

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

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

DISTRIBUTION

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

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

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

FINANCIAL REVIEW

Note:

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.
- (c) Interim distribution per SSU of HK19.92 cents (2015: HK19.92 cents) was calculated based on the interim distribution amount of HK\$1,760 million (2015: HK\$1,760 million) and 8,836,200,000 SSUs in issue as at 30 June 2016 (30 June 2015: 8,836,200,000 SSUs). Final distribution per SSU of HK20.12 cents (2015: HK20.12 cents) was calculated based on the final distribution amount of HK\$1,778 million (2015: HK\$1,778 million) and 8,836,200,000 SSUs in issue as at 31 December 2016 (31 December 2015: 8,836,200,000 SSUs).

CAPITAL EXPENDITURE, LIQUIDITY AND FINANCIAL RESOURCES

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

TREASURY POLICY, FINANCING ACTIVITIES, CAPITAL AND DEBT STRUCTURE

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

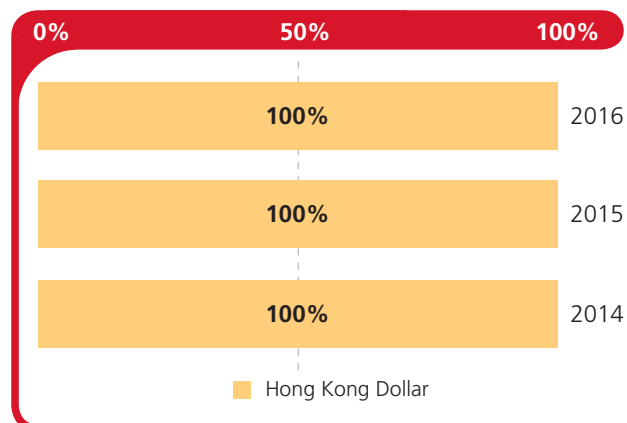
As at 31 December 2016, the net debt of the Trust Group was HK\$39,363 million (2015: HK\$41,060 million) with a net debt-to-net total capital ratio of 44% (2015: 46%). The Trust Group's financial profile remained strong during the year. On 23 February 2016, Standard & Poor's pronounced

the long term credit ratings are "A-" with a stable outlook for the Company and HK Electric unchanged since September 2015 and January 2014, respectively.

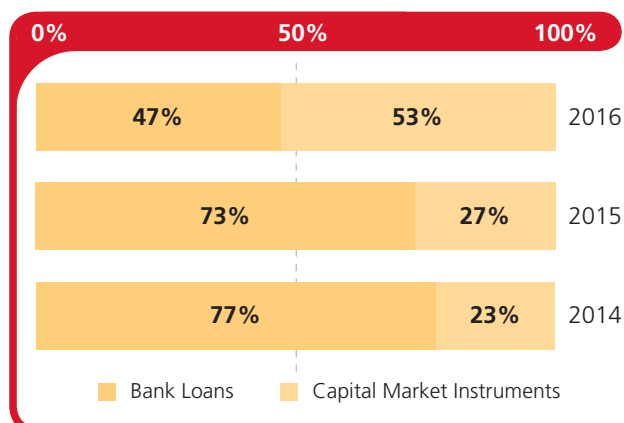
In 2016, the Trust Group took advantage of market liquidity to extend its debt maturity profile by issuing US\$750 million 10 year notes in the public bond market as well as a total of HK\$3,025 million notes with tenors ranging from 12 to 30 years in the Hong Kong dollar private placement market through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

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

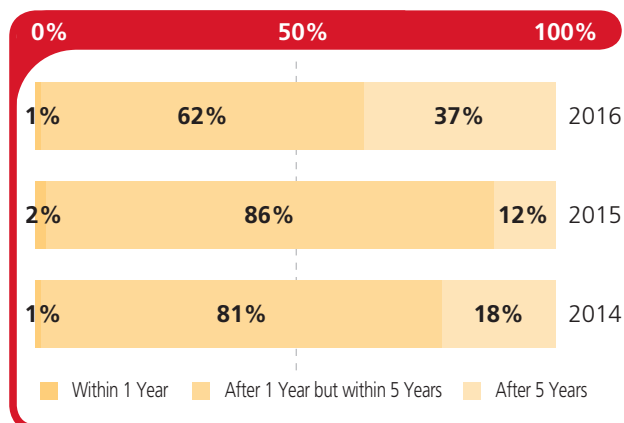
Debt Profile by Currency



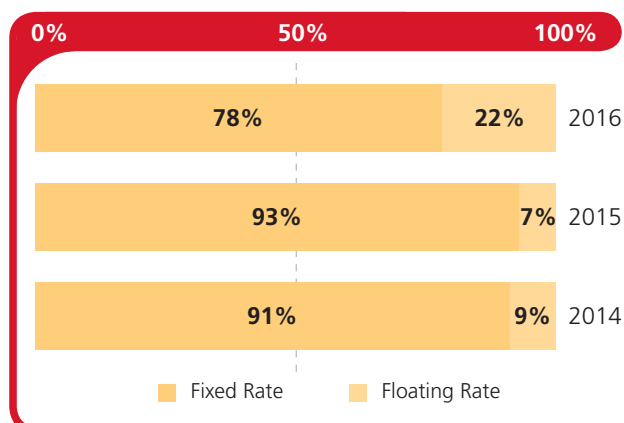
Debt Profile by Types of Borrowings



Debt Profile by Maturity



Debt Profile by Interest Rate Structure



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

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

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 31 December 2016, over 80% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts and cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2016 amounted to HK\$65,367 million (2015: HK\$54,267 million).

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

As at 31 December 2016, the Trust Group had no guarantee or indemnity to external parties (2015: Nil).

EMPLOYEES

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the year ended 31 December 2016, excluding directors' emoluments, amounted to HK\$1,113 million (2015: HK\$1,074 million). As at 31 December 2016, the Trust Group employed 1,790 (2015: 1,800) permanent employees. No share option scheme is in operation.