$3,591 million (2014: HK\$3,201 million) respectively. Distributable income as calculated pursuant to the Trust Deed for the year ended 31 December 2015 was HK\$3,538 million (2014: HK\$3,218 million – from listing date on 29 January 2014 to 31 December 2014) whilst distributable income per SSU was HK40.04 cents (2014: HK36.42 cents).

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK20.12 cents (2014: HK19.89 cents) per SSU. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a second interim dividend in lieu of a final dividend in respect of the Company's ordinary shares held by the Trustee-Manager, of HK20.12 cents (2014: HK19.89 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK19.92 cents (2014: HK16.53 cents) per SSU, brings the total distribution to HK40.04 cents per SSU for the year ended 31 December 2015 (2014: HK36.42 cents per SSU – from listing date on 29 January 2014 to 31 December 2014) representing 100% payout of distributable income per SSU.

	<b>2015</b> <b>HK\$ million</b>	For the period from listing date on 29 January 2014 to 31 December 2014 HK\$ million
Audited consolidated profit attributable to SSU holders	<b>3,591</b>	3,201
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	<b>4,532</b>	4,594
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	<b>1,652</b>	530
– changes in working capital	<b>52</b>	178
– adjustment for employee retirement benefit schemes	<b>18</b>	12
– taxes paid	<b>(918)</b>	(847)
	<b>804</b>	(127)
(iii) capital expenditure payment	<b>(2,237)</b>	(1,662)
(iv) deducting		
– debt repayment	<b>(779)</b>	(500)
– net finance costs	<b>(937)</b>	(1,132)
	<b>(1,716)</b>	(1,632)
(v) deducting		
– reserve for future capital expenditure/debt service and/or compliance with covenants in credit facility agreement	<b>(1,436)</b>	(1,156)
<b>Distributable income</b>	<b>3,538</b>	3,218
Interim distribution	<b>1,760</b>	1,461
Final distribution	<b>1,778</b>	1,757
<b>Distribution amount</b>	<b>3,538</b>	3,218
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	<b>HK19.92 cents</b>	HK16.53 cents
– Final distribution per SSU	<b>HK20.12 cents</b>	HK19.89 cents
<b>Total distributions per SSU</b>	<b>HK40.04 cents</b>	HK36.42 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 Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.
- (c) Interim distribution per SSU of HK19.92 cents (2014: HK16.53 cents) was calculated based on the interim distribution amount of HK\$1,760 million (2014: HK\$1,461 million) and 8,836,200,000 SSUs in issue as at 30 June 2015 (30 June 2014: 8,836,200,000 SSUs). Final distribution per SSU of HK20.12 cents (2014: HK19.89 cents) was calculated based on the final distribution amount of HK\$1,778 million (2014: HK\$1,757 million) and 8,836,200,000 SSUs in issue as at 31 December 2015 (31 December 2014: 8,836,200,000 SSUs).

## CAPITAL EXPENDITURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital expenditure during the year amounted to HK\$2,516 million (2014: HK\$2,167 million excluding the addition of property, plant and equipment and interests in leasehold land from the acquisition of HK Electric), which was primarily funded by cash from operations. Total external borrowings outstanding at 31 December 2015 were HK\$47,217 million (2014: HK\$47,869 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2015 had undrawn committed bank facilities of HK\$1,000 million (2014: HK\$1,000 million) and bank deposits and cash of HK\$6,157 million (2014: HK\$4,630 million).

## TREASURY POLICY, FINANCING ACTIVITIES, CAPITAL AND DEBT STRUCTURE

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

As at 31 December 2015, the net debt of the Trust Group was HK\$41,060 million (2014: HK\$43,239 million) with a net debt-to-net total capital ratio of 46% (2014: 47%). The Trust Group's financial profile remained strong during

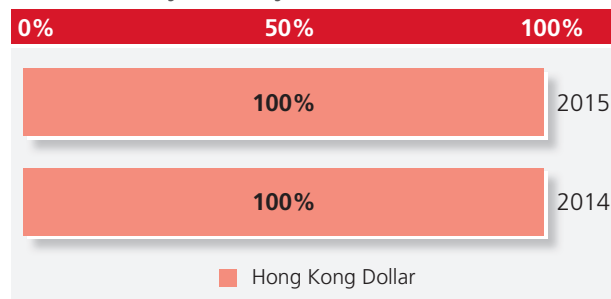
the year. Following the partial disposal of SSUs by Power Assets, the major SSU holder of the Trust Group, Standard & Poor's reaffirmed on 9 June 2015 the "A-" long term credit rating of HK Electric with a stable outlook. On 8 September 2015, Standard & Poor's initiated its coverage for the Company and assigned its "A-" long term credit rating to the Company.

In the fourth quarter of 2015, the Trust Group took advantage of the liquidity and long tenor in the Formosa bond market to extend its debt maturity profile by issuing US\$135 million 20 year and US\$115 million 30 year zero coupon bonds. It subsequently also tapped the Hong Kong dollar market for a HK\$1,056 million 15 year zero coupon bond. The proceeds of these issues were used to prepay the existing term loan facility of HK Electric.

Subsequent to the end of the reporting period, HK Electric further prepaid approximately HK\$3,700 million of its existing term loan facility with internal resources.

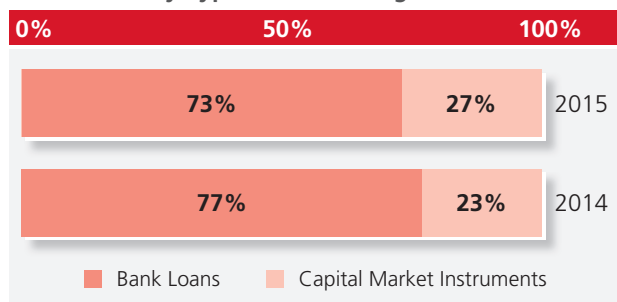
The profile of the Trust Group's external borrowings as at 31 December 2015, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

### Debt Profile by Currency

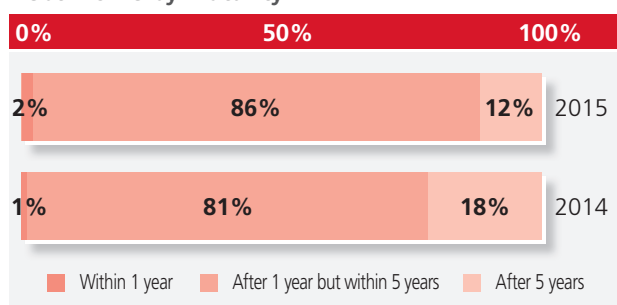


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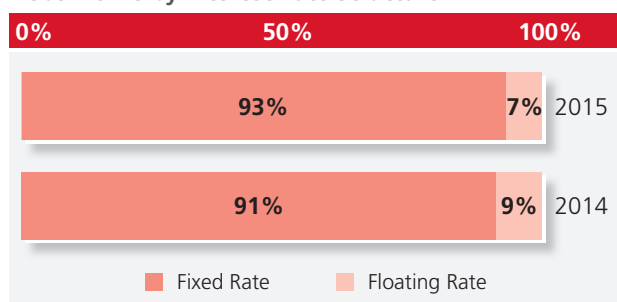
### Debt Profile by Types of Borrowings



### Debt Profile by Maturity



### Debt Profile by Interest Rate Structure



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

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

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 31 December 2015, 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 the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts, cross currency and interest rate swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2015 amounted to HK\$54,267 million (2014: HK\$51,069 million).

### CHARGE ON ASSETS

At 31 December 2015, no assets of the Trust Group were pledged to secure its loans and banking facilities (2014: Nil).

### CONTINGENT LIABILITIES

As at 31 December 2015, the Trust Group had no guarantee or indemnity to external parties (2014: Nil).

### EMPLOYEES

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the year ended 31 December 2015, excluding directors' emoluments, amounted to HK\$1,074 million (2014: HK\$973 million). As at 31 December 2015, the Trust Group employed 1,800 (2014: 1,813) permanent employees. No share option scheme is in operation.