



港燈電力投資
HK Electric Investments

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

Certainty Underpinning A Clean Energy Future

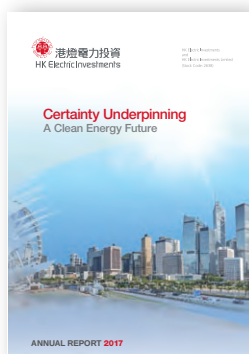


ANNUAL REPORT **2017**

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

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

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



Certainty Underpinning a Clean Energy Future

The 2017 Annual Report cover is a visual statement of HKEI’s vision and commitment to Hong Kong’s clean energy future.

HKEI has long served as Hong Kong’s trusted partner, with its solid, reliable operations attracting world class institutions to make the city their base.

Today, Asia’s World City seeks to demonstrate to the world that progress can be both smart and sustainable. With the signing of the new Scheme of Control Agreement, HKEI too is making necessary investments to achieve this ideal and showcase Hong Kong as a beacon of the future.





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PERFORMANCE HIGHLIGHTS

FINANCIALS

	2017	2016
REVENUE	HK\$ 11,693 million	HK\$ 11,420 million
DISTRIBUTABLE INCOME	HK\$ 3,538 million	HK\$ 3,538 million
TOTAL DISTRIBUTION PER SSU	HK 40.04 cents	HK 40.04 cents
INTERIM DISTRIBUTION PER SSU	HK 19.92 cents	HK 19.92 cents
FINAL DISTRIBUTION PER SSU	HK 20.12 cents	HK 20.12 cents
TOTAL ASSETS	HK\$ 109,319 million	HK\$ 108,350 million
NET DEBT-TO-NET TOTAL CAPITAL RATIO	44%	44%
S&P CREDIT RATING		
HK ELECTRIC	A- / Stable	A- / Stable
HK ELECTRIC INVESTMENTS LIMITED	A- / Stable	A- / Stable

OPERATIONS



Number of Customers

577,000



Units Sold

10,615

millions of kWh



Generation
Capacity

3,487_{MW}



Network Length

6,386_{km}



Supply Reliability

> 99.999%

CHAIRMAN'S STATEMENT



The long-term certainty provided by the new Scheme of Control Agreement will keep us on track to achieve the Government's energy and environmental objectives and its Climate Action Plan 2030+.

CERTAINTY UNDERPINNING A CLEAN ENERGY FUTURE

2017 was a defining year for HK Electric Investments (HKEI) and its wholly owned subsidiary HK Electric, with the signing of the new Scheme of Control Agreement (SCA). The long-term certainty provided by this agreement will help the local electricity sector make the necessary investments to build a clean energy future and reduce emissions. It will keep us on track to achieve the Government's energy and environmental objectives and its Climate Action Plan 2030+.

During the year, we not only worked with the Government to lay the foundation for Hong Kong's long-term energy future, but also fulfilled our commitments to holders of our Share Stapled Units (SSUs) by delivering stable performance, and continuing to supply reliable and affordable electricity to Hong Kong.

We are proud to have honoured our 2013 pledge to freeze tariffs for the five-year period between 2014 and 2018. Overall tariffs had been consecutively reduced for two years in 2016 and 2017, and despite a small tariff rebound from 1 January 2018, our tariff is a significant 16.6% lower than the 2013 level.

FINANCIAL RESULTS AND DISTRIBUTIONS

For the year ended 31 December 2017, HKEI's EBITDA was HK\$8,195 million (2016: HK\$8,034 million) and audited profits attributable to SSU holders was HK\$3,341 million (2016: HK\$3,599 million).

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK20.12 cents (2016: HK20.12 cents) per SSU, payable on 11 April 2018 to SSU holders whose names appear on the Share Stapled Units Register on 28 March 2018. This, together with the interim distribution of HK19.92 cents (2016: HK19.92 cents) per SSU, amounts to a total distribution of HK40.04 cents (2016: HK40.04 cents) per SSU for the year.

THE STAGE IS SET FOR LOW-CARBON POWER

One of the most important developments during the year was the signing of the new SCA following more than a year of negotiation with the Government.

We warmly endorse the new SCA and expedited conclusion to the negotiation process. With a strong emphasis

CHAIRMAN'S STATEMENT

on energy efficiency, customer services, promotion of renewable energy, and transparency, it effectively balances the interests and wishes of the various stakeholders in the community. Its emphasis on electricity generation from renewable sources and various measures for energy efficiency will accelerate Hong Kong's transition to a low-carbon economy. This will also enable the Government to meet its target of reducing carbon intensity by 65-70% by 2030, as compared to 2005 levels.

Following the retirement in May 2017 of L1, the oldest coal-fired unit installed at Lamma Power Station (LPS), other coal-fired units will approach the end of their useful lives towards the end of the next decade and will be replaced by new gas-fired units. The new SCA with a 15-year term provides us with the stability and confidence to implement this replacement programme. The longer tenure is beneficial to both the sector and the wider community, allowing us to make a number of large-scale infrastructural investments to meet the Government's emissions and carbon intensity targets.

While HK Electric is permitted a reduced rate of return on average net fixed assets of 8% under the new SCA, we are confident that we will be able to deliver long-term value to SSU holders because of the substantial asset growth resulting from further replacement of HK Electric's generation portfolio from coal to gas over the term of the new SCA.

COMMITTED TO AFFORDABLE ELECTRICITY

In 2013 we promised to freeze tariffs for five years until 2018, and have in fact reduced tariffs across the board by 17.2% in year 2017 as a result of two special rebates, "Special Rent & Rates Rebate" and "Special Fuel Rebate".

In 2018, we continue to offer these two rebates, but the "Special Fuel Rebate" is smaller than before. In conjunction with other adjustments, there has been a slight increase of 1.9% in our net tariff. Despite this, the tariff remains among the lowest in the developed world and is a significant 16.6% lower than the 2013 level.

PREPARING FOR LOW EMISSIONS GENERATION

HK Electric continued to outperform all targets of statutory emissions for sulphur dioxide, nitrogen oxides and respirable suspended particulates in 2017. We have also worked with

the Government to further reduce emission allowances from 2022 onwards with the approval of the Seventh Technical Memorandum by the Legislative Council.

To increase the proportion of gas-fired electricity we generate, HK Electric is constructing two new gas-fired generating units, L10 and L11, at LPS. Civil construction of L10 has been progressing at a satisfactory pace with commencement of installation of electrical and mechanical equipment targeted in April 2018. For L11, piling was completed on schedule in September 2017. L10 and L11 will be commissioned in 2020 and 2022 respectively.

We are also in the process of developing an offshore liquefied natural gas (LNG) terminal using Floating Storage and Regasification Unit (FSRU) technology in Hong Kong waters, in partnership with CLP Power, to give us additional access to natural gas transported by ship in liquid form. The Environmental Impact Assessment report for the project will soon be submitted to the Government for approval. Planning for this major item of infrastructure is progressing on track. If Government approvals are received and construction continues as scheduled, the offshore LNG terminal will come into operation by the end of 2020 at the earliest.

UPHOLDING WORLD-CLASS STANDARDS

Hong Kong suffered extreme weather in 2017. In the summer, a number of powerful typhoons affected Hong Kong, bringing gusty winds and severe storms. Extremely high temperature due to the typhoons led to a surge in electricity demand in August, leading to a new record high of 2,513 MW in system maximum demand since 2010. Notwithstanding these extreme weather conditions, I am pleased that we once again maintained our supreme supply reliability rating of over 99.999% for the 21st consecutive year. The average unplanned power interruption per customer was less than one minute for the ninth year in a row.

Sales volume showed a decline of 1.6% from 2016. We believe that per capita electricity consumption in Hong Kong will continue to decrease as a result of increasing public awareness of energy conservation.

PLAYING OUR PART IN A GREEN AND CARING SOCIETY

A change in Government policy from April 2017 has negatively affected the growth in the rollout of electric

vehicles (EVs) in Hong Kong. Despite this, we continued to expand the public EV charging facilities we offer, installing eight quick chargers during the year for the convenience of motorists. We also engaged closely with property developers and managers, offering technical consultancy on the installation of charging points in buildings.

Our passionate band of volunteers dedicated more than 5,400 man-hours over the year to the social causes they believe in: from spreading the message of energy awareness among adults and children, to spending time with the vulnerable elderly. Our long-running community programmes have gone from strength to strength over the years, involving tens of thousands of people in activities like country walks, home visits, education and more.

As the trusted energy partner of Asia's World City, we continued to invest the necessary resources to attract and retain the best talent with a year-round calendar of training, staff development, and a healthy culture that encourages work-life balance.

In July, we were presented with the Grand Award of the 2017 HKMA Quality Award in recognition of our commitment to developing and deploying Total Quality Management. The Hong Kong Management Association (HKMA) highlighted our ability to fulfil our mission and "sustain and perform over an extended period due to strong senior leadership, a nurturing staff culture, and excellent operational performance". I am proud of this endorsement by our peers in the Hong Kong business sector.

OUTLOOK

In February 2018, HK Electric entered into a framework agreement with CK Asset Holdings Limited (CKA) to develop a hotel in the site of HK Electric's former operational headquarters and carpark building at Ap Lei Chau. This project will bring in income to the Group and the appreciation in the value of the property.

2018 is the last year of the current SCA, which has been in force since 2009. During this term, we have consistently delivered the highest standards of operational performance and service quality while our tariffs are amongst the lowest in the developed world. We have made significant progress in emissions reduction and energy efficiency as we proceed with increasing our use of natural gas in electricity generation.

Over the following months our key priority will be to complete deliberations with the Government on all outstanding items associated with the implementation of the new SCA, to ensure we are fully prepared for the new framework, including the introduction of feed-in tariffs and renewable energy certificates. We will prepare our upcoming five-year development plan for Government's approval, and finalise any pending operational details.

The move to green, smart energy is accelerating across the world and Hong Kong is no exception. We welcome technological innovation and recognise its potential to shape a cleaner energy future by encouraging public participation in electricity generation from renewable energy sources while reducing emissions.

We will make significant investments to gradually replace our retiring coal-fired units with new gas-fired units to meet the Government's carbon reduction targets and satisfy the community's aspirations for cleaner air. We are confident that the upcoming increase in our assets base will compensate for the reduction of the rate of permitted return and will deliver growth in value to our SSU holders.

There is no question that cleaner energy come at the cost of affordable tariffs, especially so for HK Electric, as we embark on various programmes to considerably expand gas-firing generation capacity. The capital expenditure associated with the new units and greater consumption of natural gas, a more expensive fuel, will inevitably place greater pressure on tariffs going forward.

We can succeed in this changing world only through the dedicated efforts of our team of employees. On behalf of the Board I extend my gratitude to each and every one for their efforts in the past year.

Fok Kin Ning, Canning

Chairman

Hong Kong, 13 March 2018

YEAR AT A GLANCE

JAN - MAR



- HK Electric launches YouTube Channel to provide an additional online platform to promote public understanding of various facets of the company and to disseminate news and tips on eco-living and electric cooking.
- Three outstanding "Happy Green Community Ambassadors" shadow HK Electric environmental engineers to experience work in action at Lamma Power Station (LPS).



- Construction of underground substructure of L10, a new gas-fired unit, commences in January 2017. Installation of electrical and mechanical equipment will start in early 2018. Piling for L11, another new gas-fired unit under construction, is completed in September 2017.
- With support from HK Electric's Lamma Trust and other donors, the redevelopment of a library cum heritage museum on Lamma Island commences.
- Health and Safety Forum promotes safe behaviours among employees and contractors. Participants share knowledge and experience on construction safety.



- With two submissions, HK Electric comes first and third in the Open Group of the "International Competition on Second Life for Retired Batteries from EVs" organised by the Environment Bureau.

- Completion of Phase 3 132-kV gas insulation switchgear improvement project at North Point Switching Station including the diversion of four 132-kV cable circuits to the new Gas Insulated Switchgear Busbar No.2.
- HK Electric enters into a new Scheme of Control Agreement (SCA) with the Government, effective for 15 years from 1 January 2019. The new SCA provides the long-term certainty for the local electricity sector to support the Government's energy and environmental policy objectives.



APR - JUN

- L1, the oldest coal-fired generating units at LPS, retires in May 2017, kicking off a programme to decommission coal-fired generation units. Other coal-fired units are expected to retire towards the end of the next decade or so.



- 12 retirees are named "Outstanding Third Age Citizens" by HK Electric and the Hong Kong Council of Social Service for their dedication to lifelong learning, leading a healthy lifestyle and serving the community.

JUL - SEP

- Wins the Grand Award of the 2017 HKMA Quality Award in recognition of HK Electric's commitment to Total Quality Management and ability to set and achieve high operational and safety standards.
- To celebrate the 20th anniversary of the establishment of the HKSAR, HK Electric launches a promotion campaign to encourage customers to switch to e-bill and autopay.



- Two new data centres with reliable, automated, secure and green computer and auxiliary facilities are commissioned to replace four outdated data centres.



- CAREnJOY programme offers electrical safety talks and gatherings in addition to regular home visits, combined to reach out to about 2,000 single elders during the year.

- Signs a Memorandum of Understanding with The Hong Kong Polytechnic University, Xi'an Jiaotong University and the State Grid Corporation of China to nurture talents in the power and energy field along the Belt and Road region.



OCT - DEC



- Announcing a small tariff rebound of 1.9% for 2018, HK Electric honours its pledge to keep tariffs between 2014-18 below the 2013 level.
- Joins hands with AlipayHK to introduce e-wallet – a new way for customers to settle electricity charges and view bill balance through the mobile payment app.
- The Environmental Impact Assessment for constructing an offshore liquefied natural gas terminal in Hong Kong waters enters its final stage. The report is expected to be submitted to the Government for approval in early 2018.

- A new eco-heritage route in Wan Chai is introduced under Green Hong Kong, in which participants are guided through many eco-heritage spots, including the original site of the first power station in Hong Kong.



- For the second year in a row, HK Electric serves as the official energy partner of Formula E Hong Kong ePrix to provide the event with safe, reliable and clean electricity, as well as power-related technical advice.

CEO'S REPORT



The 15-year term of the new Scheme of Control Agreement is conducive for industry participants to make the large-scale investments needed to increase gas-firing generation capacity.

AN ASSURED PLATFORM TO REALISE A GREEN ENERGY VISION

In 2017, HK Electric concluded negotiations with the Government on the new Scheme of Control Agreement (SCA) that forms the blueprint for the future of the power sector in Hong Kong. While delivering excellent performance, significant investments were also made to augment our capabilities to generate greener electricity, maintain reliability standards and support the evolving electricity needs of the city.

We support and endorse the terms of the new SCA. It retains the stability, reliability and emphasis on customer value that has always characterised the Hong Kong power sector, and will act as a catalyst for adopting low-carbon power.

We are confident that we will deliver stable returns to our holders of Share Stapled Unit (SSU) with new investment opportunities arising from the process of renewing our generation portfolio to meet the Government's carbon reduction targets.

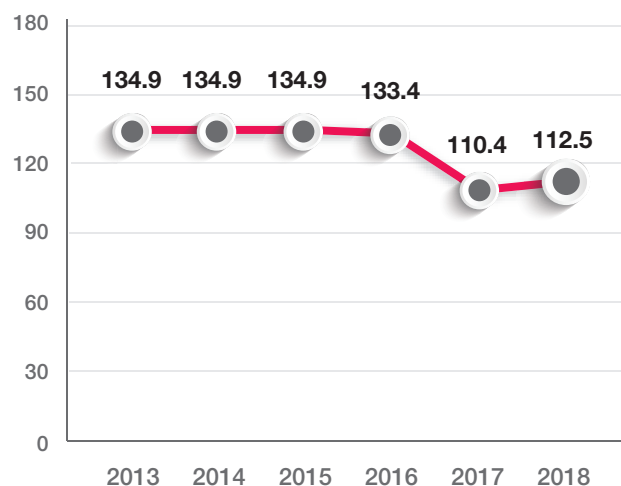
PERFORMANCE AND PROGRESS

HK Electric entered into a framework agreement with CK Asset Holdings Limited (CKA) for a hotel development

project in February 2018. The hotel will situate at the site of Ap Lei Chau HK Electric's former operational headquarters and carpark building which is no longer in use for electricity-related activities. CKA, which has expertise in project development and hotel management, was appointed as the project manager and will be responsible for overseeing the construction of the hotel and its business and financial performance. We will benefit from this project for income deriving from the hotel business and the appreciation in the value of the property.

Net Tariffs 2013-2018

HK Cents

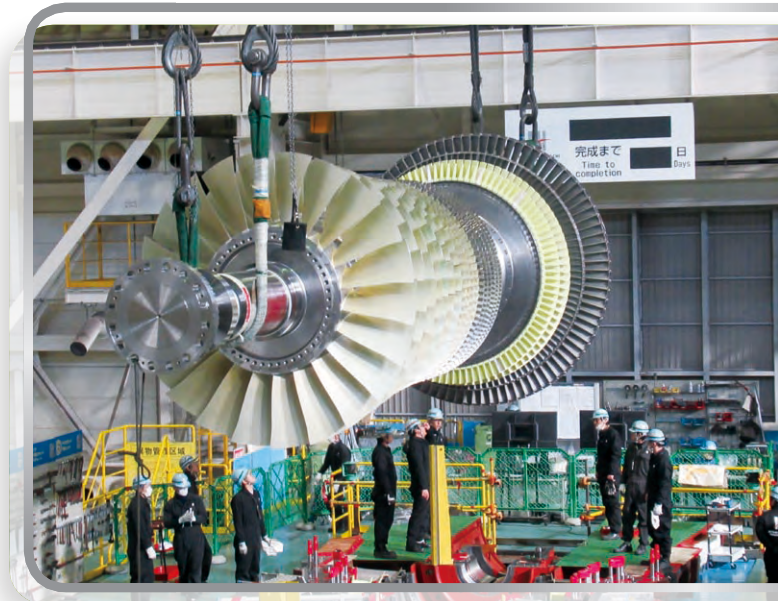


2017 was another year of stable financial performance by HK Electric, witnessing strong delivery on all operating parameters.

We have gone over and above our 2013 pledge to keep tariffs unchanged until the end of 2018. Following tariff freezes in 2014 and 2015 and a tariff cut in 2016, our customers enjoyed two rebates, namely the “Special Rent & Rates Rebate” and the “Special Fuel Rebate” in 2017, which resulted in a 17.2% reduction in tariff. In 2018, we continue to offer these two rebates through a lower “Special Fuel Rebate” and other adjustments in costs have led to a small tariff rebound of 1.9%. Despite this, 2018 tariff is still 16.6% below that of 2013.

Our customer base grew from 575,000 to 577,000, driven by an increase in residential customers. Though we saw extreme weather in 2017, with very high temperatures during the passage of several typhoons in the summer, a dry spring season, milder weather in the first half of 2017, widespread continual energy efficiency and conservation efforts by the community have resulted in a decline of electricity sales from 10,792 million kWh in 2016 to 10,615 million kWh.

Stable generation performance and a well-maintained transmission and distribution network enabled us to continue to meet customer demand without any difficulties.



Fabrication in progress for L10, a new gas-fired combined cycle generating unit.

RENEWING OUR GENERATION PORTFOLIO

Construction work is in full gear at Lamma Power Station (LPS), our primary generating facility, as we install two new gas-fired combined-cycle generating units, L10 and L11. With the commissioning of L10 in 2020, the proportion of gas-fired electricity will increase to 50% of the total power generated by us and further rise to 55% when L11 comes into operation in 2022.



Lamma Power Station is undergoing major construction works to increase its gas-firing generation capacity.

CEO'S REPORT

Underground substructure works are largely completed and construction of structure to house the new units has commenced. Engineering design for L10 has been completed substantially and fabrication of equipment is in satisfactory progress. Design and preparation works for L11 are taking place in tandem and piling was completed in September 2017.

The security of our natural gas supply, as well as our ability to secure competitive prices, can be greatly enhanced by importing the gas via oceanic routes. To enable us to receive natural gas transported by ship in liquefied form, we have been exploring the development of an offshore liquefied natural gas (LNG) terminal in Hong Kong waters based on Floating Storage and Regasification Unit (FSRU) technology. This terminal, to be developed in partnership with CLP Power, will allow us to procure LNG directly from the international market. The Environmental Impact Assessment report for this project will soon be submitted to the Government. Subject to the necessary approvals, the project is scheduled for commissioning by end 2020 at the earliest.

In 2017, 10,980 million kWh of electricity was sent out from Lamma, with natural gas generation accounting for about 34%. Our commercial scale wind turbine, Lamma Winds, and our solar power system at LPS generated a total of 1,884 MWh, offsetting 1,570 tonnes of carbon dioxide emissions.

Performance improved at LPS with respect to plant availability and emissions performance. Plant availability

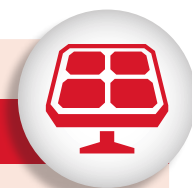
stood at 87.1% and power supply was maintained even during extreme weather events in August when a T10 typhoon signal was hoisted in Hong Kong.



An engineer at work on the L9 generating unit to ensure its safety and performance.

We worked with the Government during the year to tighten emission targets for 2022 onwards. HK Electric has to further reduce emissions of sulphur dioxide (SO₂), nitrogen oxides (NO_x) and respirable suspended particulates (RSPs) by 23%, 21% and 8% respectively as compared to the levels for 2021. While these targets are extremely demanding, we are confident that by improving our emission reduction measures and managing our fuel mix, we will be able to meet the challenge.

VIRTUOUS CIRCLE OF RENEWABLE ENERGY FOR PO TOI ISLAND



An outlying island to the south of Hong Kong, Po Toi Island, is not connected to any power grid and its small number of residents depends on diesel generators for electricity supply. To reduce emissions and provide reliable supply, we are investigating the feasibility of installing a solar power system on the island. This initiative requires the installation of not only solar panels and a generating system, but also a bank of batteries to store the energy generated. We are exploring the possibility of using retired EV batteries for this purpose, thus providing them with a second life and alleviating the disposal problem. A project on this theme won an award in June 2017 at the "International Competition on Second Life for Retired Batteries from Electric Vehicles" organised by the Environment Bureau of the Hong Kong Government.



AWARD RECOGNISES HK ELECTRIC'S COMMITMENT TO QUALITY

HK Electric was granted the Grand Award of the 2017 HKMA Quality Award in July 2017, in recognition of its commitment to developing and deploying Total Quality Management. The Hong Kong Management Association (HKMA) commended HK Electric's management team for "walking the talk" and cascading the corporate vision, mission and core values clearly to employees at all levels. It also complimented us on organisational agility and operational flexibility in adapting to changing circumstances in the strategic planning process, as well as our customer-centric approach in providing customers with a wide range of convenient and tailor-made services.



A number of extensive refurbishment projects were completed at LPS in preparation for increased gas-firing generation capacity. These included improving the existing facilities in the gas receiving station which was completed successfully in February 2017. Gas supply facilities of Units L9 and GT57 were segregated into two unitised streams and enhancements were made to increase the reliability of the fire and gas leak detection and tripping systems.

In 2017, LPS set in motion a phased retirement and replacement programme for the coal-fired generating units at LPS. With the recommended life span of a unit being 35 years, most are approaching the end of their service lives. Under the replacement programme, L1, being the oldest coal-fired generating unit commissioned in 1982 at LPS, retired in May 2017. L3, commissioned in 1983 with a capacity of 250 MW, is scheduled to retire in May 2018.

Unit L2, on the other hand, had undergone some major life-extension projects, which were completed in June 2017. The project involved replacement, optimisation and refurbishment of all the aged components of the 250-MW coal-fired unit. The success of the project means that its service life has been extended to 2022, deferring capital expenditure while maintaining LPS's generating capacity at a healthy level. Other coal-fired generating units will retire over the next decade or so and will be replaced progressively by new gas-fired combined-cycle generating units.

NETWORK UPGRADE

At HK Electric, we are committed to world-class supply reliability. In 2017, supply reliability stood at over 99.999%,

for the 21st consecutive year. Customers experienced less than one minute of unplanned power cuts on average in 2017, a record we have maintained since 2009.

Our proactive approach to network design, maintenance, upgradation and repair is the foundation of our reliability performance. We monitor our networks round-the-clock, and utilise early detection and advanced diagnostic techniques to prevent problems from occurring. Working on this principle, we attained stricter target service levels across three key customer performance indices (Average Service Availability Index, Appointment Punctuality Index, and Connection and Supply Performance Index), qualifying for the respective financial incentives under the SCA.



North Point Switching Station undergoes network security upgrades to maintain the reliability of the system.

MIGRATION TO NEW STATE-OF-THE-ART DATA CENTRES



2017 marked the launch of two new data centres at HK Electric, to support its transition into a smart and agile energy systems provider. The new centres replace four legacy ones.

Inaugurated in October 2017, the new data centres are highly robust, secure and energy efficient with embedded private-cloud computing infrastructure. There is a complete failsafe infrastructure between the two centres, ensuring system reliability. They have a life span of at least 20 years and can support non-stop operations. Relocation and migration of all IT equipment and services were completed successfully.



We successfully implemented a number of major projects across our transmission and distribution network during 2017. Network security was enhanced at the North Point Switching Station and one power transformer at the Zetland Street Zone Substation was refurbished. Fifty-seven new distribution substations were commissioned and aged network equipment was replaced or upgraded.

We continued to expand the application of advanced on-line partial discharge detection systems to monitor equipment in primary stations and cable diagnostic techniques to identify weak components in our 11-kV cable network. The systems identified 24 instances where pre-emptive action can be taken to maintain fault-free operations.

HK Electric's 24-hour System Control Centre plays a central role in maintaining our supply reliability and service

quality. During the year, the System Control Centre is commissioning a new Energy Management System and a new Distribution Management System incorporating purpose-built smart grid features that will improve automation and control of our generation, transmission and distribution networks.

Under the regular Network Reliability and Operations Review, a total of 18 workgroups assessed the full spectrum of assets and processes across HK Electric's transmission and distribution network, including computer hardware systems and Geographic Information System. Performance and compliance with legal, regulatory, environmental, health and safety requirements were also scrutinised given their importance in our operations. Over 300 specific items related to reliability, health and safety were identified as areas for enhancement.

During the year we crystallised our long-term deployment strategy with respect to smart meters and advanced metering infrastructure (AMI). A pilot project was also initiated for deploying around 3,100 smart meters in total during 2017 and 2018 to provide valuable insights into the effectiveness of AMI technology for different customer segments. This exercise will help us roll out larger deployments in the future, enabling us to modernise our operations and customer services in line with other developed markets around the world.

PHYSICAL AND CYBER SECURITY

Both physical and cyber security were a key focus during the year. A Physical Security Management System



Newly installed access control systems at Electric Tower improve site security.

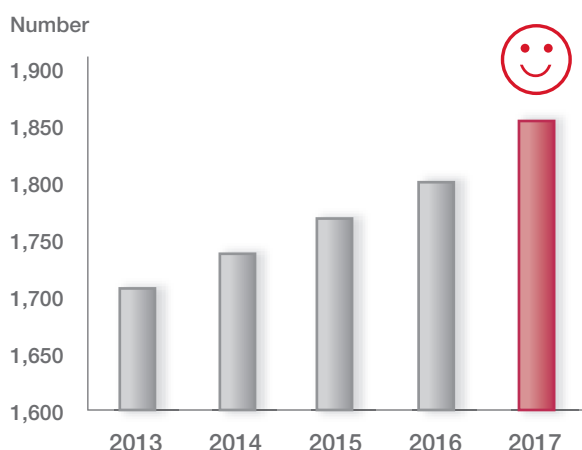
Manual was issued and a committee was set up to provide strategic direction in safeguarding our premises. Access control and surveillance systems were installed in Electric Tower, one of our most important facilities, to enhance physical security. The CCTV system at LPS is being expanded and an intruder detection system is being installed. To identify further areas for improvement, security reviews of individual business units are in progress.

We continued to invest in our IT security infrastructure, conduct employee security awareness training, and test our security incident response capability and recovery processes. Measures implemented in 2017 included simulated phishing scams to test employees' response and prompt escalation of our cyber defence at times when viral ransomware attacks occurred, talks on cyber security in collaboration with the police, and adoption of the latest protection technologies. We also engaged with an external consulting firm to test our security controls to identify and address any vulnerabilities.

EXEMPLARY CUSTOMER SERVICE

We continued to deliver quality services to our customers, achieving all 18 customer service pledges once again. The number of commendations we received from satisfied customers reached a record high.

Customer Commendations



We introduced a number of services for the convenience of our customers. Small bill balances below HK\$150 will be carried forward to the next bill and require no immediate settlement; a special promotion to celebrate HK Electric's 128th anniversary and the 20th anniversary of the HKSAR establishment was launched to encourage more customers



HK Electric and AlipayHK introduce e-wallet services for the convenience of mobile-savvy customers.

to switch to e-billing and autopay options, and e-wallet payment was introduced through our partnership with AlipayHK.

Our Customer Emergency Services Centre provides 24-hour emergency telephone call and SMS services to our customers. Dedicated electronic systems distribute customer calls efficiently to officers with real-time reporting. The average waiting time for telephone calls to the centre was 1.59 seconds in 2017, surpassing our target of nine seconds.

To keep abreast of the latest developments in customer service across different industries, HK Electric organised a Customer Services Symposium with the theme "Service Excellence Now and Beyond", where renowned speakers from other organisations were invited to share their experiences with our employees.

Another priority in 2017 was the enhancement of our relationships with enterprise customers. A streamlined relationship management strategy was adopted to engage strategic customers with a single contact point. Visits were paid to 50 corporate customers during the year.

PROMOTING THE USE OF EVs

As a major electricity supplier in Hong Kong, we are keen to support the wider use of electric vehicles (EVs) as a means to curb roadside emission. We do this through the provision of charging facilities.

CEO'S REPORT

During 2017 we erected three new charging stations and upgraded four existing stations, bringing the total number of charging stations to 13. We have also extended free charging services to motorists until the end of 2018.

The widespread availability of EV charging facilities in residential and commercial buildings will be an important catalyst for increased adoption. During the year, we received 562 new enquiries and 346 applications to install EV supply infrastructure. Twenty-six AC quick chargers were put into place at various residential buildings.

At HK Electric, we continue to replace retiring vehicles with EVs wherever possible. Currently, our 114 EVs, representing 40% of our own fleet, help reduce fuel consumption by 13,949 litres. The first electric bus at LPS, introduced on 8 July 2017, carried a total of 1,066 passengers in the year.

Following its enthusiastic reception in 2016, the Hong Kong ePrix returned to the Central Harbourfront in December 2017. Once again, we were honoured to serve as the official energy partner of the event and provide safe, reliable and clean electricity supply as well as power-related technical advice.

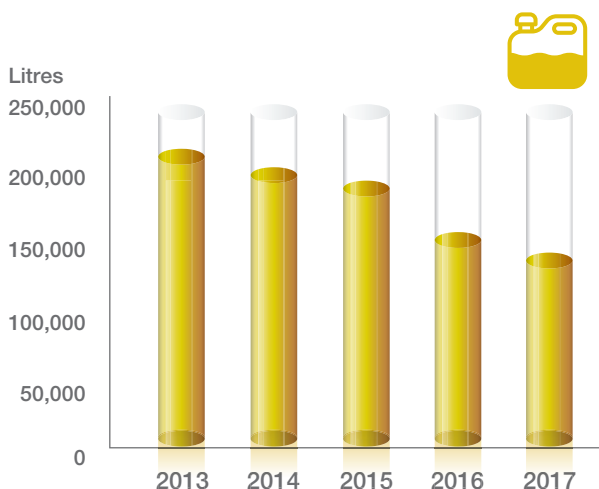


HK Electric's expanding fleet of electric vehicles help cut fuel consumption.

MINIMISING ENVIRONMENTAL IMPACT

LPS runs a comprehensive Environmental Management Programme covering water, waste, air and energy management to improve overall environmental performance.

Fuel Consumption of HK Electric Vehicle Fleet



To maintain standards of environmental performance during electricity generation, LPS continued its use of natural gas and low-sulphur coal to minimise emissions. At the same time, emission control and monitoring equipment, including flue gas desulphurisation plants, low nitrogen oxides burners, electrostatic precipitators and continuous emission monitors enabled us to keep emissions of SO₂, NO_x and RSPs below permitted levels.

Recycling of waste was actively promoted at the plant with the goal of sending minimal waste to landfill. By-products of electricity generation such as ash and gypsum were recycled for industrial use. During the year, 111,896 m³ of rainwater and plant processing water was recycled and 270 m³ of garden waste was converted to nutrient-releasing mulch with a wood chipper. A total of 13,707 kg of food waste produced by LPS canteen was processed by two food-waste decomposers. To further reduce the carbon footprint of the LPS buildings, LED lamps were retrofitted at various locations, saving more than 16,000 kWh of electricity annually.

Our transmission and distribution network achieved strong environmental performance under a strategic Environmental Management System, which is in line with ISO 14001:2015 requirements. By implementing 22 specific initiatives we have saved more than HK\$3.6 million during the year, compared with baseline figures. Energy saving measures and renewable energy are being rolled out at our station buildings, saving at least 3% annually in energy costs.



Solar panels on substations help reduce our own carbon footprint.

Both LPS and HK Electric's transmission and distribution network have been awarded the Class of Excellence Wastewi\$e Label for the 11th year in a row.

The Smart Power Fund was instituted four years ago to subsidise energy efficiency enhancement projects of ageing

residential buildings. In 2017, we raised the upper limit of the subsidy from HK\$200,000 to HK\$400,000 per application, in order to provide greater support to building owners. Twenty applications were approved during the year, bringing the total number of approved applications to 49 since the Fund's inception. These projects included upgrades to lifts' driving systems, public lighting, and air conditioners.

Under the new SCA, various initiatives will be introduced or revised to assist community efforts to increase energy efficiency or reduce emissions. A new feed-in-tariff will be made available for customers building renewable energy (RE) systems on their premises while RE certificates will be introduced for customers who are keen on supporting emission-free local RE generation. In the months ahead, we will continue to work closely with the Government to conclude the implementation details of the new SCA, while also completing all the activities associated with the current SCA.

We will maintain our twin priorities of delivering reliable and affordable power to Hong Kong residents and get ready for the low-carbon energy future ahead.

SUPPORT FOR BELT AND ROAD INITIATIVE

We are pleased to have an opportunity to take part in the Chinese Government's Belt and Road Initiative, which promotes co-operation through policy coordination, strengthened infrastructural facilities and connectivity along key routes across Asia, Europe and Africa. In 2017, HK Electric signed a Memorandum of Understanding with The Hong Kong Polytechnic University, Xi'an Jiaotong University and the State Grid Corporation of China to deliver a two-week workshop for senior executives and researchers of enterprises, government units and higher education institutions involving in electricity and energy operations of the Belt and Road countries. This cross-regional, cross-cultural university-industry collaboration workshop is the first of its kind which will take place in the Mainland and Hong Kong in April 2018. The modules designed by HK Electric

will focus on the power distribution system of a modern metropolitan city.



CEO'S REPORT

A SUSTAINABLE FUTURE



We believe that Hong Kong's future is influenced by our actions of today. HKEI aims to minimise the environmental impact of our activities and serve as a force for good in our community, by operating our business in a responsible, ethical and accountable way.

Guided by the company's Corporate Social Responsibility (CSR) policy, the CSR Committee chaired by me is responsible for providing direction and strategy for our CSR activities as well as overseeing the company's performance in this aspect. The Committee endorsed a number of revisions to the policy during the year, placing greater emphasis on "transparency", "innovation" and "engaged workplace".

STAYING CONNECTED WITH OUR STAKEHOLDERS

Consistent, transparent and timely communication with our various stakeholders is our responsibility and we use face-to-face, traditional and digital channels to stay connected with them.

We maintain an ongoing two-way interaction with community leaders including members of the District Councils and Legislative Council and other political

organisations. We kept the Lamma Island community informed of our work as well as the progress and development at Lamma Power Station (LPS). To support and offer professional inputs on district matters, four of our employees sit on six district and welfare committees under various government establishments.

HK Electric has always been a strong supporter of key engineering and green groups. During the year, we sponsored and participated in activities and symposiums organised by major stakeholder groups including the Hong Kong Institution of Engineers and many of its divisions, the Institution of Engineering and Technology Hong Kong, Occupational Safety and Health Council, World Green Organisation, Green Power and more.

Stakeholder visits to our facilities help build an understanding of our operations. More than 200 visits were organised in 2017 to different facilities, including 24 visits for more than 1,000 HKEI SSU holders and their friends to LPS as a token

of appreciation for their support. Visits to HK Electric's cable tunnel and Connaught Road Zone Substation, where solar panels had been retrofitted, were arranged for members of District Councils as well as members of the company's Customer Liaison Group (CLG); this allowed us to share the challenges of introducing distributed generation in Hong Kong with them.

HK Electric is keen to listen to customers' views, priorities and concerns through a wide range of channels including meetings of the CLG, after-service satisfaction surveys, "We Meet on Friday" sessions, and "Give-Me-5" surveys.

The Joint Consultation Committee is an important conduit for communication between employees and management. Its six panels held 20 meetings during the year. Employees were also invited to join the quarterly on-site focus groups through which they could voice their opinions or give suggestions to the company.

We published our yearly "Corporate Information" booklet to enhance stakeholders' understanding of our business and operations. The HK Electric YouTube Channel was launched in January 2017 to showcase various facets of the company online as well as tips on eco-living and electric cooking.

CARING FOR OUR PLANET

HK Electric is committed to initiatives on preserving the environment for future generations. Measures to mitigate



Customers can share their views and provide feedback at Customer Centre.

climate change and minimisation of waste to landfill are part and parcel of our green efforts.

We adopt a 4R (reduce, reuse, recover and recycle) policy to minimise the waste we generate. Our conservation efforts paid off and successfully reduced the consumption of electricity, water and paper in 2017 by 3.8%, 3.7% and 1.9% as compared to the corresponding figures in the previous year. In recognition of our efforts in reducing, reusing and recycling waste, HK Electric was named one of the Friends of EcoPark, 2017.



Visits by District Council members improve their understanding of our operations and system reliability.

SMART KITCHEN FOR GREEN CHEFS



Electric cooking emits fewer pollutants and wastes less heat than other cooking methods. During the year, HK Electric's Smart Commercial Kitchen showroom introduced chefs from Hong Kong's top restaurant chains to the latest automated kitchen equipment, showcasing their effectiveness in improving the working environment, reducing chefs' workloads and standardising food quality. We engaged with both the catering industry and customers through cooking demonstrations and events to enhance the public awareness of electric cooking. In view of our continuous efforts, about 40% of the restaurants on Hong Kong Island have been adopting a majority of electric equipment in their kitchens.

A number of initiatives were introduced to encourage employees to realise the 4R policy in their daily work. A centralised rubbish bin policy was implemented at our offices with the aim of reducing general waste and increasing recycling rate. Employees have to separate paper wastes of paper, aluminium cans and plastic from general waste before disposing them into the central bins. An intranet recycling platform, namely "Pass It On" was also established to let employees pass on their unwanted belongings which are still in good condition to their colleagues so as to give used objects a new lease of life.

Regular carbon audits of our office buildings allowed us to identify ways in which we could cut emissions further. We supported the Government's 4Ts (Target, Timeline, Transparency and Together) Charter and Energy Saving Charter 2017 to save energy in our office buildings and improve the way we enable and report energy efficiency.

Approaching life from a green point of view

HK Electric's Smart Power Campaign encourages the city's youth to adopt low-carbon lifestyles. In recent years, the campaign has incorporated the local education sector's "life planning" theme with information and advice on what, and what not, to wear and eat, how to live smart at home, and travel in low-carbon ways. Around 90,000 participants took part in various activities held throughout 2017.

Under the campaign, more than 50 secondary school students were appointed as "Happy Green Community Ambassadors" in 2017 to spearhead low-carbon efforts on campuses. Three outstanding students were given the

unique opportunity to job shadow HK Electric's environmental engineers, gaining hands-on experience in tasks such as collecting data on emissions and measuring noise levels.

The "Green Energy Dreams Come True" competition, a highlight of the Smart Power Campaign, received an enthusiastic response once again. Technically gifted young students from secondary schools were able to breathe life into their visions of green on-campus initiatives with funding from HK Electric. Judges were impressed by projects like a playground model demonstrating the use of kinetic energy to generate electricity, a virtual reality game on renewable energy and an augmented-reality sandbox.

"Green Energy Dreams Come True" competition helps talented schoolgoers implement their green visions.



SHOWCASING HONG KONG'S HIDDEN ECO-TREASURES



Green Hong Kong Green is a long-standing environmental project organised in partnership with The Conservancy Association. Following the development of a new route about Western district in 2016, another urban eco-heritage route in Wan Chai was developed in 2017, where participants could learn more about the rich and colourful history of one of Hong Kong's earliest developed areas. It was also home to Hong Kong's first power station, commissioned by HK Electric in 1890.

Together with this new Wan Chai route, there are now 10 eco-heritage routes under the programme with eco-leaders taking people on guided tours on Saturdays or Sundays throughout the year. In 2017, 97 tours were arranged with 1,300 participants joining.



STAYING ACTIVELY INVOLVED IN THE COMMUNITY

We are committed to caring for the community in which we live and work. Our dedicated team of more than 1,200 volunteers, comprising over half of our workforce, spearheads all our community outreach activities. Volunteers took part in 83 services during the year including home visits to the elderly, mock interview sessions for school students and assisting in carnivals and sports events such as marathons, lion-dance competition and the Formula E Hong Kong ePrix. To add diversity to our volunteer services, 19 new services were introduced in 2017 for our colleagues to contribute their skills and expertise.

Through the Good Neighbour Fund, we supported projects initiated by our employees. These included home visits and



HK Electric's management demonstrates their support of World Environment Day 2017.

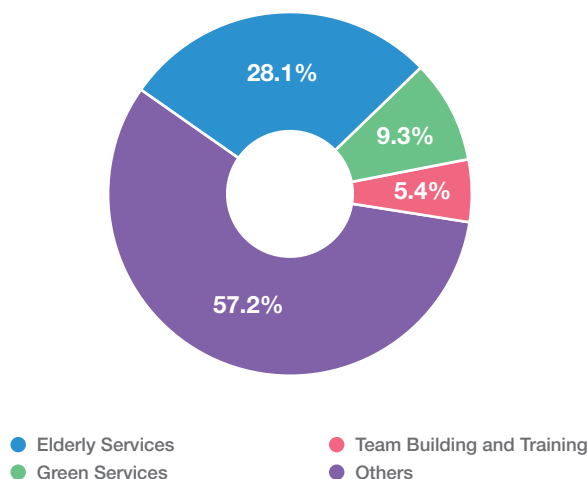
Promoting green with green groups

We participate actively in educational, awareness-raising and conservation activities organised by many of Hong Kong's green groups. We extended our support to the World Wildlife Fund and Green Sense by providing system load data to gauge the impact of their initiatives. As in previous years, our volunteers helped Green Power in their "Clean Up the World in Hong Kong" campaign by clearing up rubbish left behind by visitors to country parks, as well as "Green Power Hike" raising funds for green causes.

To mark the 44th anniversary of the United Nations' World Environment Day on 5 June 2017, about 800 employees took part in a month-long campaign that involved green choices in every aspect of our lives – like the clothes we wear, the food we eat and the way we move around.

Volunteering Activities in 2017

(2017: 5,451 service hours)



FROM WASTE TO NUTRITIOUS MEALS



According to government figures, about 3,350 tons of food waste is dumped in the landfills of Hong Kong every day. The Environment Bureau has set a target of cutting food-waste disposal to landfill by 40% by the year 2022.

We believe that food-waste reduction helps raise awareness of our staff on food-waste problem. We reduced food waste at source; our employees are incentivised to pre-order meals at our canteens, so we can estimate food consumption better. We participated in numerous food-wise and food-waste reduction programmes and had obtained several awards. We also donated surplus food to Food Angel twice a week, who would distribute the food to the needies on our behalf. In 2017, 168 kg of surplus food was donated.



tea meetings to care for and learn from retired employees, and a creative workshop for the underprivileged. Videos documenting the rehabilitation of stroke patients were produced with the aim of encouraging the general public to support their reintegration into the community. In addition, student volunteers were recruited to take wedding and family photos for elderly couples and underprivileged groups.

We also support the work of a number of non-governmental and charitable organisations across Hong Kong, by raising funds, promoting awareness and participating in worthy causes.

Care and concern for senior citizens

Like most developed cities, Hong Kong's population is ageing rapidly. Recognising the need and responsibility to support our senior citizens to live safely and fruitfully, care for the elderly is one of the most cherished causes at HK Electric.

We continued with our electrical inspection programme for elderly people living alone in public rental housing. During the year, our technical volunteers visited 76 elderly households and replaced sub-standard plugs and installations.

Under the CAREnJOY programme, volunteers visited 443 elderly people living alone, delivering bulky purchases such as rice or oil, and reminding them about the safe use of electricity. We also held community gatherings to share tips on good health, energy efficiency and electrical safety with close to 1,600 elderly people. With the support of all four District Councils on Hong Kong Island, nine Non-Governmental Organisations (NGOs) and two Lamma Rural Committees, CAREnJOY is now reaching out to almost every corner in our supply territory.

Learning new things, and keeping ourselves physically and mentally healthy help everyone retain an interest in life and contribute meaningfully to society. The University of the Third Age (U3A), co-founded by HK Electric and The Hong Kong Council of Social Service, has fostered this idea for more than 11 years in Hong Kong.



A performance by senior citizens at the fifth Outstanding Third Age Citizens Award cum U3A Completion Ceremony.

With 51 self-learning centres, U3A today has organised 783 courses for 14,000 participants during the year. U3A also honoured 12 outstanding retirees for their achievements at a biennial award presentation ceremony in April 2017.

A CULTURE OF HIGH ATTAINMENT

We strive to create a culture and working environment that motivates employees to develop their strengths and realise their potential so that they can serve our customers and the community to the best of their abilities.

Our recruitment policy tailored to encourage, identify and support individuals who have great potentials. We are committed to equal treatment of all candidates and employees irrespective of race, nation of origin, religion, gender, age, or any other factors. We ensure that our recruitment process adheres to equal opportunity principles. Today, women make up 17% of our 1,776 employees.

We are an employer of choice, offering competitive remuneration packages that are regularly benchmarked against comparable organisations in relevant industries. In 2017, we continued our “pay-for-performance” policy that appraises and rewards our employees on the basis of overall performance including their achievement of targets and competencies.

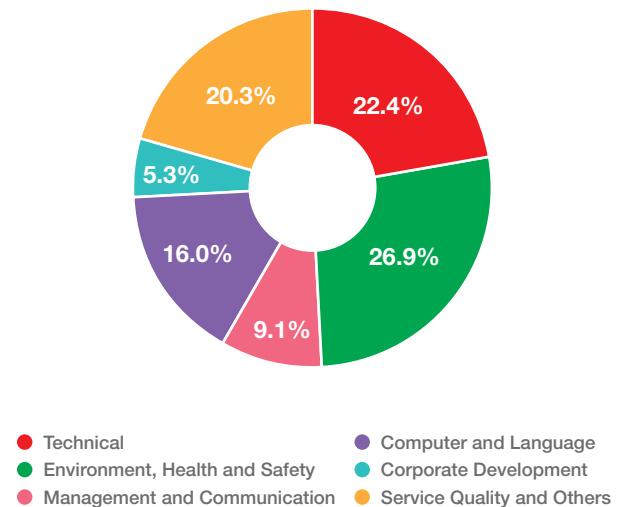
Encouraging budding engineers

To create a talent pipeline for the company, we participated in careers fairs organised by a number of institutions to help introduce young graduates to a successful career in

engineering. We also ran industrial placement and vacation trainee programmes for youngsters to gain hands-on experience in the field.

In 2017, we recruited 18 fresh graduates under our graduate trainee and trainee technician schemes, offering intensive training and orientation to kick-start their careers.

Types of Employee Training in 2017



Talent development through learning

We offer a diverse range of training opportunities to our staff. In 2017, HK Electric launched a 4-level leadership competency framework to establish a roadmap for the development of our employees.

We recorded a total of 80,071 training hours in 2017, representing over 40 hours per employee. Courses covered engineering knowledge, technical skills, health and safety, environmental protection, language, and soft skills such as presentation, communication, coaching, leadership, etc.

At the same time, HK Electric Institute, established in 2014 to enable succession of advanced engineering knowledge by younger engineers, organised 22 courses taught by retired veterans, senior staff and external experts in 2017. A total of 499 participants from different business units of the company attended and a total of 2,249 training hours were recorded.



Team building is an important component of trainee programmes.

CYBER SECURITY TRAINING



With information technology becoming an indispensable part of our daily lives, our activities are exposed to increasing cyber security threats. A seminar was held for nearly 390 employees in July 2017 to share the recent trends of technology crime, activities vulnerable to cyber-attacks and necessary preventive measures so as to strengthen employees' awareness of cyber security. A speaker from the Cyber Security and Technology Crime Bureau under the Hong Kong Police Force provided an update on technology crimes and HK Electric's IT experts spoke about how employees should help safeguard the company from cyber-attacks.



EMPLOYEE HEALTH, SAFETY AND WELLNESS

As a heavy industry, we take employees' health and workplace safety seriously and always strive to foster a good health and safety culture. Apart from compliance with all statutory requirements, a comprehensive and accredited Safety Management System, Safety Rules, Health and Safety Policy, and Alcohol and Drugs Policy are in place and are strictly enforced. We incentivise employees to participate in activities to promote health and safety and strive to achieve incident-free operations.

We continued our Work Safe Behaviour programmes to identify and improve working processes to ensure safe performance. Internal and external safety audits and inspections were conducted to identify strengths and opportunities for improvement.

Near Miss Incident Reporting and subsequent investigations can help avert accidents, injuries or even fatalities. We launched a mobile app during the year to provide a convenient online platform for our employees to report such cases promptly to safety officers or administrators for follow-up. Employees were informed about the importance of Near Miss Incident Reporting and an incentive scheme was introduced to promote it.



Promoting employee fitness at work.

Sound minds in sound bodies

It's our duty to care for the well-being of our employees. To ensure a healthy working environment, continuous efforts were made to improve the Indoor Air Quality (IAQ) of our office buildings. In 2017, our Hongkong Electric Centre, Customer Centre and Electric Tower – obtained the Excellent Class IAQ certification from the Government's IAQ Certification Scheme. The Hongkong Electric Centre received the award for the 13th consecutive year.

With "health and happiness" as our theme for 2017, we organised health talks, seminars and fitness courses for our employees to promote physical and emotional wellness and work-life balance. In 2017, we continued to encourage employees to organise group recreational activities with support from our Employee Recreational Subsidy Scheme.

To improve the work-life balance of our warehousemen by reducing the after-office-hours call-out service, we adopted the radio frequency identification (RFID) technology to establish an unmanned Call-out Buffer Store in our Electric Centre located at North Point. This Call-out Buffer Store is a self-service store which allows our emergency service team to pick and withdraw the emergency spares by themselves after office hours without calling our warehousemen.

Information, tools, resources and training on counselling skills were provided to enable employees to support co-workers facing emotional issues. The Good Neighbours' Club was formed, with around 100 employees joining the Club on a voluntary basis as Good Neighbours. The Club aims to enable their continuous learning and sharing of resources on provision of emotional support to the people around them.

To promote physical and mental well-being in the workplace, we joined the Joyful@Healthy Workplace programme organised by the Department of Health and the Occupational Safety and Health Council in 2016, winning an Excellence Award in the Enterprise/Organisation Category of the Joyful@Healthy Workplace Best Practices Award in 2017.



Group activities help employees support each other, promoting mental well-being in the workplace.

SUSTAINABILITY PERFORMANCE AND DISCLOSURE

HK Electric implements proactive business strategies to combat climate change and enhance transparency in information disclosure. As a participant in the Carbon Disclosure Project, HK Electric prepares annual reports on greenhouse gas emissions and emissions reduction efforts.



HK Electric's Sustainability Report is part of our commitment to transparency and corporate citizenship.

In addition to being a long-term recipient of the Caring Company Logo, HK Electric also became one of the only nine companies in Hong Kong to obtain the Business for Sustainability Logo, newly introduced by the Hong Kong Council of Social Service under its Caring Company Scheme. This recognises businesses that integrate CSR considerations into their day-to-day operations.

To share our work and performance as a responsible corporate citizen, HKEI publishes a sustainability report along with its annual report. The 2016 Sustainability Report published in March 2017 was prepared in accordance with GRI's Sustainability Reporting Standards and Electric Utilities Sector Disclosures as well as Hong Kong Stock Exchange's ESG Reporting Guide, with external independent assurance.

We thank our employees and stakeholders for their unwavering passion and support as these are crucial for our progress. We continue to seek opportunities to effect positive change both within our own operations and in the community.

Wan Chi Tin

Chief Executive Officer

Hong Kong, 13 March 2018

AWARDS GALLERY

22 Awards

CORPORATE / COMMUNITY

- Caring Company Scheme 2016/17
 - 5 Years Plus Caring Company Logo
 - Business for Sustainability Logo
- Happiness-at-work Promotional Scheme 2017
 - “Happy Company” Label
- Walks for Millions – Award Scheme 2016/2017 Corporate Category
 - Outstanding Walk Team Award 2016/2017
- International Competition on Second Life for Retired Batteries from Electric Vehicles Open Group
 - Champion
 - Second runner-up
 - Best “Value & Impact” Award
 - Best “Viability” Award
- 2017 HKMA Quality Award
 - Grand Award
- 2017 ARC Awards International Annual Report 2016
 - Cover Photo/Design: Electric Power Company Category
 - Honors
 - Interior Design: Electric Power Company Category
 - Honors
 - Traditional Annual Report: Diversified Power Management Category
 - Honors
 - Sustainability Report 2016
 - Chairman’s/President’s Letter: Sustainability Report Category
 - Gold Award
 - Cover Photo/Design: Sustainability Report Category
 - Gold Award
 - Illustrations: Sustainability Report Category
 - Silver Award
 - Interior Design: Sustainability Report Category
 - Silver Award
 - Photography: Sustainability Report Category
 - Bronze Award
 - Written Text: Sustainability Report Category
 - Bronze Award
- Good MPF Employer Award 2016-17
 - e-Contribution Award
 - Support for MPF Management Award
 - Good MPF Employer Award
- Partner Employer Award 2017/18 Corporate Category
 - Excellent Corporation



PRIZE AWARD CEREMONY 頒獎禮



21 Awards

CUSTOMER SERVICE

- HKRMA Mystery Shopper Programme
 - 2017 Service Retailers of the Year – Bronze Award
 - 2017 Service Retailers of the Year – Retail (Services) Category Award
- HKRMA Mystery Shopper Programme (Oct 2016 to Dec 2016)
 - Retail (Services) Category: Service Category Leader
- HKRMA Mystery Shopper Programme (Jan 2017 to Mar 2017)
 - Retail (Services) Category: Service Category Leader
 - Service Industry Leader – Bronze Award
- HKRMA Mystery Shopper Programme (Jul 2017 to Sep 2017)
 - Retail (Services) Category: Service Category Leader
 - Service Industry Leader – Silver Award
- 2016 Customer Relationship Excellence Awards Corporate Category
 - Public Service of the Year (Public Utility) Individual Category
 - Customer Service Team Leader of the Year (Public Utilities – Contact Center)
 - Customer Service Professional of the Year (Public Utilities – Contact Center)
 - Customer Service Professional of the Year (Public Utilities – Technical Center)
 - Customer Service Professional of the Year (Contact Center) : Three Merits
 - Customer Service Professional of the Year (Technical Center) : Two Merits
- Best SME’s Partner Award 2017 Corporate Category
 - Best SME’s Partner Award 2017
- FAPRA Customer Service Excellence Award Corporate Category
 - Customer Service Excellence Award, HKSAR: Country Winner
- Hong Kong Call Centre Association Awards 2017 Corporate Awards
 - Mystery Caller Assessment Award: Two Gold Awards (Commerce and Utilities)
- Hong Kong Star Brand Award 2017 (Enterprise)





19 Awards ENVIRONMENTAL

- FoodWaste Lean & Green Label Scheme
 - Green Star Label
 - Lean Label (Lamma Power Station)
- LEED (Leadership in Energy and Environmental Design) Certification
 - Platinum Rating (Commercial Interiors)
- FoodEver WasteNever Awards
 - Certificate of Commitment Recognition
- 2016 Hong Kong Awards for Environmental Excellence
 - Public Services: Silver Award
- BOCHK Corporate Environmental Leadership Awards 2016
 - Manufacturing Sector: Bronze Award
- Charter on External Lighting
 - Sheung Wan Station Building: Platinum Award
 - Connaught Road Switching Station and Station Building: Platinum Award
 - North Point Station Building: Platinum Award
 - Marsh Road Station Building: Platinum Award
 - Tamar Station Building: Platinum Award
 - Electric Tower: Platinum Award
 - Electric Centre: Platinum Award
 - Causeway Bay Station Building: Platinum Award
- Hong Kong Green Organisation Certification
 - Excellence Level Wastewi\$e Certificate
 - Good Level Energywi\$e Certificate
- The CarbonCare® Label Scheme 2017
 - CarbonCare® Label (Level 2)
- 2017 Friends of EcoPark Award
- Commendation Scheme on Source Separation of Commercial and Industrial Waste 2016/17
 - Certificate of Appreciation

28 Awards STAFF

- 2016 Outstanding Apprentices Award
 - Sir Edward Youde Memorial Outstanding Apprentice Award
- The Hong Kong Institution of Engineers (HKIE) – HKIE Toastmasters Club International Speech Competition
 - Second Place
 - Third Place
- Table Topic Impromptu Speech Contest
 - Second Place
 - Third Place
- Humorous Speech Contest
 - Second Place
- Speech Evaluation Contest
 - First Place

23 Awards QUALITY / HEALTH / SAFETY

- The 9th Hong Kong Best OSH Employee Award Scheme Management Group of the Organisation/Company Category
 - Meritorious Award
- Occupational Health Award – Joyful@Healthy Workplace Best Practices Award
 - Excellence Award
- Occupational Safety & Health Council Safety Quiz 2017 Corporate Category
 - Champion in Cup Final
 - 1st Runner-up in Cup Final
 - 2nd Runner-up in Cup Final
 - Champion in Plate Final
 - 1st Runner-up in Plate Final
 - Highest Score Award
- The 16th Hong Kong Occupational Safety & Health Award
 - Other Industries: Safety Performance Award
 - Work Safe Behavior Award: Two Gold Awards
 - OSH Annual Report Award: Gold Award
 - Best Screenplay/Best Content Award: Gold Award
 - Best Performer Award: Gold Award
 - Best Visual Effects Award: Silver Award
 - Best Presentation Award: Bronze Award
 - Safety Promotion Award: Bronze Award
- The 9th Regional Safety Quiz
 - 1st Runner-up
- Outstanding Registered Electrical Worker Awards Scheme 2017
 - Individual Category
 - Gold Award
 - Silver Award
 - Team Category
 - Bronze Award
- Good Housekeeping Competition 2017/18
 - Best Presentation Award: Gold Award
 - Other Industries Category: Bronze Award
- The Hong Kong Institution of Engineers
 - Trainee of the Year Award 2017: 2nd Prize
- HKIE Professional Short Course
 - Outstanding Student Award
- The HKIE Professional Volunteers Service Accreditation Programme 2015-16
 - Individual Category
 - Grand Leadership Award
 - 17 Silver Awards
- Construction Industry Ambassador Nomination 2017-2019
 - Personal Award

LONG-TERM DEVELOPMENT STRATEGY



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

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

SERVE HONG KONG THROUGH WORLD-CLASS POWER PROVISION

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

SUSTAIN STEADY GROWTH IN OUR ASSET BASE

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

RUN OUR BUSINESS ON PRUDENT FINANCIAL AND EFFICIENT PRINCIPLES

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

RISK MANAGEMENT

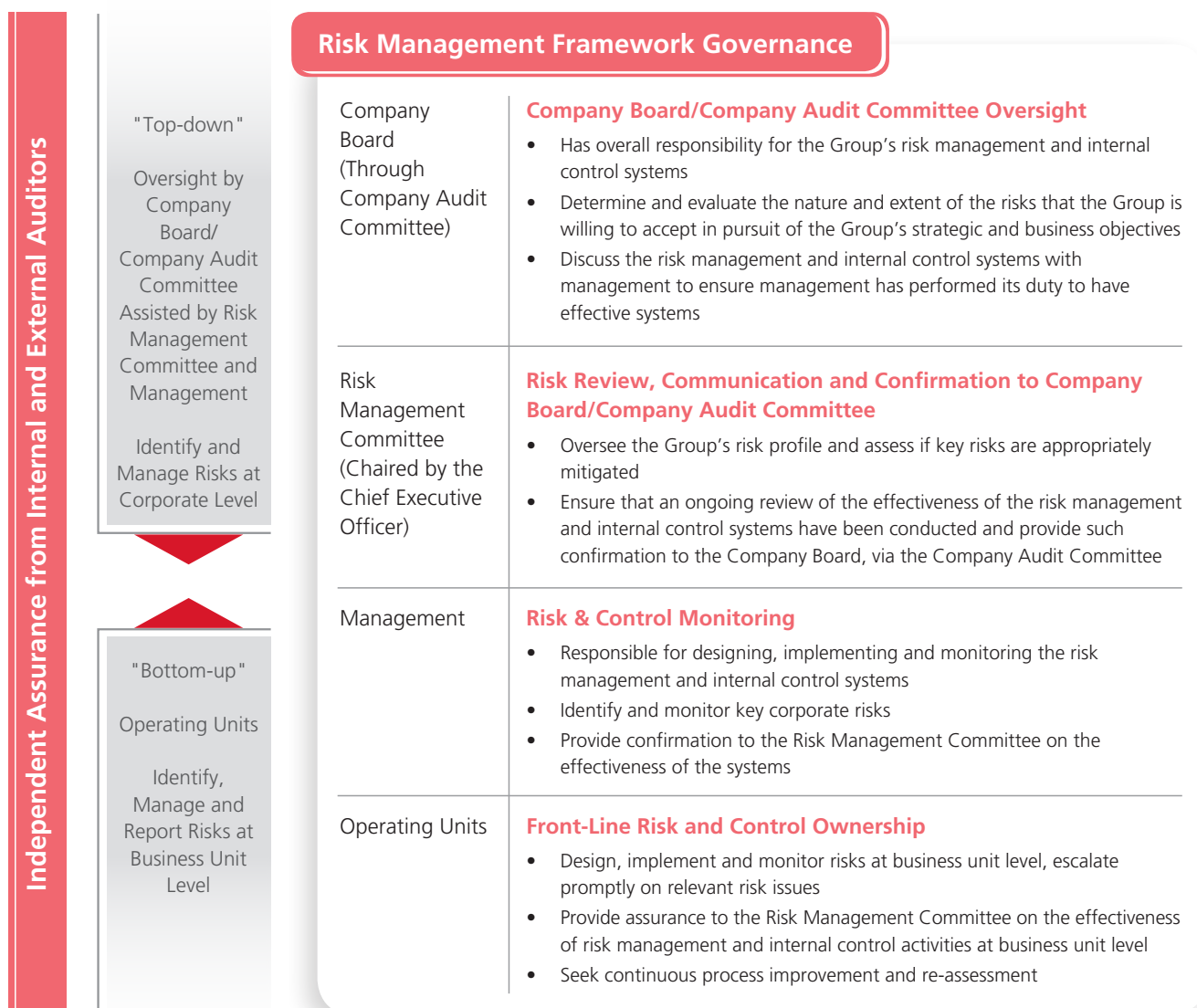
Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives.

RISK MANAGEMENT FRAMEWORK

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

GOVERNANCE AND OVERSIGHT

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



RISK MANAGEMENT

RISK MANAGEMENT PROCESS

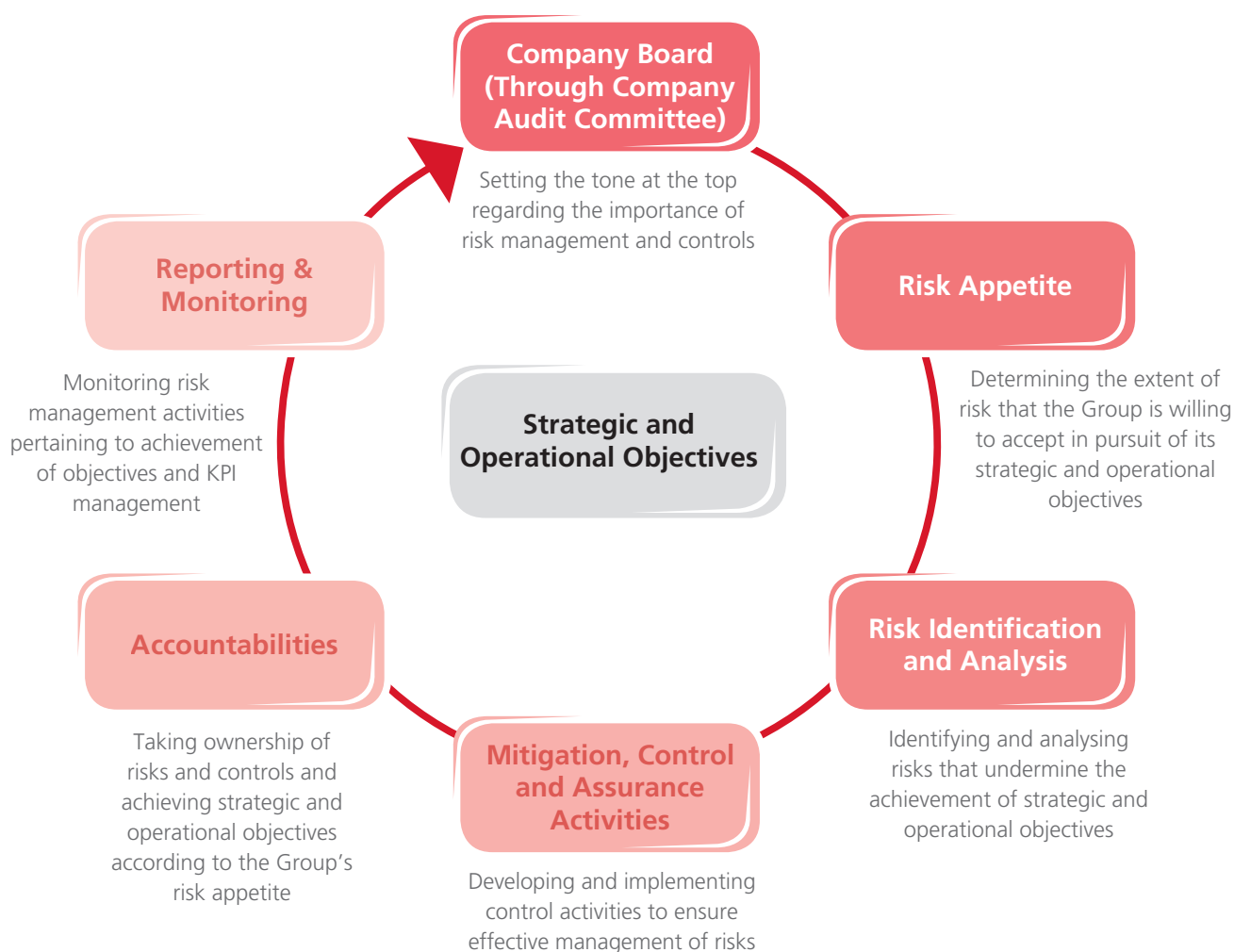
The risk management process is integrated into our day-to-day activities and is an ongoing process involving all parts of the Group from the Company Board down to individual employees.

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

is updated and monitored on an ongoing basis, taking into account emerging risks which may have a material impact on the Group.

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

Fundamental to the achievement of our business goals is how we can effectively manage existing and emerging risks in different economic, social and political environments. A description of the Group's risk factors is shown on pages 29 to 30 of this Annual Report. The Group works to continually improve its risk management framework in order to keep pace with the changing business environment.



RISK FACTORS

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

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

GLOBAL AND HONG KONG ECONOMIC ENVIRONMENT

The global economy continues to strengthen with moderate expansion. The pace of US monetary policy normalisation, policy differences among major central banks and Brexit-related negotiations have, however, added uncertainties to the world economy and global financial market. Growth in the Hong Kong economy is moderate with improvement in exports and retail sales.

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

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

HEALTH AND SAFETY

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

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

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

ENVIRONMENTAL COMPLIANCE

In 2008, the Government stipulated emission allowances for the power sector up to 2010 and beyond through the Technical Memorandum for Allocation of Emission Allowances in respect of Specified Licences under the Air Pollution Control Ordinance. Six subsequent Technical Memoranda issued in 2010, 2012, 2014, 2015, 2016 and 2017 have further tightened the emission allowances starting from 2015, 2017, 2019, 2020, 2021 and 2022 respectively.

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

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

RELIABILITY OF SUPPLY

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

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

RISK FACTORS

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

CYBER SECURITY

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

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

ELECTRICITY MARKET

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

The current SCA, expiring on 31 December 2018, has been renewed in 2017. The new SCA has a longer term of 15 years from 2019 to 2033 commencing on 1 January 2019. The implementation of the 2014-2018 Development Plan under the current SCA, the implementation details of the new SCA, the details of the 2019-2023 Development Plan to be approved by the Government, and the Government's policies on air quality, climate change mitigation, fuel mix and electricity market competition for the medium to long term are all factors affecting the Group's results and growth.

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

FUEL SUPPLY

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

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

INTEREST RATES AND CURRENCY MARKETS

The Group is exposed to interest rate risk primarily on its interest-bearing liabilities. The US Federal Reserve is expected to raise interest rates steadily in 2018 and interest rates in Hong Kong would likely follow suit. The Group is exposed to currency risk that mainly arises from the import of fuel and capital equipment. Volatility in interest rates and currency markets may adversely affect the Group's financial conditions and results of operations.

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

LAWS AND REGULATIONS

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

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

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning

Chairman

Aged 66. Appointed to the Boards of the Trustee-Manager and the Company, and as the Chairman of the Boards since December 2013. He is also the Chairman of HK Electric, a wholly-owned subsidiary of the Company. Mr. Fok is the Chairman of Power Assets. Mr. Fok is an Executive Director and Group Co-Managing Director of CK Hutchison and the Deputy Chairman of CKI. Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited and Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust"), and the Co-Chairman of Husky Energy Inc. ("Husky Energy"). All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. Mr. Fok acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO. He holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

WAN Chi Tin

Chief Executive Officer

Aged 67. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013 and as Chief Executive Officer of the Company since December 2013. Mr. Wan is also Managing Director of HK Electric and a Director of all of the subsidiaries of the Company. He has worked for the Power Assets Group and the Group since 1978, holding various positions including Group Managing Director and Director of Engineering (Planning & Development) of Power Assets, a listed company, and Chief Executive Officer of Powercor Australia Limited and CitiPower Pty., associate companies of the Power Assets Group in Australia. Mr. Wan acts as

an Executive Director and a Director of the substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely Power Assets and Quickview Limited respectively. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of The Hong Kong Institution of Engineers. He is the Vice Chairman of the Engineers Registration Board of Hong Kong and a member of the Audit Committee of The University of Hong Kong.

CHAN Loi Shun

Aged 55. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013. Mr. Chan is also a Director of all the subsidiaries of the Company including HK Electric. He is an Executive Director and Chief Financial Officer of CKI and an Executive Director of Power Assets. Mr. Chan joined Hutchison Whampoa Limited ("HWL") in January 1992 and has been with the Cheung Kong (Holdings) Limited ("CKH") Group since May 1994. All the companies mentioned above, except the Trustee-Manager, HK Electric, CKH and HWL, are listed companies. Mr. Chan acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely CKI, Power Assets and Quickview Limited. Mr. Chan is a fellow of the HKICPA and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

CHENG Cho Ying, Francis

Aged 61. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Cheng is also a Director of HK Electric and serves as its Operations Director. Mr. Cheng has worked for the Group since 1979. He holds a Bachelor's degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a member of The Hong Kong Institution of Engineers.



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

SHAN Shewu

Aged 50. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Shan is also a Director and the Co-General Manager (Transmission & Distribution) of HK Electric. He has around 25 years of experience in electrical technology development and management. Since 2008, Mr. Shan began involved in international operations of overseas power companies of State Grid Corporation of China ("State Grid") and was arranged to act as Assistant Chief Technical Officer, Board Director and Chief Executive Adviser of National Grid Corporation of the Philippines, Deputy Director General of State Grid Representative Office in the Philippines, as well as Chief Technical Officer and Vice Chairman of the Strategic Partnership Committee in Redes Energéticas Nacionais, SGPS, S.A., a listed company and the national electric and gas grid corporation of Portugal. He has been appointed as a Director of State Grid International Development Limited since December 2016 and is also involved in the management of State Grid International Development Co.,

Limited. State Grid, State Grid International Development Co., Limited and State Grid International Development Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Shan holds a Bachelor and a Master Degree in Electrical Engineering from Xi'an Jiaotong University.

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor

Deputy Chairman of the Company Board

Aged 53. Appointed to the Boards of the Trustee-Manager and the Company, and as Deputy Chairman of the Company Board in November 2014. Mr. Li is also a Director of HK Electric and a Non-executive Director of Power Assets. He is an Executive Director, Group Co-Managing Director and Deputy Chairman of CK Hutchison. Mr. Li is an Executive Director, Managing Director and Deputy Chairman, and

the Chairman of the Executive Committee of CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited) ("CK Asset"). Mr. Li is the Chairman of CKI and CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") and the Co-Chairman of Husky Energy. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. He is also the Deputy Chairman of Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li serves as a member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Hong Kong Special Administrative Region, and Vice Chairman of the Hong Kong General Chamber of Commerce (the "Chamber"). Mr. Li is also the Honorary Consul of Barbados in Hong Kong. He acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and an honorary degree, Doctor of Laws, *honoris causa* (LL.D.).

Fahad Hamad A H AL-MOHANNADI

Aged 62. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Al-Mohannadi is the Managing Director and the General Manager of Qatar Electricity & Water Co. ("QEWCo"), which is listed on the Qatar Stock Exchange. He has worked for QEWCo since 1992 and, prior to joining QEWCo, he worked at the Qatar Ministry of Electricity and Water. Mr. Al-Mohannadi is the Chairman of Board of Directors of each of Qatar Power Company, Ras Laffan Power Company, Nebras Power Q.S.C. and Umm Al Houl Power Co., and is also a Board Director of Siraj Solar Energy and a board member of Qatar Science & Technology Park. He holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 79. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Arculli is a practising solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. He was a non-official member of the Executive Council of the Hong Kong Special Administrative Region from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He has a distinguished record of public service and has served on numerous government committees and advisory bodies. Mr. Arculli is an Independent Non-executive Director of Hang Lung Properties Limited, and is a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. He was previously an Independent Non-executive Director of HKEX. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies.

JIANG Xiaojun

Aged 53. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Jiang is also a Director of HK Electric. He is the Senior-Vice President of State Grid International Development Co., Limited since 2008 and a Board Director of ElectraNet in South Australia since 2012. Mr. Jiang has around 32 years of experience within the operation and corporate management of China power companies. Since 2000, Mr. Jiang has worked for State Power Corporation of China and subsidiaries of State Grid in charge of operation and corporate management and overseas asset acquisition and operation. State Grid and State Grid International Development Co., Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Jiang holds an MBA degree from Shanghai University of Finance and Economics, and a Doctoral Degree in Business Management from Sun Yat-sen University.

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

Deven Arvind KARNIK

Aged 50. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Karnik is the Head of Infrastructure at Qatar Investment Authority ("QIA"). Prior to joining QIA in 2013, Mr. Karnik worked for about 7 years in Hong Kong where he was a Managing Director at Morgan Stanley and a Managing Director at Dresdner Kleinwort. Mr. Karnik serves as a director of Cadent Gas Limited. Mr. Karnik also serves as an alternative director of Heathrow Airport Holdings Limited. Mr. Karnik holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in England and Wales.

ZHU Guangchao

Aged 50. Appointed to the Boards of the Trustee-Manager and the Company in May 2017. Mr. Zhu is also a Director of HK Electric. He is the Vice Chief Engineer and Director General of International Cooperation Department of State Grid, a substantial holder of the Share Stapled Units for the purpose of Part XV of the SFO, Chairman of National Grid Corporation of the Philippines, and Vice Chairman of the Board of Directors of Redes Energéticas Nacionais, SGPS, S.A., a listed company and the national electric and gas grid corporation of Portugal. He previously served as Managing Director, President, Senior Vice President and Chief Executive Officer of State Grid International Development Limited, Director General of International Cooperation Department of State Grid and Director of State Grid International Development Limited, Deputy Director General of State Grid Representative Office in the Philippines, Chief Executive Adviser, Board Director and Deputy Chief of Project Team of National Grid Corporation of the Philippines, and Deputy Director General of Finance Department of State Grid. Mr. Zhu holds a Master Degree in Power System and Automation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 61. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Fong is also a Director of HK Electric. Mr. Fong was CEO of the Chamber from 2006 to 2011. Prior to joining the Chamber, he served in the civil service for over 25 years, holding various senior positions in the Government of Hong Kong. Mr. Fong has a long record of public service providing both operational and policy-formulation expertise. He was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Fong holds a Bachelor of Social Science degree in Business and Economics, a Master of Technology Management degree in Global Logistics Management, a Master of Science degree in Global Finance and a Doctor of Business Administration degree.

KWAN Kai Cheong

Aged 68. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Kwan is also a Director of HK Electric. He is President of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of Utopia Limited, a commercial property operator in the People's Republic of China. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), Panda Green Energy Group Limited (formerly known as United Photovoltaics Group Limited), Win Hanverky Holdings Limited and CK Life Sciences and a Non-executive Director of China Properties Group Limited, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited and Dynagreen Environmental Protection Group Co., Ltd., both being listed companies. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

LEE Lan Yee, Francis

Aged 77. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Lee is also a Director of HK Electric. Mr. Lee was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He had served the Power Assets Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr. Lee was responsible for all the engineering activities of the Power Assets Group, including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

George Colin MAGNUS

Aged 82. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Magnus is also a Director of HK Electric. He was previously the Chairman of Power Assets from 1993 to 2005, a Non-executive Director from 2005 to 2012 and an Independent Non-executive Director until January 2014. He is a Non-executive Director of CK Hutchison. He is also a Non-executive Director of CKI having served previously as Deputy Chairman of the company. He was previously Deputy Chairman and then a Non-executive Director of CKH and HWL. All of these companies mentioned above, except the Trustee-Manager, HK Electric, CKH and HWL, are listed companies. Mr. Magnus acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Magnus is also a Director of Husky Energy, a listed company. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 66. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Roberts is an Independent Non-executive Director of CK Asset, a listed company. He joined the HWL Group in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. Mr. Roberts is a Member of the Listing Committee of the Main Board and Growth Enterprise Market of the Stock Exchange. In the past, he has been a member of the Executive Committee of the Canadian Chamber of Commerce in Hong Kong and is currently Governor of the chamber. He has served in the past as a Governor of the Canadian International School of Hong Kong for 12 years and also on its finance committee. Mr. Roberts is currently the Deputy Chairman of the Professional Conduct Committee of the HKICPA. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Alberta and British Columbia and also a Fellow of the HKICPA.

Ralph Raymond SHEA

Aged 84. Appointed to the Boards of the Trustee-Manager and the Company in October 2015. Mr. Shea is also a Director of HK Electric. He is an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He is a solicitor of England and Wales and of Hong Kong.

ALTERNATE DIRECTORS

CHOW WOO Mo Fong, Susan

Aged 64. Appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman of the Boards of the Trustee-Manager and the Company, in November 2014. She is also an Alternate Director of HK Electric. Mrs. Chow was an Executive Director of the Trustee-Manager and the Company from December 2013 to November 2014 and a Director of HK Electric from January 1996 to November 2014. Mrs. Chow is a Non-executive Director of CK Hutchison and an Alternate Director of CKI. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. CK Hutchison and CKI are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mrs. Chow is a qualified solicitor and holds a Bachelor's degree in Business Administration.

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

Frank John SIXT

Aged 66. Appointed Alternate Director to Mr. Li Tzar Kuoi, Victor, the Deputy Chairman of the Company Board and Non-executive Director of the Trustee-Manager and the Company, in June 2015. He is also an Alternate Director of HK Electric. Mr. Sixt is an Executive Director, Group Finance Director and Deputy Managing Director of CK Hutchison, the Non-executive Chairman of TOM Group Limited and an Executive Director of CKI. He is also a Director of HTAL and Husky Energy, and an Alternate Director of HTAL. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mr. Sixt acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

SENIOR MANAGEMENT OF THE COMPANY

IP Sung Tai

Aged 59. General Manager (Transmission & Distribution), has been with the Group since October 1981. He has over 35 years of experience in electricity supply. He holds a Master of Science degree in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineering and Technology in the United Kingdom and the Institution of Engineers in Australia.

LAU Chi Kwong

Aged 61. General Manager (Projects), has been with the Group since August 1977. He has over 30 years of experience in project management. He holds an Associateship in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers and the Institution of Engineering and Technology in the United Kingdom.

LEUNG Wing Hung

Aged 63. General Manager (Generation), has been with the Group since October 1978. He has over 35 years of experience in electricity generation. Mr. Leung holds a Bachelor of Science degree in Mechanical Engineering, an Associateship in Electrical Engineering, a Master of Science degree in Mechanical Engineering and an Engineering Doctorate degree in Engineering Management. He is a Chartered Engineer registered with the Engineering Council in the United Kingdom, a member of The Hong Kong Institution of Engineers, and a member of the Institution of Mechanical Engineers, the Institution of Engineering and Technology and the Institution of Gas Engineers and Managers in the United Kingdom.

WONG Kim Man

Aged 57. Chief Financial Officer, has been with the Group since September 2010. He has over 30 years of experience in financial management and accounting. He holds a Bachelor's and a Master's degree in Business Administration. He is also a member of the HKICPA and the American Institute of Certified Public Accountants.

WONG Yuk Keung, Arthur

Aged 60. General Manager (Group Commercial), has been with the Group since January 1982. He was engaged in the construction of Lamma Power Station upon joining the Power Assets Group and subsequently worked in and was promoted to the head of the various departments in the Group Commercial Division. He holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering and a Master's degree in Business Administration.

WU Kwok Kwong, Dennis

Aged 53. General Manager (Human Resources), joined the Group in June 2014. He has over 25 years of experience in human resources management and administration gained from organisations in both private and public sectors in Hong Kong. He holds a Master of Science degree in Training and is a Professional Member of the Hong Kong Institute of Human Resource Management and a Member of the Institute of Hospitality (UK).



Front (from left to right): YEE Tak Chow; IP Sung Tai; LEUNG Wing Hung; LAU Chi Kwong

Back (from left to right): WU Kwok Kwong, Dennis; NG Wai Cheong, Alex; WONG Kim Man; YEUNG Yuk Chun, Mimi; WONG Yuk Keung, Arthur

YEE Tak Chow

Aged 63. General Manager (Corporate Development), has been with the Group since August 1976. He had worked on a number of energy infrastructure projects both in and outside Hong Kong, including stationing in Saudi Arabia and Japan for three years. Between 2005 and 2008, he worked for the Power Assets Group's investments outside Hong Kong. He holds a Master's degree in Information Technology. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineers in Australia, and the Institution of Engineering and Technology in the United Kingdom.

YEUNG Yuk Chun, Mimi

Aged 54. General Manager (Public Affairs), has been with the Group since July 2003. She has over 31 years of experience in journalism and corporate communications. She holds a Bachelor of Arts degree and a Master's degree in Public Administration.

TRUSTEE-MANAGER SECRETARY AND COMPANY SECRETARY

NG Wai Cheong, Alex

Aged 48. Group Legal Counsel and Company Secretary, has been with the Group since November 2008. He is also the Group Legal Counsel and Company Secretary of Power Assets. He has over 15 years of experience in legal, regulatory and compliance fields. Mr. Ng holds a Bachelor's degree in Science and a Bachelor's degree in Laws. He was admitted as a solicitor in Hong Kong and in England and Wales.

COMBINED CORPORATE GOVERNANCE REPORT



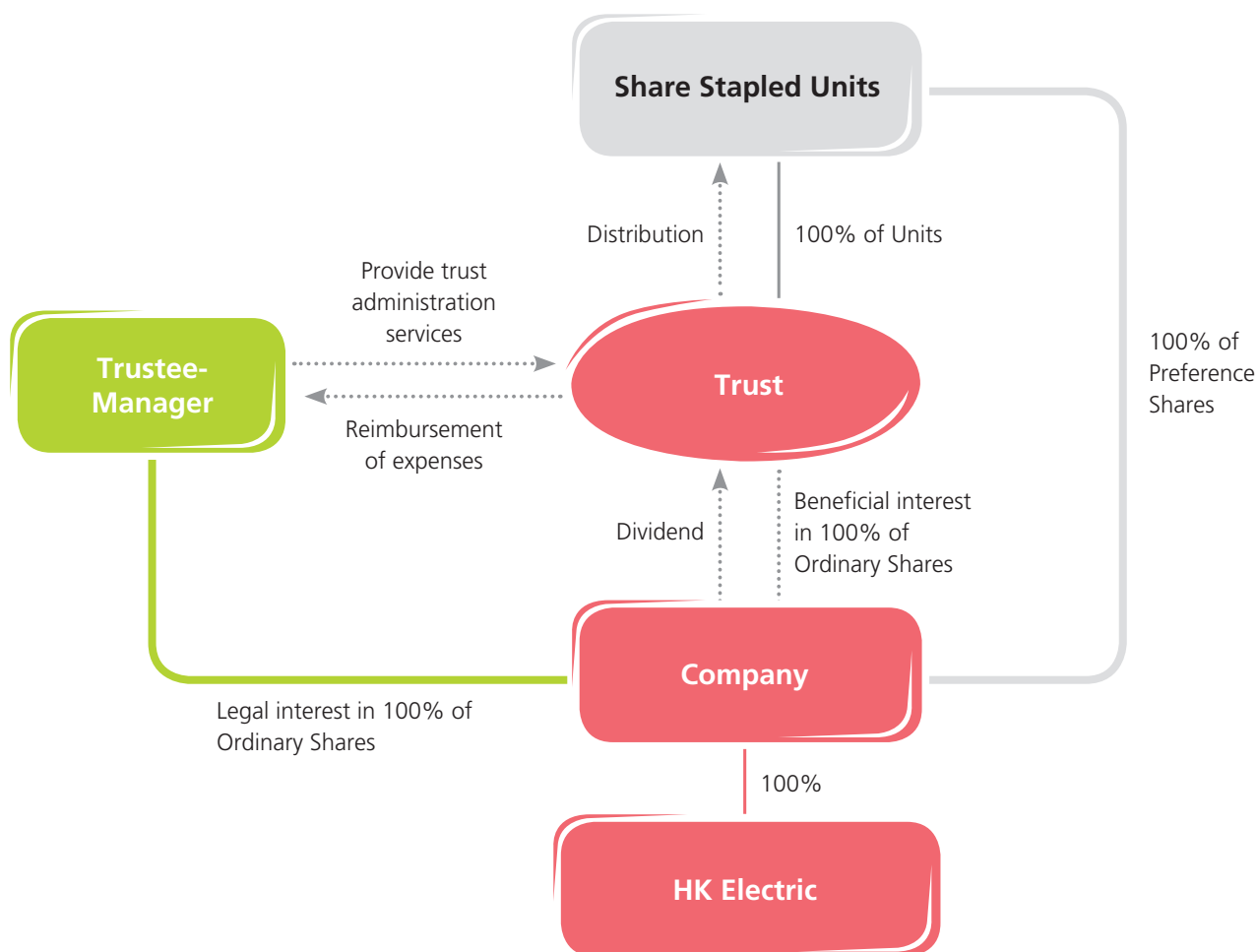
The Boards of the Trustee-Manager and the Company present their corporate governance report on a combined basis for the year ended 31 December 2017.

STRUCTURE OF THE TRUST GROUP AND THE SHARE STAPLED UNITS

The Trust, managed by the Trustee-Manager, was constituted under the laws of Hong Kong on 1 January 2014 by the Trust Deed. The Trustee-Manager, as the trustee-manager of the Trust, holds the legal interests in the ordinary shares of the Company whilst the beneficial interests in such ordinary shares form a component of the Share Stapled Units. Each Share Stapled Unit is jointly issued by the Trust and the Company and is a combination of: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (c) a specifically identified

preference share of the Company stapled to the unit. The chart on page 39 is a simplified version of the structure of the Trust Group and the Share Stapled Units.

The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.



CORPORATE GOVERNANCE

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

The Boards delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee. The governance structure of the Trustee-Manager and the Group was reviewed by the Trustee-Manager Audit Committee and the Company Audit Committee at the meetings held in March and July 2017, together with the compliance status of the Corporate Governance Code for the year 2016 and the first six months of 2017, and the Corporate Governance disclosure in the 2016 Corporate Governance Report and the 2017 interim report. The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2017, except as noted hereunder.

COMBINED CORPORATE GOVERNANCE REPORT

BOARDS OF DIRECTORS

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

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

The Trustee-Manager Board and the Company Board hold meetings on a combined basis, and they meet at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means or by their alternate directors in accordance with the articles of association of

the Trustee-Manager and the Company. Throughout the year, the Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions. During the year, the Boards held four meetings, and the Chairman had a meeting with the Non-executive Directors without the presence of Executive Directors.

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

During 2017 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2017 annual general meeting are as follows:

Directors	Company				Trustee-Manager			Combined 2017 Annual General Meeting
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Meetings between Chairman and Non-executive Directors	Board Meetings	Audit Committee Meetings	Meetings between Chairman and Non-executive Directors	
Executive Directors								
Fok Kin Ning, Canning (Chairman)	3/4	–	0/1	1/1	3/4	–	1/1	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	–	4/4	–	–	√
Shan Shewu	4/4	–	–	–	4/4	–	–	√
Yuen Sui See ^(Note 1)	–	–	–	–	–	–	–	–
Non-executive Directors								
Li Tzar Kuoi, Victor (Deputy Chairman)	4/4	–	–	1/1	4/4	–	1/1	√
Fahad Hamad A H Al-Mohannadi	3/4	–	–	1/1	3/4	–	1/1	√
Ronald Joseph Arculli	4/4	3/3	–	1/1	4/4	3/3	1/1	√
Du Zhigang ^(Note 2)	2/2	–	–	1/1	2/2	–	1/1	√
Jiang Xiaojun	4/4	–	–	1/1	4/4	–	1/1	√
Deven Arvind Karnik	4/4	–	–	1/1	4/4	–	1/1	√
Zhu Guangchao ^(Note 3)	1/2	–	–	1/1	1/2	–	1/1	–
Independent Non-executive Directors								
Fong Chi Wai, Alex	4/4	–	1/1	1/1	4/4	–	1/1	√
Kwan Kai Cheong	4/4	–	–	1/1	4/4	–	1/1	√
Lee Lan Yee, Francis	4/4	3/3	–	1/1	4/4	3/3	1/1	√
George Colin Magnus	4/4	–	–	1/1	4/4	–	1/1	√
Donald Jeffrey Roberts	4/4	3/3	1/1	1/1	4/4	3/3	1/1	√
Ralph Raymond Shea	4/4	–	–	1/1	4/4	–	1/1	√

Notes:

- (1) Mr. Yuen Sui See retired from the position of Executive Director of the Trustee-Manager and the Company on 17 January 2017, and he did not attend any meetings during 2017.
- (2) Mr. Du Zhigang resigned as a Non-executive Director of the Trustee-Manager and the Company on 31 May 2017.
- (3) Mr. Zhu Guangchao was appointed as a Non-executive Director of the Trustee-Manager and the Company on 31 May 2017.

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

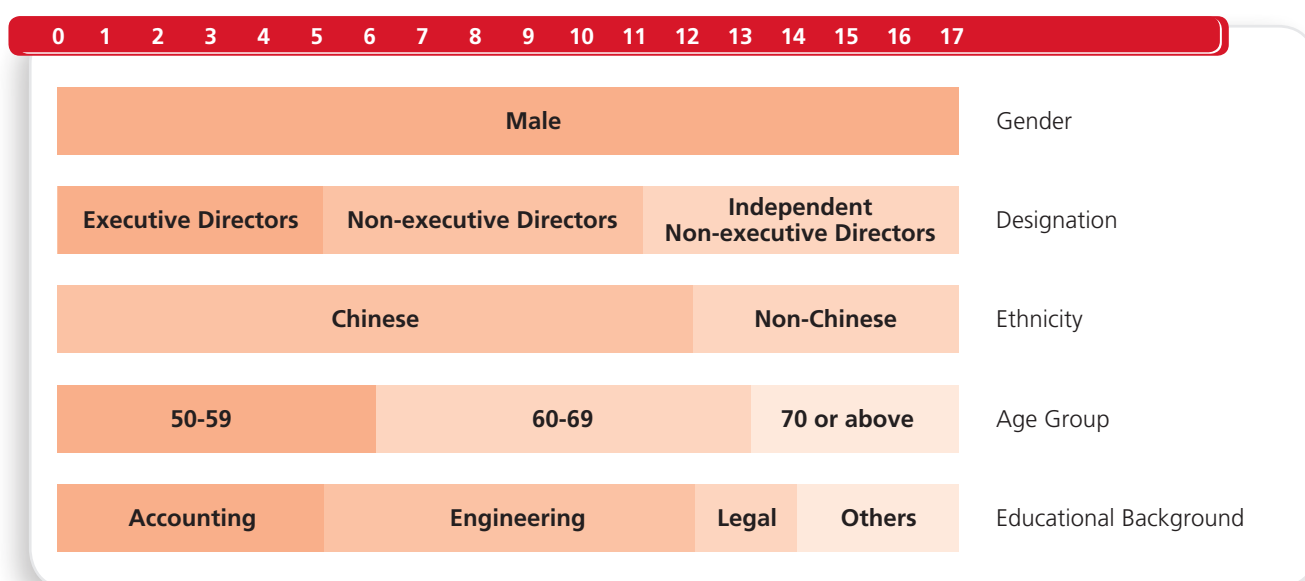
At present, neither the Trustee-Manager nor the Company has a nomination committee as provided for in code provision A.5. The Trustee-Manager and the Company do not consider it necessary to have a nomination committee as the full Boards are responsible for reviewing the structure, size and composition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

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

The diversity profile of the Boards as at 31 December 2017 is as follows:

Board Diversity

No. of Directors



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

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

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

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed, article 16.21 of the Company's articles of association and code provision A.4.2 of the Corporate Governance Code and offering themselves for re-election at the forthcoming combined annual general meeting are Mr. Li Tzar Kuoi, Victor, Mr. Chan Loi Shun, Mr. Jiang Xiaojun, Mr. Kwan Kai Cheong and Mr. Shan Shewu. Mr. Zhu Guangchao, a Director appointed subsequent to the last annual general meeting, will retire in accordance with clause 29.2(g) of the Trust Deed and article 16.3 of the Company's articles of association and offer himself for re-election at the forthcoming combined annual general meeting. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to Holders of Share Stapled Units dated 4 April 2018. None of these Directors has a service contract which is not determinable by the Trustee-Manager or the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' TRAINING AND COMMITMENT

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

The Company also arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Trust Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions and completion of courses organised by professional bodies on the relevant topics also count towards continuous professional development training. The Directors have provided to the Trustee-Manager and the Company their records of continuous professional development training during 2017, and they have participated in training activities in the following manner:

1. Reading materials and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials and seminars on corporate governance and financial reporting
3. Reading materials and seminars on risk management, internal control and sustainable growth

	1	2	3
Executive Directors			
Fok Kin Ning, Canning	√	√	√
Wan Chi Tin	√	√	√
Chan Loi Shun	√	√	√
Cheng Cho Ying, Francis	√	√	√
Shan Shewu	√	√	√
Non-executive Directors			
Li Tzar Kuoi, Victor	√	√	√
Fahad Hamad A H Al-Mohannadi	√	√	√
Ronald Joseph Arculli	√	√	√
Du Zhigang (<i>Resigned on 31 May 2017</i>)	√	√	√
Jiang Xiaojun	√	√	√
Deven Arvind Karnik	√	√	√
Zhu Guangchao (<i>Appointed on 31 May 2017</i>)	√	√	√
Independent Non-executive Directors			
Fong Chi Wai, Alex	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

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

DIRECTORS' SECURITIES TRANSACTIONS

The Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

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

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

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

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING AND DISCLOSURE

Annual and Interim Reports and Financial Statements

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

Accounting Policies

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

Accounting Records

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

Safeguarding Assets

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

Going Concern

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

Disclosure

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. During 2017 the Chairman of the Boards was Mr. Fok Kin Ning, Canning and the Company's Chief Executive Officer was Mr. Wan Chi Tin. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust.

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

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

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

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

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

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the

COMBINED CORPORATE GOVERNANCE REPORT

Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Stapled Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note 1)	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000 (Note 2)	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	1,398,000 (Note 3)	0.02%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≈0%

Notes:

- (1) Such SSUs comprise:
 - (a) 2,700,000 SSUs held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOFF"). By virtue of the terms of the constituent documents of LKSOFF, 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 LKSOFF; and
 - (b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.
- (2) Such SSUs are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.
- (3) Such SSUs are held by a company which is equally owned by Mr. Donald Jeffrey Roberts and his wife.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

REMUNERATION COMMITTEE OF THE COMPANY

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

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

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

The Remuneration Committee held a meeting in December 2017, in which it assessed the performance of the full time Executive Directors and senior management of the Group and considered and determined the performance-based bonus payable to them in respect of the 2017 financial year and their remuneration for the next year. The committee also considered and approved the remuneration package for each of Mr. Wan Chi Tin as Chief Executive Officer, Mr. Chan Loi Shun as Executive Director, Mr. Cheng Cho Ying, Francis as Operations Director and Mr. Shan Shewu as Co-General Manager (Transmission & Distribution). None of the Directors and senior management participated in the determination of their own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2018 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2017 financial year are shown in note 11 to the financial statements on page 88 of the Annual Report. The remuneration paid to members of the senior management for the 2017 financial year is disclosed by bands also in note 11 on page 89 of the Annual Report.

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

TRUSTEE-MANAGER AUDIT COMMITTEE AND COMPANY AUDIT COMMITTEE

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

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Company

Secretary acts as secretary to both committees. None of the committee members is a partner or former partner of KPMG, the external auditor of the Trust, the Trustee-Manager and the Company.

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

Each of the Trustee-Manager Audit Committee and the Company Audit Committee held three meetings on a combined basis in 2017. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2016, the audit fee and auditor engagement letter for the 2016 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees in relation to the audit of the 2016 financial statements, the Group's risk management report as of December 2016, the assessment and declaration in respect of the effectiveness of the risk management and internal control systems of the Group for the year 2016 and for the half year to 30 June 2017, the effectiveness of the Company's internal audit function, the internal audit plan for 2017, the 4-year cycle audit plan for 2017 to 2020, the financial statements for the six months ended 30 June 2017, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the 2016 Corporate Governance Report, the corporate governance disclosure in the 2017 interim report, the disclosure in the Sustainability Report 2016, the continuous professional development activities undertaken by Directors and senior managers during 2016 and the six months ended 30 June 2017, KPMG's 2017 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's outstanding litigation and claims as at 31 December 2016 and 30 June 2017, and the statistics on bribery activities and illegal or unethical behaviour of the Group for the year 2016, for the half year to 30 June 2017 and for the nine months period to 30 September 2017.

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Representatives from KPMG were invited to attend two of the meetings of the Trustee-Manager Audit Committee and the Company Audit Committee and they discussed the 2016 audited financial statements, the 2017 audit plan and various accounting issues with the members of the committees.

COMPANY SECRETARY

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

The appointment and removal of the Company Secretary is subject to approval of the Boards. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, an employee of the Group, has been appointed as the Company Secretary of the Trustee-Manager and the Company since their incorporation in September 2013, and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2017, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

RISK MANAGEMENT AND INTERNAL CONTROL

Introduction

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

Each of the Trustee-Manager Audit Committee and the Company Audit Committee assists the Trustee-Manager Board and the Company Board respectively in meeting its responsibility for maintaining effective systems of risk management and internal control. The Audit Committees

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

At the meetings held in March and July 2017, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the year 2016 and for the half year ended 30 June 2017 respectively, and considered the systems are effective and adequate.

Risk Management and Internal Control Environment

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

The management encourage a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Trustee-Manager and the Company have a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Trustee-Manager's and the

Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

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

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

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

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

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

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent

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

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

COMBINED CORPORATE GOVERNANCE REPORT

laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their findings to the Audit Committees and the Boards.

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

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

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

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

CODE OF CONDUCT

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

The Trustee-Manager and the Group prohibit any form of bribery or corruption. Accepting or offering advantages in

any manner from or to clients, suppliers, or any person in connection with the Trustee-Manager's and the Group's business is prohibited. An anti-bribery and anti-corruption control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws and the Code of Conduct. There is a whistle-blowing procedure, which is set out in the Code of Conduct, to allow employees and external parties such as customers, suppliers, debtors and creditors to report possible improprieties, and actual or alleged violations, including fraud and illegal acts. Investigations are carried out on all reported cases, the results of which are reported to the Company Audit Committee and the Chief Executive Officer, and disciplinary and remedial actions are taken as appropriate. During 2017, there were seven reported cases, involving three breaches of the Code of Conduct, none of which relating to bribery or corruption.

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

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

SUSTAINABILITY REPORTING

The Trustee-Manager and the Group are firmly committed to sustainable development and consider sustainability reporting to be one of the important platforms for stakeholder engagement. The Trust Group's Sustainability Report 2017 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2017 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting.

The Trust Group's Sustainability Report 2017 is available on the Company's website and HKEX's website.

EXTERNAL AUDITOR

Independence

KPMG, the external auditor, have confirmed that they have been, for the year ended 31 December 2017, independent of the Trustee-Manager, the Trust Group and the Group in accordance with the independence requirements of the HKICPA.

Rotation of Engagement Partner

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

Reporting Responsibility

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

Remuneration

An analysis of the fees of KPMG is shown in note 9 to the consolidated financial statements of the Trust and the Company on page 86 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 135 of the Annual Report.

Re-appointment

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

HOLDERS OF SHARE STAPLED UNITS

The Trustee-Manager and the Company have established a range of communication channels between themselves and Holders of Share Stapled Units and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, news releases, the Company's website at www.hkei.hk and meetings with investors and analysts. All Holders of Share Stapled Units

have the opportunity to put questions to the Boards at general meetings, and at other times by e-mailing or writing to the Company. The Boards have adopted a communication policy which provided a framework to promote effective communication with Holders of Share Stapled Units. The policy is available on the website of the Company.

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

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

Pursuant to the Company's articles of association, any two or more shareholders of the Company (or a shareholder of the Company if such shareholder is a recognised clearing house or its nominees) may requisite for the convening of an extraordinary general meeting, provided that such requisitionists hold as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The requisition stating the objects of the meeting should be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong. Pursuant to the Trust Deed, the Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the Trust holding not less than 5% of the units (as a component of the Share Stapled Units) of the Trust for the time being in issue and outstanding) at any time convene an extraordinary general meeting of registered holders of units at such time or place in Hong Kong. The registered holders of units of the Trust and shareholders of the Company can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Trust Deed and the articles of association of the Company when making any requisitions or proposals for transaction at the general meetings of the Trust and the Company. Pursuant to article 16.5 of the Company's articles of association, a shareholder of the Company may propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, the procedures for which are posted on the Company's website.

COMBINED CORPORATE GOVERNANCE REPORT

2017 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2017 annual general meeting was held at Harbour Grand Kowloon on 10 May 2017.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to Holders of Share Stapled Units on 31 March 2017 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committees and the Remuneration Committee respectively were available at the meeting to answer questions from the Holders of Share Stapled Units. Representatives from KPMG, the external auditor, also attended the meeting and were available to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to Holders of Share Stapled Units during the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by Holders of Share Stapled Units at the meeting and the percentage of votes cast in favour of each of them is set out below:

Ordinary Resolutions

- Audited Financial Statements of the Trust and the Company and of the Trustee-Manager, the Combined Report of the Directors, and the Independent Auditor's Reports for the year ended 31 December 2016 (99.9947%);
- Election of Mr. Ronald Joseph Arculli (95.0218%), Mr. Cheng Cho Ying, Francis (96.1151%), Mr. Fong Chi Wai, Alex (99.9553%), Mr. Lee Lan Yee, Francis (95.7353%), Mr. George Colin Magnus (99.9553%) and Mr. Donald Jeffrey Roberts (93.7006%) as Directors;
- Re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company and authorisation of Directors of the Trustee-Manager and the Company to fix auditor's remuneration (99.3929%); and
- General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (93.2813%).

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

Company's Website

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

Trust Deed and Memorandum and Articles of Association

No changes were made to the Trust Deed and the memorandum and articles of association of each of the Trustee-Manager and the Company during the year ended 31 December 2017.

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

Key Dates

Announcement of 2017 interim results	18 July 2017
Payment of 2017 interim distribution (HK19.92 cents per Share Stapled Unit)	11 August 2017
Announcement of annual results for the year ended 31 December 2017	13 March 2018
Record date for 2017 final distribution	28 March 2018
Payment of 2017 final distribution (HK20.12 cents per Share Stapled Unit)	11 April 2018
Closure of registers (annual general meeting)	4 May 2018 to 9 May 2018 (both days inclusive)
2018 annual general meeting	9 May 2018

INTERESTS AND SHORT POSITIONS OF HOLDERS OF SHARE STAPLED UNITS

As at 31 December 2017, Holders of Share Stapled Units (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

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

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

Notes:

- (1) Power Assets is deemed to be interested in 2,948,966,418 SSUs which are beneficially owned by its direct wholly-owned subsidiary, Quickview Limited. Hyford Limited is deemed to be interested in 2,948,966,418 SSUs which interests are duplicated in the 2,948,966,418 SSUs in which Power Assets is interested, as Hyford Limited is entitled to exercise or control the exercise of more than one-third of the issued shares of Power Assets through its direct and indirect wholly-owned subsidiaries.
- (2) CKI is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (1) above as it holds more than one-third of the issued share capital of Cheung Kong Infrastructure (BVI) Limited, which holds more than one-third of the issued share capital of Hyford Limited. Its interests are duplicated in the interest of CK Hutchison in HKEI described in Note (3) below.
- (3) CK Hutchison is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (2) above as it holds more than one-third of the issued shares of CK Hutchison Global Investments Limited ("CKHGI"). Certain subsidiaries of CKHGI hold more than one-third of the issued voting shares of Hutchison Infrastructure Holdings Limited which in turn holds more than one-third of the issued share capital of CKI.
- (4) State Grid International Development Limited is a direct wholly-owned subsidiary of State Grid International Development Co., Limited and an indirect wholly-owned subsidiary of State Grid Corporation of China ("State Grid"), and the interests of State Grid International Development Limited and State Grid International Development Co., Limited of 1,855,602,000 SSUs each are duplicated in the 1,855,602,000 SSUs held by State Grid.

Save as disclosed above, as at 31 December 2017, there was no other person (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

COMBINED CORPORATE GOVERNANCE REPORT

PUBLIC FLOAT

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

DISCLOSURE UNDER THE TRUST DEED

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

- (i) Any charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2017 are in accordance with the Trust Deed;
- (ii) The connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from independent third parties, with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Holders of Share Stapled Units as a whole; and
- (iii) It is not aware of any violation of duties of the Trustee-Manager which would have a material adverse effect on the business of the Trust or on the interests of all Holders of Share Stapled Units as a whole.

CONFLICT OF INTERESTS

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

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

- (ii) Pursuant to clause 2.6 of the Trust Deed and article 90 of the articles of association of the Trustee-Manager, a Director of the Trustee-Manager must give priority to the interest of all the registered holders of units as a whole over the interest of the Company in the event of a conflict between the interest of all the registered holders of units as a whole and the interest of the Company; and
- (iii) The Trustee-Manager Audit Committee and the Company Audit Committee comprising majority of Independent Non-executive Directors regularly review the internal control systems and internal audit reports of the Trustee-Manager and the Company.

The Company and Power Assets entered into a non-competition deed on 14 January 2014 (the "Non-Competition Deed") pursuant to which Power Assets agreed to the Company that save for the exceptions provided therein, Power Assets would not, and it would procure that none of its members would carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Power Assets has provided the Company with a written confirmation in respect of compliance by the Power Assets group with the terms of the Non-Competition Deed during the year ended 31 December 2017 and its consent to the inclusion of such confirmation in the Annual Report. A committee comprising all Independent Non-executive Directors has been formed with the responsibility to overseeing compliance by the Power Assets group with the Non-Competition Deed, and the committee has confirmed its view that Power Assets complied with the terms of the Deed during the year under review.

FINANCIAL REVIEW

FINANCIAL PERFORMANCE

The Trust Group's revenue and audited consolidated profit for the year ended 31 December 2017 were HK\$11,693 million (2016: HK\$11,420 million) and HK\$3,341 million (2016: HK\$3,599 million) respectively.

DISTRIBUTION

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK20.12 cents (2016: 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 (2016: HK20.12 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK19.92 cents (2016: HK19.92 cents) per SSU, brings the total distribution to HK40.04 cents (2016: HK40.04 cents) per SSU for the year ended 31 December 2017.

	2017 HK\$ million	2016 HK\$ million
Audited consolidated profit attributable to SSU holders	3,341	3,599
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	5,178	4,520
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	(1,317)	1,805
– changes in working capital	191	206
– adjustment for employee retirement benefit schemes	15	26
– taxes paid	(797)	(1,154)
	(1,908)	883
(iii) capital expenditure payment	(2,503)	(2,760)
(iv) deducting		
– debt repayment	–	(7,504)
– net finance costs	(842)	(1,105)
	(842)	(8,609)
Distributable income	3,266	(2,367)
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	272	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 2017, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

FINANCIAL REVIEW

Notes:

- (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 HK\$19.92 cents (2016: HK\$19.92 cents) was calculated based on the interim distribution amount of HK\$1,760 million (2016: HK\$1,760 million) and 8,836,200,000 SSUs in issue as at 30 June 2017 (30 June 2016: 8,836,200,000 SSUs). Final distribution per SSU of HK\$20.12 cents (2016: HK\$20.12 cents) was calculated based on the final distribution amount of HK\$1,778 million (2016: HK\$1,778 million) and 8,836,200,000 SSUs in issue as at 31 December 2017 (31 December 2016: 8,836,200,000 SSUs).

CAPITAL EXPENDITURE, LIQUIDITY AND FINANCIAL RESOURCES

Capital expenditure during the year amounted to HK\$2,929 million (2016: HK\$2,799 million), which was primarily funded by cash from operations. Total external borrowings outstanding at 31 December 2017 were HK\$41,371 million (2016: HK\$39,679 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2017 had undrawn committed bank facilities of HK\$5,750 million (2016: HK\$4,000 million) and bank deposits and cash of HK\$1,659 million (2016: HK\$316 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.

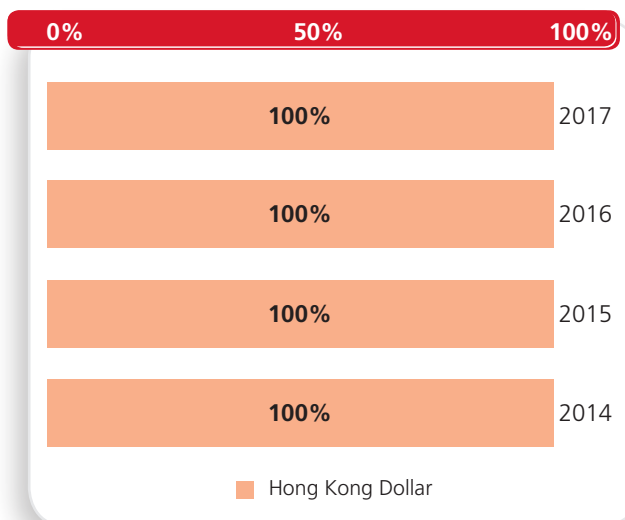
As at 31 December 2017, the net debt of the Trust Group was HK\$39,712 million (2016: HK\$39,363 million) with a net debt-to-net total capital ratio of 44% (2016: 44%). The

Trust Group's financial profile remained strong during the year. On 27 February 2017, Standard & Poor's reaffirmed the "A-" long term credit ratings and the stable outlook for both the Company and HK Electric, unchanged since September 2015 and January 2014, respectively.

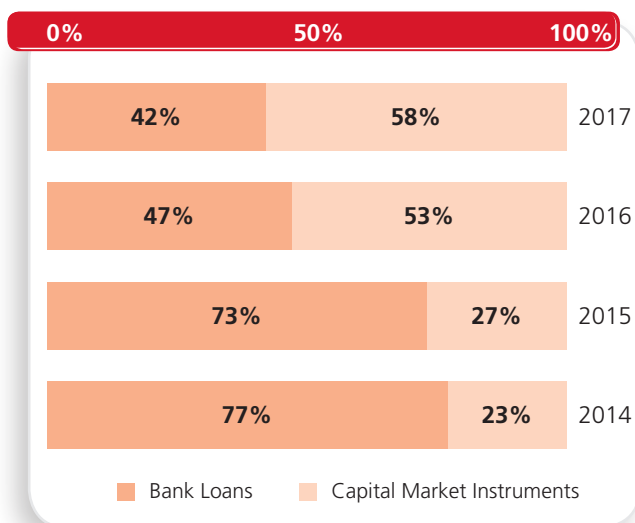
In 2017, the Trust Group took advantage of market liquidity to extend its debt maturity profile by re-tapping the Formosa bond market with an issue under its medium term note programme of US\$400 million 30 year bonds at an accrual yield of 4.375% per annum callable at the end of the fifth year and annually thereafter until the penultimate year to maturity. Part of the proceeds of the issue was utilised for the repayment of certain bank loans and the balance placed on short term deposit for future capital expenditure and general working capital.

The profile of the Trust Group's external borrowings as at 31 December 2017, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

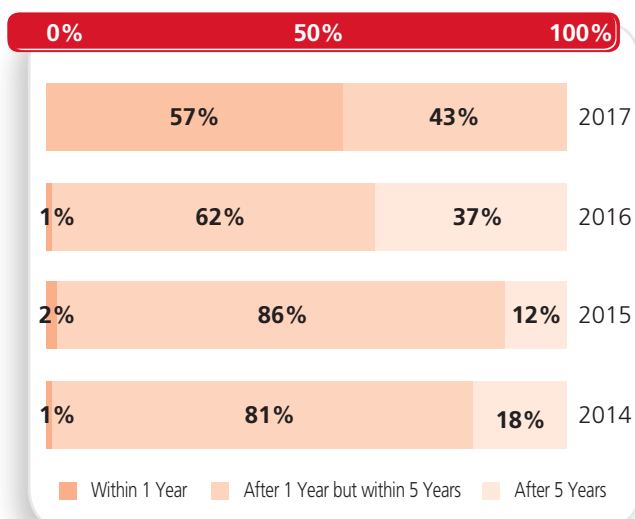
Debt Profile by Currency



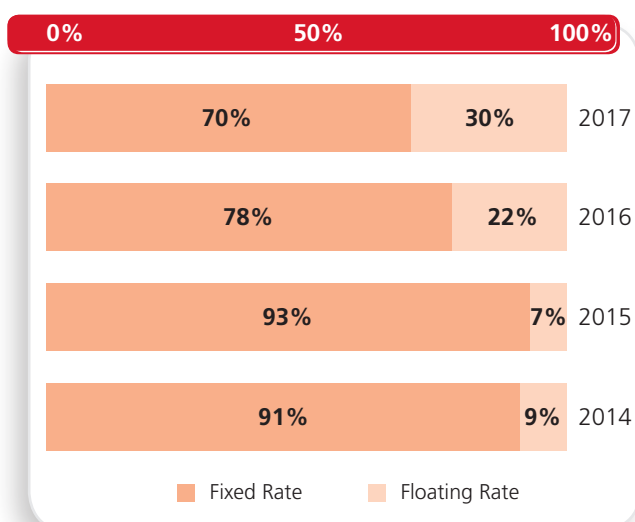
Debt Profile by Types of Borrowings



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 2017, 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 and cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2017 amounted to HK\$37,258 million (2016: HK\$65,367 million).

CHARGE ON ASSETS

At 31 December 2017, no assets of the Trust Group were pledged to secure its loans and banking facilities (2016: Nil).

CONTINGENT LIABILITIES

As at 31 December 2017, the Trust Group had no guarantee or indemnity to external parties (2016: 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 2017, excluding directors' emoluments, amounted to HK\$1,111 million (2016: HK\$1,113 million). As at 31 December 2017, the Trust Group employed 1,776 (2016: 1,790) permanent employees. No share option scheme is in operation.

COMBINED REPORT OF THE DIRECTORS

The Boards have pleasure in submitting the annual report together with the audited consolidated financial statements of the Trust and of the Company for the year ended 31 December 2017 (the “consolidated financial statements of the Trust and of the Company”).

The Trustee-Manager Board also presents the audited financial statements of the Trustee-Manager for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

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

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

BUSINESS REVIEW

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

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

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

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

RESULTS

The results for the year ended 31 December 2017 and the financial position as at that date of the Trust Group and the Group are set out in the consolidated financial statements of the Trust and of the Company on pages 67 to 126.

The results for the year ended 31 December 2017 and the financial position as at that date of the Trustee-Manager are set out in the financial statements of the Trustee-Manager on pages 129 to 136.

DISTRIBUTIONS AND DIVIDENDS

Distributable Income

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

Distribution per Share Stapled Unit

The Trustee-Manager Board has declared a final distribution by the Trust of HK20.12 cents (2016: HK20.12 cents) per Share Stapled Unit for the year ended 31 December 2017, payable on 11 April 2018 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 28 March 2018. This, together with the interim distribution of HK19.92 cents (2016: HK19.92 cents) per Share Stapled Unit, brings the total distribution to HK40.04 cents per Share Stapled Unit for the year ended 31 December 2017 (2016: HK40.04 cents).

In order to enable the Trust to pay the interim distribution and the final distribution, the Company Board declared the payments of a first interim dividend and a second interim dividend, in respect of each of the Company’s ordinary shares held by the Trustee-Manager, of HK19.92 cents (2016: HK19.92 cents) and HK20.12 cents (2016: HK20.12 cents) respectively for the year ended 31 December 2017.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2017.

SHARE CAPITAL AND SHARE STAPLED UNITS

Share Capital

Details of the share capital of the Company are set out in note 28(b) to the consolidated financial statements of the Trust and of the Company. There was no movement during the year.

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

Share Stapled Units

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

DONATIONS

Charitable and other donations made by the Trust Group during the year amounted to HK\$2 million (2016: HK\$1 million).

FINANCIAL SUMMARY

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

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers combined was less than 30% of the Trust Group's total revenue for the years ended 31 December 2017 and 2016.

Purchases from the largest supplier of revenue items for the year represented 25.3% (2016: 25.0%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 74.6% (2016: 70.0%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2017.

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

DIRECTORS

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

Mr. Yuen Sui See and Mr. Du Zhigang, both resigned as Directors of the Trustee-Manager and the Company during the year due to retirement, have no disagreement with the Boards and do not have any matters in relation to their resignations that should be brought to the attention of the Holders of Share Stapled Units.

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

PERMITTED INDEMNITY

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

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

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

COMBINED REPORT OF THE DIRECTORS

DIRECTORS' MATERIAL INTEREST IN SIGNIFICANT TRANSACTION, ARRANGEMENT AND CONTRACT

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

MANAGEMENT CONTRACTS

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

ARRANGEMENT TO PURCHASE SHARE STAPLED UNITS, SHARES OR DEBENTURES

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

EQUITY-LINKED AGREEMENTS

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

PURCHASE, SALE OR REDEMPTION OF SHARE STAPLED UNITS

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

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the year ended 31 December 2017.

PRE-EMPTIVE RIGHTS

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

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

Fok Kin Ning, Canning

Chairman

Hong Kong, 13 March 2018



INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

We have audited the consolidated financial statements of HK Electric Investments (the "Trust"), HK Electric Investments Limited (the "Company") and its subsidiaries (together the "Trust Group") and of the Company and its subsidiaries (the "Group") set out on pages 67 to 126 (together referred to as the "consolidated financial statements of the Trust and of the Company"). As explained in note 2 to the consolidated financial statements of the Trust and of the Company, the consolidated financial statements of the Trust and of the Company together comprise the consolidated statement of financial position of the Trust Group and of the Group as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Trust Group and of the Group for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Trust and of the Company give a true and fair view of the consolidated financial position of the Trust Group and of the Group as at 31 December 2017 and of the Trust Group's and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT

Existence and accuracy of property, plant and equipment

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

The key audit matter

A wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited ("HK Electric"), is engaged in the generation, transmission and distribution of electricity in Hong Kong (the "Hong Kong electricity business"), which requires substantial capital investment in property, plant and equipment.

The Scheme of Control Agreement entered into by HK Electric and the Government of the HKSAR provides for HK Electric to earn a permitted return calculated based on 9.99% of average net fixed assets, except for renewable energy fixed assets for which the permitted return is 11.00%. The Development Plan under the Scheme of Control Agreement governs HK Electric's capital expenditure on the Hong Kong electricity business over the Scheme of Control Agreement period.

HK Electric's property, plant and equipment is specialised in nature and certain items are self-constructed. The cost of self-constructed property, plant and equipment comprises, inter alia, the costs of materials and direct labour, overheads capitalised and borrowing costs. The Directors have implemented internal controls over the capitalisation of costs in property, plant and equipment.

We identified assessing the existence and accuracy of property, plant and equipment as a key audit matter because property, plant and equipment is the most significant asset of the Trust Group and the Group and is critical to the operations of Hong Kong electricity business and because, due to the terms and conditions of the Scheme of Control Agreement, property, plant and equipment is a key focus of management and the users of the consolidated financial statements of the Trust and of the Company.

How the matter was addressed in our audit

Our audit procedures to assess the existence and accuracy of property, plant and equipment included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the existence and accuracy of property, plant and equipment;
- assessing the Trust Group's and the Group's capitalisation policy for expenditure relating to property, plant and equipment with reference to the requirements of the prevailing accounting standards;
- selecting a sample items of property, plant and equipment acquired and capitalised during the year ended 31 December 2017 and inspecting relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards and to evaluate the date on which costs were capitalised;
- assessing whether the additions to property, plant and equipment for the year ended 31 December 2017 were consistent with the Development Plan agreed between HK Electric and the Government of the HKSAR which governs the level of capital expenditure over a period of time;
- forming an expectation of the value of costs capitalised for the current year based on the prior year's capitalisation ratio and the level of capital work undertaken during the current year, comparing our expectation with the actual costs capitalised for the current year and discussing with management the nature of and reasons for any significant variances; and
- physically inspecting a sample of additions to property, plant and equipment during the current year.

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

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

The key audit matter

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

Management assessed goodwill for potential impairment as at 30 November 2017 by comparing the carrying amount of the cash-generating unit to which goodwill has been allocated with the recoverable amount determined by assessing the value-in-use ("VIU") by preparing a discounted cash flow forecast. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate.

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

How the matter was addressed in our audit

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

- evaluating management's cash flow forecast by comparing the assumptions adopted by management with our understanding of the Hong Kong electricity business and by comparing key assumptions and estimates with relevant underlying documentation, which included comparing future revenue growth and operating profit with the Development Plan agreed between HK Electric with the Government of the HKSAR and comparing components of the discount rate with market data and industry reports;
- evaluating management's rationale for adopting cash flow projections over a period greater than five years with reference to the guidance in the prevailing accounting standards;
- engaging our internal valuation specialists to assess whether the discount rate applied in the cash flow forecast was within the range adopted by other companies in the same industry;
- performing sensitivity analyses on the discount rate and terminal growth rate applied and the assumptions for revenue adopted by management in the cash flow forecast to assess the impact of changes in these key assumption on the conclusion reached in management's impairment assessment and considering whether there were any indicators of management bias in the assumption adopted; and
- comparing the actual results for the current year with management's forecasts for the previous year in order to assess the historical accuracy of the management's forecasting process.

INDEPENDENT AUDITOR'S REPORT

Fuel Clause Recovery Account

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

The key audit matter

Under the Scheme of Control Agreement, any difference between the standard cost of fuel, as agreed with the Government of the HKSAR, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account as Fuel Cost Account Adjustments.

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

The balance of the Fuel Clause Recovery Account at the end of the reporting period represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates.

We identified the Fuel Clause Recovery Account as a key audit matter because it is a specific item in the Scheme of Control Agreement and is a key factor in the calculation of Fuel Clause Charges (or Rebates) which affect the Net Tariff payable by electricity customers and because the balance of the Fuel Clause Recovery Account is material as at 31 December 2017.

How the matter was addressed in our audit

Our audit procedures to assess the balance of the Fuel Clause Recovery Account included the following:

- engaging our internal Information Risk Management specialists to assess the design, implementation and operating effectiveness of the information technology automated controls that govern the interface between the Trust Group's and the Group's meter reading system which records units of electricity sold and the Trust Group's and the Group's accounting system;
- forming an expectation of the amount of Fuel Clause Charges to electricity customers based on the units of electricity sold during the reporting period and comparing our expectation with the actual Fuel Clause Charges recorded by the Trust Group and the Group;
- evaluating the actual cost of fuel for the year ended 31 December 2017 by inspecting supplier invoices, on a sample basis;
- evaluating the accrued charges for unbilled fuel costs at 31 December 2017 by inspecting, on a sample basis, the amounts settled subsequent to 31 December 2017 and relevant underlying documentation; and
- recalculating of the balance of the Fuel Clause Recovery Account as at 31 December 2017 taking into account the balance brought forward at the start of the financial year, Fuel Clause Charges, Fuel Costs Account Adjustments and interest.

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

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

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements of the Trust and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Group's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust Group's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements of the Trust and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust Group and the Group to cease to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT

- Evaluate the overall presentation, structure and content of the consolidated financial statements of the Trust and of the Company, including the disclosures, and whether the consolidated financial statements of the Trust and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust Group and the Group to express an opinion on the consolidated financial statements of the Trust and of the Company. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

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

13 March 2018

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

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$ million	2016 \$ million
Revenue	5	11,693	11,420
Direct costs		(5,384)	(5,369)
		6,309	6,051
Other revenue and other net income	7	24	39
Other operating costs		(1,053)	(918)
Operating profit		5,280	5,172
Finance costs	8	(848)	(991)
Profit before taxation	9	4,432	4,181
Income tax:	10		
Current		(660)	(1,145)
Deferred		(134)	388
		(794)	(757)
Profit after taxation		3,638	3,424
Scheme of Control transfers	12(b)	(297)	175
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company		3,341	3,599
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	14	37.81 cents	40.73 cents

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

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

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the year are set out in note 13.

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

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	2017 \$ million	2016 \$ million
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	3,341	3,599
Other comprehensive income for the year, after tax and reclassification adjustments		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes:		
Remeasurement of net defined benefit asset/liability	327	81
Net deferred tax charged to other comprehensive income	(54)	(13)
	273	68
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	(303)	837
Reclassification adjustments for amounts transferred to profit or loss	(12)	71
Amounts transferred to the initial carrying amount of hedged items	–	7
Net deferred tax credited/(charged) to other comprehensive income	56	(151)
	(259)	764
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	3,355	4,431

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

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

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

At 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$ million	2016 \$ million
Non-current assets			
Property, plant and equipment		64,412	64,432
Interests in leasehold land held for own use under finance leases		6,090	6,281
	15	70,502	70,713
Goodwill	16	33,623	33,623
Derivative financial instruments	24	809	1,034
Employee retirement benefit scheme assets	25(a)	648	454
		105,582	105,824
Current assets			
Inventories	18	1,011	985
Trade and other receivables	19	1,067	1,225
Bank deposits and cash	20(a)	1,659	316
		3,737	2,526
Current liabilities			
Trade and other payables	21	(2,652)	(2,735)
Fuel Clause Recovery Account	22	(2,771)	(4,088)
Current portion of bank loans and other interest-bearing borrowings	23	–	(335)
Current tax payable	27(a)	(214)	(351)
		(5,637)	(7,509)
Net current liabilities		(1,900)	(4,983)
Total assets less current liabilities		103,682	100,841
Non-current liabilities			
Bank loans and other interest-bearing borrowings	23	(41,371)	(39,344)
Derivative financial instruments	24	(184)	(73)
Customers' deposits		(2,130)	(2,057)
Deferred tax liabilities	27(b)	(9,149)	(9,017)
Employee retirement benefit scheme liabilities	25(a)	(288)	(406)
Provisions	26	(503)	–
		(53,625)	(50,897)
Scheme of Control Fund and Reserve	12(c)	(335)	(39)
Net assets		49,722	49,905
Capital and reserves			
Share capital	28(b)	8	8
Reserves		49,714	49,897
Total equity		49,722	49,905

Approved and authorised for issue by the Boards on 13 March 2018.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

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

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

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of the Company					Total
	Share capital (note 28(b))	Share premium (note 28(c))	Hedging reserve (note 28(d)(i))	Revenue reserve (note 28(d)(ii))	Proposed/ declared distribution/ dividend (note 13)	
\$ million						
Balance at 1 January 2016	8	47,472	(191)	(55)	1,778	49,012
Changes in equity for 2016:						
Profit for the year	–	–	–	3,599	–	3,599
Other comprehensive income	–	–	764	68	–	832
Total comprehensive income	–	–	764	3,667	–	4,431
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
Interim distribution/first interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed final distribution/second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2016 and 1 January 2017	8	47,472	573	74	1,778	49,905
Changes in equity for 2017:						
Profit for the year	–	–	–	3,341	–	3,341
Other comprehensive income	–	–	(259)	273	–	14
Total comprehensive income	–	–	(259)	3,614	–	3,355
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
Interim distribution/first interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed final distribution/second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2017	8	47,472	314	150	1,778	49,722

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

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

CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$ million	2016 \$ million
Operating activities			
Cash generated from operations	20(b)	7,408	10,162
Interest paid		(726)	(1,008)
Interest received		2	18
Hong Kong Profits Tax paid		(797)	(1,154)
Net cash generated from operating activities		5,887	8,018
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		(2,503)	(2,760)
Capitalised interest paid		(118)	(115)
Proceeds from disposal of property, plant and equipment		–	1
(Increase)/decrease in bank deposits with more than three months to maturity when placed		(875)	180
Net cash used in investing activities		(3,496)	(2,694)
Financing activities			
Proceeds from bank loans	20(c)	1,500	18,985
Repayment of bank loans	20(c)	(2,785)	(34,432)
Issuance of medium term notes	20(c)	3,123	8,843
Redemption of medium term notes	20(c)	(300)	(900)
New customers' deposits	20(c)	316	298
Repayment of customers' deposits	20(c)	(243)	(242)
Distributions/dividends paid		(3,538)	(3,538)
Net cash used in financing activities		(1,927)	(10,986)
Net increase/(decrease) in cash and cash equivalents		464	(5,662)
Cash and cash equivalents at 1 January		316	5,977
Effect of foreign exchange rate changes		4	1
Cash and cash equivalents at 31 December	20(a)	784	316

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

HK Electric Investments Limited (the “Company”) was incorporated in the Cayman Islands on 23 September 2013 as an exempted company with limited liability under the Companies Law 2011 (as consolidated and revised) of the Cayman Islands. The Company has established a principal place of business in Hong Kong at Hongkong Electric Centre, 44 Kennedy Road, Hong Kong. The principal activity of the Company is investment holding.

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

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2017 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (together the “Trust Group”). The consolidated financial statements of the Company for the year ended 31 December 2017 comprise the consolidated financial statements of the Company and its subsidiaries (together the “Group”).

The Trust controls the Company and the sole activity of the Trust during the year ended 31 December 2017 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the “consolidated financial statements of the Trust and of the Company”.

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

The Trust Group and the Group are referred as the “Groups”.

3. Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

(c) Subsidiaries

Subsidiaries are entities over which the Groups have control. The Groups control an entity when the Groups are exposed, or have the rights, to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. When assessing whether the Groups have power, only substantive rights (held by the Groups or other parties) are considered.

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(c) Subsidiaries (continued)

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 3(g)(ii)).

(d) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(g)(ii)).

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

- (i) Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation (see note 3(e)(viii)) and impairment losses (see note 3(g)(ii)).
- (ii) Assets under construction are stated at cost less impairment losses (see note 3(g)(ii)), and are not depreciated. Assets under construction are transferred to appropriate class of property, plant and equipment when completed and ready for use.
- (iii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 3(t)).

- (iv) Subsequent expenditure to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the item's carrying amount or recognised as a separate item as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Groups and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.
- (vi) Leasehold land held for own use under finance leases is stated at cost less accumulated amortisation (see note 3(e)(vii)) and impairment losses (see note 3(g)(ii)).
- (vii) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term.
- (viii) Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio systems	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(f) Leased assets and operating lease charges

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

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

Where the Groups acquire the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Groups will obtain ownership of the asset, the life of the asset, as set out in note 3(e)(viii). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(g)(ii). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(g) Impairment of assets

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

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

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

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

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

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

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

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

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(g) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

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

Impairment loss recognised in an interim period in respect of goodwill is not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(h) Short-term employee benefits

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

(i) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

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

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

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

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

(ii) Contributions to defined contribution retirement schemes

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

(j) Inventories

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

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

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

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 3(o)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(u), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(o)).

(o) Hedging

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

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

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

(p) Revenue recognition

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

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

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

(ii) Fuel Clause Recovery Account

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(p) Revenue recognition (continued)

(iii) Income recognition

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

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

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

(q) Translation of foreign currencies

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

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

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

(r) Cash and cash equivalents

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

(s) Income tax

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

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

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

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

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

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

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

(t) Borrowing costs

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

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

(u) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

(ii) Other provisions and contingent liabilities

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(u) Financial guarantees issued, provisions and contingent liabilities (continued)

(ii) Other provisions and contingent liabilities (continued)

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

(v) Related parties

- (i) A person or a close member of that person's family is related to the Groups if that person:
 - (a) has control or joint control over the Groups;
 - (b) has significant influence over the Groups; or
 - (c) is a member of the key management personnel of the Groups.
- (ii) An entity is related to the Groups if any of the following conditions apply:
 - (a) The entity and the Groups are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is a joint venture or an associate of the other entity (or a joint venture or an associate of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Groups or an entity related to the Groups.
 - (f) The entity is controlled or jointly controlled by a person identified in note 3(v)(i).
 - (g) A person identified in note 3(v)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (h) The entity, or any member of a group of which it is a part, provides a key management personnel services to the Groups.

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

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Groups for the purposes of resource allocation and performance assessment.

4. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following developments are relevant to the Trust's and the Company's consolidated financial statements:

- Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Income taxes: Recognition of deferred assets for unrealised losses*

The adoption of these amendments to HKFRSs has no material impact on the Groups' results and financial position for the current or prior periods. However, additional disclosure has been included in note 20(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Groups have not applied any amendment, new standard or interpretation that is not effective for the current accounting period.

5. Revenue

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

	2017 \$ million	2016 \$ million
Sales of electricity	11,621	11,373
Concessionary discount on sales of electricity	(4)	(6)
Electricity-related income	76	53
	11,693	11,420

6. Segment reporting

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

7. Other revenue and other net income

	2017 \$ million	2016 \$ million
Interest income from financial assets not at fair value through profit or loss	7	12
Sundry income	17	27
	24	39

8. Finance costs

	2017 \$ million	2016 \$ million
Interest on borrowings and other finance costs	1,007	1,125
Less: interest expense and other finance costs capitalised to assets under construction	(139)	(118)
interest expense transferred to fuel costs	(20)	(16)
Total interest expense arising from financial liabilities not at fair value through profit or loss and other finance costs	848	991

Interest expense has been capitalised at an average rate of approximately 2.7% (2016: 2.6%) per annum for assets under construction.

9. Profit before taxation

	2017 \$ million	2016 \$ million
Profit before taxation is arrived at after charging:		
Depreciation	2,731	2,683
Amortisation of leasehold land	191	191
Costs of inventories	3,820	3,138
Write down of inventories	31	11
Staff costs	664	652
Net loss on disposal and written off of property, plant and equipment	104	74
Auditor's remuneration		
– audit and audit related work	5	5

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

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

	2017 \$ million	2016 \$ million
Current tax		
Provision for Hong Kong Profits Tax for the year	660	1,145
Deferred tax (see note 27(b))		
Origination and reversal of temporary differences	134	(388)
	794	757

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

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

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

	2017 \$ million	2016 \$ million
Profit before taxation	4,432	4,181
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% (2016: 16.5%)	731	690
Tax effect of non-deductible expenses	69	71
Tax effect of non-taxable income	(3)	(4)
Tax effect of recognition of previously unrecognised temporary differences	(3)	–
Actual tax expense	794	757

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

(Expressed in Hong Kong dollars unless otherwise indicated)

11. Directors' emoluments and senior management remuneration

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

Name of Directors	Fees \$ million	Basic salaries, allowances and other benefits ⁽⁸⁾ \$ million	Retirement scheme contributions \$ million	Bonuses \$ million	2017 Total emoluments \$ million	2016 Total emoluments \$ million
Executive Directors						
Fok Kin Ning, Canning ⁽²⁾						
Chairman	0.12	0.60	–	–	0.72	0.91
Wan Chi Tin						
Chief Executive Officer	0.07	7.11	–	9.22	16.40	15.04
Chan Loi Shun	0.07	2.73	–	–	2.80	2.72
Cheng Cho Ying, Francis	0.07	3.41	0.02	1.83	5.33	5.42
Shan Shewu	0.07	2.61	0.02	0.54	3.24	3.17
Yuen Sui See ⁽⁵⁾	–	0.33	–	–	0.33	7.48
Non-executive Directors						
Li Tzar Kuoi, Victor						
Deputy Chairman to the Company						
Board	0.07	0.25	–	–	0.32	0.42
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	0.07	0.07
Ronald Joseph Arculli ⁽¹⁾	0.14	0.04	–	–	0.18	0.21
Du Zhigang ⁽⁶⁾	0.03	–	–	–	0.03	0.07
Jiang Xiaojun	0.07	–	–	–	0.07	0.07
Deven Arvind Karnik	0.07	–	–	–	0.07	0.07
Zhu Guangchao ⁽⁷⁾	0.04	–	–	–	0.04	–
Independent Non-executive Directors						
Fong Chi Wai, Alex ⁽²⁾	0.09	0.02	–	–	0.11	0.11
Kwan Kai Cheong	0.07	0.01	–	–	0.08	0.08
Lee Lan Yee, Francis ⁽¹⁾	0.14	0.02	–	–	0.16	0.16
George Colin Magnus	0.07	0.02	–	–	0.09	0.10
Donald Jeffrey Roberts ⁽¹⁾⁽²⁾	0.16	0.01	–	–	0.17	0.18
Ralph Raymond Shea	0.07	0.02	–	–	0.09	0.10
Alternate Directors						
Chow Woo Mo Fong, Susan ⁽³⁾	–	0.07	–	–	0.07	0.08
Frank John Sixt ⁽⁴⁾	–	0.02	–	–	0.02	0.03
Total for the year 2017	1.49	17.27	0.04	11.59	30.39	
Total for the year 2016	1.56	20.68	0.48	13.77		36.49

Notes:

- (1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
- (2) Member of the Remuneration Committee.
- (3) An Alternate Director to Mr. Fok Kin Ning, Canning.
- (4) An Alternate Director to Mr. Li Tzar Kuoi, Victor.
- (5) Retired from the position of Executive Director and appointed as Adviser to HK Electric with effect from 17 January 2017.
- (6) Retired from the position of Non-executive Director with effect from 31 May 2017.
- (7) Appointed as Non-executive Director with effect from 31 May 2017.
- (8) Other benefits include electricity allowances to Directors for residential use. For Directors who are employees of the Groups, other benefits also include insurance and medical benefits entitled by the employees of the Groups.

The five highest paid individuals of the Groups included two directors (2016: three) whose total emoluments are shown above. The remuneration of the other three individuals (2016: two) who comprise the five highest paid individuals of the Groups is set out below:

	2017 \$ million	2016 \$ million
Basic salaries, allowances and other benefits	8.39	5.72
Retirement scheme contributions	1.44	0.72
Bonuses	3.61	2.79
	13.44	9.23

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

	2017 Number	2016 Number
\$2,500,001 – \$3,000,000	4	3
\$3,000,001 – \$3,500,000	2	2
\$3,500,001 – \$4,000,000	1	1
\$4,000,001 – \$4,500,000	–	1
\$4,500,001 – \$5,000,000	2	1

The remuneration of Directors and senior management is as follows:

	2017 \$ million	2016 \$ million
Short-term employee benefits	59	61
Post-employment benefits	2	3
	61	64

At 31 December 2017 and 2016, there was no amount due from Directors and senior management.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

12. Scheme of Control transfers

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

Pursuant to 2013 mid-term review of Scheme of Control, a Smart Power Fund was established in June 2014 to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations for communal use in non-commercial buildings. Specifically, HK Electric consented to contribute to the Smart Power Fund each year during the period from 1 January 2014 to 31 December 2018 an amount being deducted from its financial incentive under the energy efficiency incentive mechanism in the SoCA for outperforming the energy audit and energy saving targets (if any) each year during the period from 1 January 2013 to 31 December 2017.

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

	2017 \$ million	2016 \$ million
Tariff Stabilisation Fund	291	(181)
Rate Reduction Reserve	1	1
Smart Power Fund		
– Provisional sum to be injected in the following year	5	5
	297	(175)

A provisional sum of \$5,038,000, representing deduction of HK Electric's 2017 financial incentive (2016: \$4,990,000), was transferred from the consolidated statement of profit or loss and included in the trade and other payables for injection into the Smart Power Fund in the following year.

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

\$ million	Tariff Stabilisation Fund (see note below)	Rate Reduction Reserve (see note below)	Smart Power Fund	Total
At 1 January 2016	204	1	10	215
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	1	(1)	–	–
Transfer (to)/from the consolidated statement of profit or loss	(181)	1	–	(180)
Injection for the year	–	–	5	5
Disbursement for the year	–	–	(1)	(1)
At 31 December 2016 and 1 January 2017	24	1	14	39
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	1	(1)	–	–
Transfer from the consolidated statement of profit or loss	291	1	–	292
Injection for the year (see note (b) above)	–	–	5	5
Disbursement for the year	–	–	(1)	(1)
At 31 December 2017	316	1	18	335

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

13. Distributions/dividends

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

	2017 \$ million	2016 \$ million
Audited consolidated profit attributable to the holders of Share Stapled Units	3,341	3,599
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	5,178	4,520
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	(1,317)	1,805
– changes in working capital	191	206
– adjustment for employee retirement benefit schemes	15	26
– taxes paid	(797)	(1,154)
	(1,908)	883
(iii) capital expenditure payment	(2,503)	(2,760)
(iv) deducting		
– debt repayment	–	(7,504)
– net finance costs	(842)	(1,105)
	(842)	(8,609)
Distributable income	3,266	(2,367)
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	272	5,905
Distributable income after adjustment of discretionary amount	3,538	3,538

Note 1 Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.

Note 2 The Trust Deed requires the Trustee-Manager (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received by the Trustee-Manager in respect of the ordinary shares from the Company, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

Note 3 The distributions received by the Trustee-Manager from the Company will be derived from the Group Distributable Income which is referred as audited consolidated profit attributable to the holders of Share Stapled Units for the relevant financial year or distribution period, after making adjustments in respect of items as set out in the Trust Deed.

Note 4 In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2017, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

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

	2017 \$ million	2016 \$ million
Interim distribution/first interim dividend declared and paid of 19.92 cents (2016: 19.92 cents) per Share Stapled Unit/share	1,760	1,760
Final distribution/second interim dividend proposed after the end of the reporting period of 20.12 cents (2016: 20.12 cents) per Share Stapled Unit/share	1,778	1,778
	3,538	3,538

For the year ended 31 December 2017, the Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2016: 20.12 cents per ordinary share), amounting to \$1,778 million (2016: \$1,778 million), in lieu of a final dividend after the end of the reporting period and therefore no final dividend was proposed by the Company Board.

For the year ended 31 December 2017, the Trustee-Manager Board declared a final distribution of 20.12 cents per Share Stapled Unit (2016: 20.12 cents per Share Stapled Unit), amounting to \$1,778 million (2016: \$1,778 million), after the end of the reporting period.

The final distribution/second interim dividend declared after the end of the reporting period is based on the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 31 December 2017 (2016: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2017 \$ million	2016 \$ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 20.12 cents (2016: 20.12 cents) per Share Stapled Unit/share	1,778	1,778

14. Earnings per Share Stapled Unit/share of the Company

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/ordinary shares of the Company of \$3,341 million (2016: \$3,599 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2016: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

15. Property, plant and equipment and interests in leasehold land

\$ million	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
Cost							
At 1 January 2016	16,547	48,652	507	3,809	69,515	6,844	76,359
Additions	18	403	82	2,296	2,799	–	2,799
Transfer	68	1,324	27	(1,419)	–	–	–
Disposals	(2)	(353)	(38)	–	(393)	–	(393)
At 31 December 2016 and 1 January 2017	16,631	50,026	578	4,686	71,921	6,844	78,765
Additions	8	415	53	2,453	2,929	–	2,929
Transfer	10	1,655	138	(1,803)	–	–	–
Disposals	–	(400)	(10)	–	(410)	–	(410)
At 31 December 2017	16,649	51,696	759	5,336	74,440	6,844	81,284
Accumulated depreciation and amortisation							
At 1 January 2016	974	3,876	144	–	4,994	372	5,366
Written back on disposals	(1)	(257)	(38)	–	(296)	–	(296)
Charge for the year	511	2,193	87	–	2,791	191	2,982
At 31 December 2016 and 1 January 2017	1,484	5,812	193	–	7,489	563	8,052
Written back on disposals	–	(265)	(10)	–	(275)	–	(275)
Charge for the year	512	2,205	97	–	2,814	191	3,005
At 31 December 2017	1,996	7,752	280	–	10,028	754	10,782
Net book value							
At 31 December 2017	14,653	43,944	479	5,336	64,412	6,090	70,502
At 31 December 2016	15,147	44,214	385	4,686	64,432	6,281	70,713

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to \$139 million (2016: \$118 million).

Depreciation charges for the year included \$83 million (2016: \$108 million), relating to assets utilised in development activities, which have been capitalised.

16. Goodwill

(a) Carrying amount of goodwill

	2017 \$ million	2016 \$ million
Cost		
At 1 January and 31 December	33,623	33,623

(b) Impairment test for goodwill

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

In the case of triggering events and at least annually, the Groups test whether the goodwill has suffered any impairment. Recoverable amount of the CGU, to which the goodwill has been allocated, was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 16-year period (2016: 10-year period). Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-lived nature of generation, transmission and distribution assets and a more appropriate reflection of future cash flows of HK Electric under the new regulatory regime. The cash flow projections are discounted using a pre-tax discount rate of 6.17% (2016: 6.44%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 16-year period are extrapolated using the terminal growth rate of 1.0% (2016: 0.5%).

There was no indication of impairment arising from review on goodwill as at 30 November 2017.

If the discount rate rose to 6.54% (2016: 6.88%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value-in-use calculation would not affect management's view on impairment test result as at 30 November 2017.

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

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17. Investments in subsidiaries

Details of the subsidiaries at 31 December 2017 are as follows:

Name of subsidiary	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
Century Rank Limited	US\$1	100%	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US\$1	100% ⁽¹⁾	British Virgin Islands/ Hong Kong	Investment holding
The Hongkong Electric Company, Limited	\$2,411,600,000	100% ⁽¹⁾	Hong Kong	Electricity generation and supply
Hongkong Electric Finance Limited	US\$1 HK\$6,335 million Hong Kong dollar fixed rate notes US\$1,500 million United States dollar fixed rate notes HK\$1,056 million Hong Kong dollar zero coupon notes US\$650 million United States dollar callable zero coupon notes (see note 23)	100% ⁽¹⁾	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

18. Inventories

	2017 \$ million	2016 \$ million
Coal, fuel oil and natural gas	671	624
Stores and materials (see note below)	340	361
	1,011	985

Included in stores and materials is capital stock of \$171 million (2016: \$197 million) which was purchased for future maintenance of capital assets.

19. Trade and other receivables

	2017 \$ million	2016 \$ million
Trade debtors (see note (a) below)	555	647
Other receivables (see note below)	449	499
	1,004	1,146
Derivative financial instruments (see note 24)	7	16
Deposits and prepayments	56	63
	1,067	1,225

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

Other receivables of the Groups include unbilled electricity charges of \$335 million (2016: \$416 million) to be received from electricity customers.

(a) Trade receivables ageing analysis

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

	2017 \$ million	2016 \$ million
Current and within 1 month	499	588
1 to 3 months	36	37
More than 3 months but less than 12 months	20	22
	555	647

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

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

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. HK Electric obtains collateral in the form of security deposits or bank guarantees from customers (see note 29(a)) and the balances are considered to be fully recoverable.

(b) Impairment of trade and other receivables

The Groups' trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses. During the year ended 31 December 2017, impairment of trade and other receivables of \$1,389,000 (2016: \$1,589,000) was charged to profit or loss.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

20. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2017 \$ million	2016 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	738	250
Cash at bank and in hand	46	66
Cash and cash equivalents in the consolidated cash flow statement	784	316
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	875	–
Bank deposits and cash in the consolidated statement of financial position	1,659	316

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

	Note	2017 \$ million	2016 \$ million
Profit before taxation		4,432	4,181
Adjustments for:			
Interest income	7	(7)	(12)
Finance costs	8	848	991
Interest expense transferred to fuel costs	8	20	16
Depreciation	9	2,731	2,683
Amortisation of leasehold land	9	191	191
Net loss on disposal and written off of property, plant and equipment	9	104	74
Increase in provisions for asset decommissioning obligation	26	205	–
Net financial instrument revaluation and exchange (gains)/losses		(4)	2
Smart Power Fund disbursement	12(c)	(1)	(1)
Changes in working capital:			
Increase in inventories		(52)	(111)
Decrease in trade and other receivables		125	13
Movements in Fuel Clause Recovery Account		(1,317)	1,805
Increase in trade and other payables		118	304
Increase/decrease in net employee retirement benefit assets/liabilities		15	26
Cash generated from operations		7,408	10,162

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Groups' liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Groups' consolidated cash flow statement as cash flows from financing activities.

\$ million	Bank loans (Note 23)	Medium term notes (Note 23)	Customers' deposits	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2017	18,628	21,051	2,057	(1,034)	55	40,757
Changes from financing cash flows:						
Proceeds from bank loans	1,500	–	–	–	–	1,500
Repayment of bank loans	(2,785)	–	–	–	–	(2,785)
Issuance of medium term notes	–	3,123	–	–	–	3,123
Redemption of medium term notes	–	(300)	–	–	–	(300)
New customers' deposits	–	–	316	–	–	316
Repayment of customers' deposits	–	–	(243)	–	–	(243)
Total changes from financing cash flows	(1,285)	2,823	73	–	–	1,611
Exchange adjustments	–	58	–	–	–	58
Changes in fair value	–	(88)	–	226	100	238
Other changes:						
Interest on borrowings and other finance costs	16	168	–	–	–	184
At 31 December 2017	17,359	24,012	2,130	(808)	155	42,848

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21. Trade and other payables

	2017 \$ million	2016 \$ million
Creditors measured at amortised cost (see note below)	2,649	2,717
Derivative financial instruments (see note 24)	3	18
	2,652	2,735

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

Creditors' ageing is analysed as follows:

	2017 \$ million	2016 \$ million
Due within 1 month or on demand	1,321	813
Due after 1 month but within 3 months	202	445
Due after 3 months but within 12 months	1,126	1,459
	2,649	2,717

22. Fuel Clause Recovery Account

The Fuel Clause Charges per unit for electricity sales was 23.4 cents from 1 January 2017 (2016: 27.9 cents). During the year, Special Fuel Rebates of 17.9 cents per unit for electricity sales (2016: Nil) was offered to customers. Movements in the Fuel Clause Recovery Account were as follows:

	2017 \$ million	2016 \$ million
At 1 January	4,088	2,283
Transferred to profit or loss	(1,904)	(1,206)
Fuel Clause Charges during the year	2,484	3,011
Special Fuel Rebates during the year	(1,897)	–
At 31 December	2,771	4,088

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

23. Bank loans and other interest-bearing borrowings

	2017 \$ million	2016 \$ million
Bank loans	17,359	18,628
Current portion	–	(35)
	17,359	18,593
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	6,291	6,588
Zero coupon notes (see note (b) below)	679	656
	6,970	7,244
Current portion	–	(300)
	6,970	6,944
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	11,741	11,758
Zero coupon notes (see note (b) below)	5,301	2,049
	17,042	13,807
Non-current portion	41,371	39,344

- (a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.55% to 4% per annum (2016: 1.65% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 2.875% to 4.25% per annum (2016: 2.875% to 4.25% per annum).

- (b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of \$1,056 million (2016: \$1,056 million) and accrual yield of 3.5% per annum (2016: 3.5% per annum).

The United States dollar zero coupon notes have nominal amount of US\$650 million (2016: US\$250 million) and accrual yields ranging from 4.375% to 4.8% per annum (2016: 4.6% to 4.8% per annum). These notes embed with issuer call options allowing issuer to early redeem the notes. US\$250 million of these notes are callable on 20 October 2020 and annually thereafter until the penultimate year to maturity. The remaining US\$400 million are callable on 12 October 2022 and annually thereafter until the penultimate year to maturity.

- (c) Details of the issuer of the Hong Kong dollar and United States dollar medium term notes are set out in note 17.
- (d) Some banking facilities of the Groups are subject to the fulfilment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Groups regularly monitors its compliance with these covenants. Further details of the Groups' management of liquidity risk are set out in note 29(b). As at 31 December 2017 and 2016, none of the covenants relating to drawn down facilities had been breached.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

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

	2017 \$ million	2016 \$ million
After 1 year but within 2 years	330	–
After 2 years but within 5 years	23,316	24,931
After 5 years	17,725	14,413
	41,371	39,344

24. Derivative financial instruments

	2017		2016	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	5	(155)	27	(46)
– Interest rate swaps	494	–	682	(7)
– Forward foreign exchange contracts	166	(32)	110	(34)
Fair value hedges:				
– Cross currency swaps	151	–	220	–
– Forward foreign exchange contracts	–	–	–	(1)
	816	(187)	1,039	(88)
Derivative financial instruments not qualifying as accounting hedges:				
– Cross currency swaps	–	–	5	–
– Interest rate swaps	–	–	–	(3)
– Forward foreign exchange contracts	–	–	6	–
	–	–	11	(3)
	816	(187)	1,050	(91)
Analysed as:				
Current	7	(3)	16	(18)
Non-current	809	(184)	1,034	(73)
	816	(187)	1,050	(91)

25. Employee retirement benefits

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

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

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

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

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

Since the introduction of the Mandatory Provident Fund System in Hong Kong in December 2000, both the Pension Scheme and the Guaranteed Return Scheme have been closed to new entrants and all new recruits are enrolled in the MPF Scheme.

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

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

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

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2017 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits (continued)

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

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

	2017 \$ million	2016 \$ million
Present value of defined benefit obligations	3,707	3,798
Fair value of assets of the Schemes	(4,067)	(3,846)
	(360)	(48)
Represented by:		
Employee retirement benefit scheme assets	(648)	(454)
Employee retirement benefit scheme liabilities	288	406
	(360)	(48)

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

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

	2017 \$ million	2016 \$ million
At 1 January	3,798	3,948
Current service cost	72	81
Interest cost	73	66
Employee contributions paid to the Schemes	16	16
Actuarial (gains)/losses due to:		
– liability experience	(5)	(11)
– change in financial assumptions	50	(60)
– change in demographic assumptions	2	56
Benefits paid	(299)	(298)
At 31 December	3,707	3,798

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

	2017 \$ million	2016 \$ million
At 1 January	3,846	3,941
Interest income on the Schemes' assets	73	61
Return on Schemes' assets, excluding interest income	374	66
Employer contributions paid to the Schemes	57	60
Employee contributions paid to the Schemes	16	16
Benefits paid	(299)	(298)
At 31 December	4,067	3,846

The Groups expect to contribute \$61 million to the Schemes in 2018.

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

	2017 \$ million	2016 \$ million
Current service cost	72	81
Net interest cost on net defined benefit asset/liability	–	5
	72	86

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

	2017 \$ million	2016 \$ million
Direct costs	49	58
Other operating costs	23	28
	72	86

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits (continued)

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

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

	2017 \$ million	2016 \$ million
At 1 January	(28)	(109)
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	327	81
At 31 December	299	(28)

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

	2017 \$ million	2016 \$ million
Hong Kong equities	449	354
European equities	260	194
North American equities	539	565
Asia Pacific and other equities	218	190
Global bonds	2,547	2,500
Deposits, cash and others	54	43
	4,067	3,846

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

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

	2017	2016
Discount rate		
– The Pension Scheme	2.0%	2.1%
– The Guaranteed Return Scheme	1.7%	1.8%
Long term salary increase rate	5.0%	5.0%
Future pension increase rate	2.5%	2.5%

(ix) Sensitivity analysis

(a) The Pension Scheme

	2017 \$ million	2016 \$ million
Actuarial assumptions	Increase/(decrease) in defined benefit obligations	
Discount rate		
– increase by 0.25%	(56)	(57)
– decrease by 0.25%	59	60
Pension increase rate		
– increase by 0.25%	56	56
– decrease by 0.25%	(53)	(53)
Mortality rate applied to specific age		
– set forward one year	(67)	(65)
– set backward one year	68	66

(b) The Guaranteed Return Scheme

	2017 \$ million	2016 \$ million
Actuarial assumptions	Increase/(decrease) in defined benefit obligations	
Discount rate		
– increase by 0.25%	(33)	(36)
– decrease by 0.25%	34	37
Interest to be credited		
– increase by 0.25%	33	36

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position. The analysis has been performed on the same basis as for 2016.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits (continued)

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

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

	2017	2016
The Pension Scheme	13.5 Years	14.0 Years
The Guaranteed Return Scheme	6.7 Years	6.9 Years

(b) Defined contribution retirement schemes

	2017 \$ million	2016 \$ million
Expenses recognised in profit or loss	48	46

Forfeited contributions of \$1,349,000 (2016: \$475,000) have been received during the year.

26. Provisions

	\$ million
Provisions for asset decommissioning obligation	
At 1 January 2017 (included in trade and other payables)	298
Additional provisions made	205
At 31 December 2017	503

Under SoCA, provision which represents the best estimation of expenditure required to settle asset decommissioning obligation has to be made to the extent that HK Electric incurs an obligation for the costs of dismantling and removing property, plant and equipment and restoring the sites on which they are located either when the assets are acquired or as a consequence of having used them during a particular period for electricity-related activities.

27. Income tax in the consolidated statement of financial position

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

	2017 \$ million	2016 \$ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	660	1,145
Provisional Profits Tax paid	(446)	(794)
	214	351

(b) Deferred tax liabilities

	2017 \$ million	2016 \$ million
Deferred tax liabilities	9,149	9,017

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

\$ million	Depreciation allowances in excess of the related depreciation	Fuel Clause Recovery Account	Defined benefit retirement schemes	Others	Total
At 1 January 2016	9,710	(377)	(53)	(39)	9,241
Credited to profit or loss	(60)	(298)	(30)	–	(388)
Charged to other comprehensive income	–	–	13	151	164
At 31 December 2016 and 1 January 2017	9,650	(675)	(70)	112	9,017
(Credited)/charged to profit or loss	(85)	218	4	(3)	134
Charged/(credited) to other comprehensive income	–	–	54	(56)	(2)
At 31 December 2017	9,565	(457)	(12)	53	9,149

- (ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2017 and 2016.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

\$ million	Share capital (note 28(b))	Share premium (note 28(c))	Hedging reserve (note 28(d)(i))	Revenue reserve (note 28(d)(ii))	Proposed/ declared dividend (note 13)	Total
Balance at 1 January 2016	8	47,472	(29)	1,064	1,778	50,293
Changes in equity for 2016:						
Profit for the year	–	–	–	4,173	–	4,173
Other comprehensive income	–	–	27	–	–	27
Total comprehensive income	–	–	27	4,173	–	4,200
Second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
First interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2016 and 1 January 2017	8	47,472	(2)	1,699	1,778	50,955
Changes in equity for 2017:						
Profit for the year	–	–	–	3,958	–	3,958
Other comprehensive income	–	–	27	–	–	27
Total comprehensive income	–	–	27	3,958	–	3,985
Second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
First interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2017	8	47,472	25	2,119	1,778	51,402

All of the Company's share premium and revenue reserve is available for distribution. The Company Board declared the payment of a second interim dividend of 20.12 cents (2016: 20.12 cents) per ordinary share, amounting to \$1,778 million (2016: \$1,778 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

(b) Share capital

The Company

	2017	
	Number of Shares	Nominal value \$
Authorised:		
Ordinary shares of \$0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of \$0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of \$0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of \$0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(c) Share premium

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

(d) Nature and purpose of reserves

(i) Hedging reserve

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

(ii) Revenue reserve

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

(e) Capital management

The Groups' primary objectives when managing capital are:

- to safeguard the Groups' ability to continue as a going concern, so that the Groups can continue to provide returns for holders of Share Stapled Units and benefits for other stakeholders;
- to provide returns to holders of Share Stapled Units by securing access to finance at a reasonable cost;
- to support the Groups' stability and future growth; and
- to provide capital for the purpose of strengthening the Groups' risk management capability.

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

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

During 2017, the Groups' strategy, which was unchanged from 2016, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

The net debt-to-net total capital ratio at 31 December 2017 and 2016 was as follows:

	2017 \$ million	2016 \$ million
Bank loans and other interest-bearing borrowings	41,371	39,679
Less: Bank deposits and cash	(1,659)	(316)
Net debt	39,712	39,363
Total equity	49,722	49,905
Net debt	39,712	39,363
Net total capital	89,434	89,268
Net debt-to-net total capital ratio	44%	44%

29. Financial risk management and fair values of financial instruments

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

(a) Credit risk

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

In respect of trade and other receivables relating to electricity customers, HK Electric obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. The collateral covered \$360 million of trade and other receivables at 31 December 2017 (2016: \$421 million). The credit policy is set out in note 19.

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk (continued)

Offsetting financial assets and financial liabilities

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

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

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

		2017			2016		
		Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
\$ million	Note						
Financial assets							
Cross currency swaps	29(e)(i)	156	(49)	107	252	(16)	236
Interest rate swaps	29(e)(i)	494	(64)	430	682	(64)	618
Forward foreign exchange contracts	29(e)(i)	166	(11)	155	116	(9)	107
Total		816	(124)	692	1,050	(89)	961
Financial liabilities							
Cross currency swaps	29(e)(i)	155	(112)	43	46	(46)	–
Interest rate swaps	29(e)(i)	–	–	–	10	(8)	2
Forward foreign exchange contracts	29(e)(i)	32	(12)	20	35	(35)	–
Total		187	(124)	63	91	(89)	2

(b) Liquidity risk

The Groups operate a central cash management system in order to achieve a better control of risk and minimise the costs of funds. The Groups' policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, to ensure that the Groups maintain sufficient reserves of cash and adequate committed lines of funding to meet liquidity requirements in the short and longer term. The Groups had undrawn committed bank facilities of \$5,750 million at 31 December 2017 (2016: \$4,000 million).

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

\$ million	2017					Carrying amount at 31 December
	Contractual undiscounted cash outflows/(inflows)					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	942	1,274	25,102	32,369	59,687	41,504
Creditors and accrued charges	2,472	–	–	–	2,472	2,472
	3,414	1,274	25,102	32,369	62,159	43,976
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	22	22	81	127	252	(492)
Gross settled						
Cross currency swaps and related interest accruals						(5)
– outflow	326	326	667	595	1,914	
– inflow	(417)	(417)	(753)	(589)	(2,176)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(134)
– outflow	6,184	9	1,354	8,565	16,112	
– inflow	(6,198)	(9)	(1,278)	(9,021)	(16,506)	
Other forward foreign exchange contracts:						–
– outflow	100	–	–	–	100	
– inflow	(101)	–	–	–	(101)	

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

(b) Liquidity risk (continued)

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

(c) Interest rate risk

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

(i) Hedging

The Groups' policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Groups also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the Groups' treasury policy. At 31 December 2017, the Groups had cross currency swaps with a total notional amount of \$11,644 million (2016: \$27,062 million) and interest rate swaps with a total notional amount of \$9,400 million (2016: \$29,500 million).

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

The fair values of cross currency swaps entered into by the Groups at 31 December 2017 were recognised as derivative financial instrument assets and liabilities amounting to \$156 million (2016: \$252 million) and \$155 million (2016: \$46 million) respectively. The fair values of interest rate swaps entered into by the Groups at 31 December 2017 were recognised as derivative financial instrument assets amounting to \$494 million (2016: derivative financial instrument assets and liabilities amounting to \$682 million and \$10 million respectively).

(ii) **Interest rate profile**

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

	2017		2016	
	Weighted average interest rate		Weighted average interest rate	
	%	\$ million	%	\$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	2.00	1,613	1.00	250
Bank loans and other borrowings	3.04	(28,953)	2.58	(30,827)
		(27,340)		(30,577)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	0.03	46	—*	66
Bank loans and other borrowings	1.89	(12,418)	1.54	(8,852)
Customers' deposits	—*	(2,130)	—*	(2,057)
		(14,502)		(10,843)

* Less than 0.01%

(iii) **Sensitivity analysis**

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups' profit after taxation and revenue reserve by approximately \$128 million (2016: \$73 million). Other components of consolidated equity would have increased/decreased by approximately \$610 million (2016: \$504 million) in response to the general increase/decrease in interest rates.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(iii) Sensitivity analysis (continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2016.

(d) Currency risk

(i) Committed and forecast transactions

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

The Groups use forward foreign exchange contracts to manage currency risk and classify these as cash flow hedges. At 31 December 2017, the Groups had forward foreign exchange contracts hedging committed and forecast transactions with a net fair asset value of \$39 million (2016: \$18 million) recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

The net fair value of forward foreign exchange contracts used by the Groups as economic hedges of monetary assets and liabilities including Groups' borrowings in foreign currencies at 31 December 2017 was a net asset of \$95 million (2016: \$57 million) recognised as derivative financial instruments.

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

(iii) Exposure to currency risk

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

'million (expressed in original currencies)	2017	
	USD	JPY
Bank deposits and cash	149	1
Trade and other receivables	1	–
Trade and other payables	(70)	(526)
Bank loans and other borrowings	(2,180)	–
Gross exposure arising from recognised assets and liabilities	(2,100)	(525)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	591	114
Notional amounts of cross currency swaps designated as hedging instruments	1,500	–
Net exposure arising from recognised assets and liabilities	(9)	(411)

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(iv) Sensitivity analysis

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

	2017		2016	
	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)
\$ million				
Japanese Yen	(2)	81	–	68

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

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Groups which expose the Groups to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2016.

(e) Fair value measurement

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Recurring fair value measurements

		Level 2	
		2017	2016
		\$ million	\$ million
Note			
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	29(a)	156	252
– Interest rate swaps	29(a)	494	682
– Forward foreign exchange contracts	29(a)	166	116
		816	1,050
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	29(a)	155	46
– Interest rate swaps	29(a)	–	10
– Forward foreign exchange contracts	29(a)	32	35
Medium term notes subject to fair value hedges		4,408	4,470
		4,595	4,561

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair value measurement (continued)

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

Trade and other receivables, trade and other payables and external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2017 and 2016.

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

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

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

30. Capital commitments

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

	2017 \$ million	2016 \$ million
Contracted for:		
Capital expenditure for property, plant and equipment	4,740	4,140
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	9,847	10,638

31. Contingent liabilities

At 31 December 2017, the Groups had no guarantee or indemnity to external parties (2016: Nil).

32. Material related party transactions

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

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to \$39 million (2016: \$37 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2017, the total outstanding balance receivable from Power Assets group was \$4 million (2016: \$4 million).

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

The related party transactions in respect of note 32(a) above constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

33. Statement of financial position of the Company

	Note	2017 \$ million	2016 \$ million
Non-current assets			
Investments in subsidiaries		60,045	59,610
Derivative financial instruments		25	–
		60,070	59,610
Current assets			
Trade and other receivables		2	7
Bank deposits and cash		1	6
		3	13
Current liabilities			
Trade and other payables		(14)	(24)
Net current liabilities		(11)	(11)
Total assets less current liabilities		60,059	59,599
Non-current liabilities			
Bank loans		(8,657)	(8,644)
Net assets		51,402	50,955
Capital and reserves	28(a)		
Share capital		8	8
Reserves		51,394	50,947
Total equity		51,402	50,955

Approved and authorised for issue by the Boards on 13 March 2018.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid Corporation of China and Qatar Investment Authority hold approximately 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2017 and are considered substantial holders of Share Stapled Units of the Trust Group.

35. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Groups' accounting policies have a significant impact on the Groups' financial position and operating results. Some of the accounting policies require the Groups to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 25 and 29 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Groups' accounting policies are described below.

(a) Depreciation and amortisation

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

(b) Impairment

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

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

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

See note 16 for key assumptions used in goodwill impairment test for the year ended 31 December 2017.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
• HKFRS 9, <i>Financial instruments</i>	1 January 2018
• HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
• HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
• HKFRS 16, <i>Leases</i>	1 January 2019
• HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

The Groups are in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Groups' financial statements but the adoption of them is unlikely to have a significant impact on the Groups' results of operations and financial position. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Groups, and further impacts may be identified before the standards are initially applied in the Groups' interim financial report for the six months ending 30 June 2018. Further details are discussed below:

HKFRS 9, *Financial instruments*

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

HKFRS 15, *Revenue from contracts with customers*

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

HKFRS 16, *Leases*

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



INDEPENDENT AUDITOR'S REPORT

To the sole member of HK Electric Investments Manager Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of HK Electric Investments Manager Limited (the "Company") set out on pages 129 to 136, which comprise the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

INDEPENDENT AUDITOR'S REPORT

Auditor's responsibilities for the audit of the financial statements

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG

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

13 March 2018

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

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$	2016 \$
Revenue		–	–
Administrative expenses		–	–
Profit before taxation	4	–	–
Income tax	5	–	–
Profit and total comprehensive income for the year		–	–

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

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$	2016 \$
Current assets			
Amount due from immediate holding company	7	1	1
Net assets		1	1
Capital and reserves			
Share capital	8	1	1
Reserves		–	–
Total equity		1	1

Approved and authorised for issue by the Board of Directors on 13 March 2018.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Share capital	Reserves	Total
	\$	\$	\$
Balance at 1 January 2016	1	–	1
Changes in equity for 2016:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2016 and 1 January 2017	1	–	1
Changes in equity for 2017:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2017	1	–	1

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

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	2017 \$	2016 \$
Operating activities		
Net cash generated from operating activities	–	–
Investing activities		
Net cash used in investing activities	–	–
Financing activities		
Net cash used in financing activities	–	–
Net change in cash and cash equivalents	–	–
Cash and cash equivalents at 1 January	–	–
Cash and cash equivalents at 31 December	–	–

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

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

HK Electric Investments Manager Limited (the “Company”) was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets, which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States. The address of the registered office and the principal place of business of the Company is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

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

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

2. Significant accounting policies

(a) Statement of compliance

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (continued)

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

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

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 13 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 92, no distributions statement is therefore presented in these financial statements.

(c) Cash flow statement

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

(d) Related parties

- (i) A person or a close member of that person's family is related to the Company if that person:
 - (a) has control or joint control over the Company;
 - (b) has significant influence over the Company; or
 - (c) is a member of the key management personnel of the Company or the Company's parent.
- (ii) An entity is related to the Company if any of the following conditions apply:
 - (a) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is a joint venture or an associate of the other entity (or a joint venture or an associate of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (f) The entity is controlled or jointly controlled by a person identified in note 2(d)(i).
 - (g) A person identified in note 2(d)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

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

3. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Company. The adoption of these amendments to standards does not have any material impact on the Company's financial statements.

The Company has not applied any amendment, new standard or interpretation that is not effective for the current accounting period.

4. Profit before taxation

Auditor's remuneration of \$56,000 (2016: \$55,000) and all other expenses of the Company which were incurred for the administering of the Trust of \$501,769 (2016: \$466,223) for the year have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior years.

5. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements for the current and prior years as the Company did not have any assessable profits.

6. Directors' emoluments

No fees or other emoluments were paid or payable by the Company to the Directors for the current and prior years.

7. Amount due from immediate holding company

Amount due from immediate holding company is unsecured, interest-free and repayable on demand.

8. Share capital

	2017		2016	
	Number of shares	\$	Number of shares	\$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	1	1	1	1

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

9. Capital management

The primary objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the sole member and benefits for other stakeholders. As the Company is part of a larger group, the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The Company defines "capital" as including all components of equity. The Company actively and regularly reviews and manages its capital structure to support its future capital requirements and operations. The Company has a specific and limited role to administer the Trust. All its capital requirements are fully supported by the ultimate holding company.

The Company was not subject to externally imposed capital requirements during the current and prior years.

10. Immediate and ultimate controlling parties

At 31 December 2017, the Directors consider the immediate and ultimate holding companies of the Company to be Sure Grade Limited and Power Assets which are incorporated in the British Virgin Island and Hong Kong, respectively. Power Assets produces financial statements available for public use.

11. Financial risk management

The Company was not exposed to any significant credit, liquidity, interest rate and currency risks in the normal course of its business during the current and prior years.

12. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Company did not enter into material related party transactions.

13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

FINANCIAL SUMMARY OF THE GROUPS

(Expressed in Hong Kong dollars)

Consolidated Statement of Profit or Loss

\$ million	2017	2016	2015	2014
Revenue	11,693	11,420	11,210	10,504
Operating profit	5,280	5,172	5,288	5,027
Finance costs	(848)	(991)	(1,025)	(938)
Profit before taxation	4,432	4,181	4,263	4,089
Income tax	(794)	(757)	(750)	(709)
Profit after taxation	3,638	3,424	3,513	3,380
Scheme of Control transfers	(297)	175	78	(179)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	3,341	3,599	3,591	3,201

Consolidated Statement of Financial Position

\$ million	2017	2016	2015	2014
Property, plant and equipment and interests in leasehold land	70,502	70,713	70,993	71,467
Goodwill	33,623	33,623	33,623	33,623
Other non-current assets	1,457	1,488	900	1,023
Net current (liabilities)/assets	(1,900)	(4,983)	2,070	2,840
Total assets less current liabilities	103,682	100,841	107,586	108,953
Non-current liabilities	(53,625)	(50,897)	(58,359)	(59,469)
Scheme of Control Fund and Reserve	(335)	(39)	(215)	(293)
Net assets	49,722	49,905	49,012	49,191
Share capital	8	8	8	8
Reserves	49,714	49,897	49,004	49,183
Total equity	49,722	49,905	49,012	49,191

Note:

- The Share Stapled Units were jointly issued by the Trust and the Company and were listed on the Stock Exchange on 29 January 2014. On the same day, the Company's subsidiary, Treasure Business Limited, completed the acquisition of the entire issued share capital of HK Electric.

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR SCHEME OF CONTROL STATEMENT

(a) Scheme of Control

The activities of HK Electric are subject to a Scheme of Control Agreement ("SoCA") agreed with the Government. The current SoCA is effective from 1 January 2009 and will expire on 31 December 2018. In April 2017, the Government, HK Electric and HK Electric Investments Limited entered into a new SoCA for a term of 15 years from 1 January 2019 to 31 December 2033.

The current SoCA provides for HK Electric to earn a Permitted Return of 9.99% of average net fixed assets other than for renewable energy fixed assets for which the Permitted Return is 11%. The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SoCA. No excess capacity adjustment was made in 2017 (2016: HK\$21 million). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the Scheme of Control net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 8% per annum, is added to, and a tax adjustment is made against, net revenue after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

(b) Ten-Year Scheme of Control Statement for the year ended 31 December

HK\$ million	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Sales of electricity	11,621	11,373	11,165	11,165	10,176	10,364	10,140	10,338	10,331	12,704
Transfer from Fuel Clause Recovery Account	1,904	1,206	1,861	2,994	3,510	3,867	3,755	2,794	2,329	1,802
Other Scheme of Control revenue	93	79	74	63	67	74	100	62	63	36
Gross tariff revenue	13,618	12,658	13,100	14,222	13,753	14,305	13,995	13,194	12,723	14,542
Fuel costs	(3,785)	(3,105)	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)	(4,570)	(4,104)	(3,597)
Operating costs	(1,592)	(1,460)	(1,277)	(1,143)	(995)	(1,040)	(1,040)	(1,097)	(1,158)	(1,283)
Interest	(719)	(811)	(838)	(789)	(285)	(264)	(248)	(112)	(91)	(166)
Depreciation and amortisation	(2,210)	(2,127)	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)	(1,793)	(1,623)	(1,516)
Net revenue before taxation	5,312	5,155	5,234	5,484	5,220	5,409	5,333	5,622	5,747	7,980
Scheme of Control taxation	(698)	(1,209)	(1,140)	(1,009)	(988)	(856)	(794)	(930)	(1,025)	(1,218)
Net revenue after taxation	4,614	3,946	4,094	4,475	4,232	4,553	4,539	4,692	4,722	6,762
Interest on borrowed capital	873	821	729	690	288	271	239	118	103	154
Interest on incremental customers' deposits	–	–	–	–	–	–	–	–	–	1
Scheme of Control net revenue	5,487	4,767	4,823	5,165	4,520	4,824	4,778	4,810	4,825	6,917
Transfer from/(to) Tariff Stabilisation Fund	(291)	181	84	(249)	389	72	46	(58)	(174)	(297)
Permitted return	5,196	4,948	4,907	4,916	4,909	4,896	4,824	4,752	4,651	6,620
Interest on borrowed capital	(873)	(821)	(729)	(690)	(288)	(271)	(239)	(118)	(103)	(154)
Interest on incremental customers' deposits	–	–	–	–	–	–	–	–	–	(1)
Transfer to Smart Power Fund	(5)	(5)	(5)	(10)	–	–	–	–	–	–
Transfer to Rate Reduction Reserve	(1)	(1)	(1)	–	(1)	(1)	(1)	(1)	–	(13)
Net return	4,317	4,121	4,172	4,216	4,620	4,624	4,584	4,633	4,548	6,452

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR STATEMENT OF FINANCIAL POSITION

At 31 December

HK\$ million	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Non-current assets										
Property, plant and equipment and interests in leasehold land	50,494	49,971	49,482	49,198	49,137	49,345	48,848	47,976	47,523	46,550
Employee retirement benefit scheme assets	648	454	580	668	615	216	271	796	456	–
Derivative financial instruments	784	1,034	314	352	241	646	433	21	31	29
	51,926	51,459	50,376	50,218	49,993	50,207	49,552	48,793	48,010	46,579
Current assets										
Coal, fuel oil and natural gas	671	624	525	572	592	763	780	433	629	375
Stores and materials	340	361	357	361	356	351	335	314	301	283
Trade and other receivables	1,065	1,218	1,155	1,129	1,104	1,183	1,078	1,118	1,035	1,104
Fuel Clause Recovery Account	–	–	–	–	1	820	1,035	569	551	998
Bank deposits and cash	1,658	310	6,155	4,629	1,060	8	24	9	92	11
	3,734	2,513	8,192	6,691	3,113	3,125	3,252	2,443	2,608	2,771
Current liabilities										
Bank loans and other borrowings	–	(335)	(900)	(520)	(503)	(5,317)	(617)	(52)	–	(1,687)
Fuel Clause Recovery Account	(2,771)	(4,088)	(2,283)	(631)	–	–	–	–	–	–
Trade and other payables	(6,626)	(6,263)	(5,519)	(4,740)	(2,081)	(2,305)	(2,565)	(1,577)	(1,487)	(1,009)
Current taxation	(214)	(351)	(360)	(219)	(340)	(330)	(218)	(157)	(236)	(187)
	(9,611)	(11,037)	(9,062)	(6,110)	(2,924)	(7,952)	(3,400)	(1,786)	(1,723)	(2,883)
Net current assets/(liabilities)	(5,877)	(8,524)	(870)	581	189	(4,827)	(148)	657	885	(112)
Total assets less current liabilities	46,049	42,935	49,506	50,799	50,182	45,380	49,404	49,450	48,895	46,467
Non-current liabilities										
Bank loans and other borrowings	(32,714)	(30,700)	(37,646)	(38,703)	(29,574)	(21,893)	(26,691)	(25,727)	(24,909)	(10,037)
Derivative financial instruments	(184)	(73)	(168)	(63)	–	–	(10)	(132)	(15)	(14)
Customers' deposits	(2,130)	(2,057)	(2,001)	(1,937)	(1,900)	(1,839)	(1,801)	(1,747)	(1,676)	(1,634)
Deferred tax liabilities	(5,848)	(5,595)	(5,698)	(5,927)	(5,955)	(5,912)	(5,883)	(5,763)	(5,622)	(5,479)
Employee retirement benefit scheme liabilities	(288)	(406)	(587)	(499)	(443)	(821)	(827)	(587)	(722)	(1,267)
Provisions	(503)	–	–	–	–	–	–	–	–	–
	(41,667)	(38,831)	(46,100)	(47,129)	(37,872)	(30,465)	(35,212)	(33,956)	(32,944)	(18,431)
Tariff Stabilisation Fund (note 1)	(316)	(24)	(204)	(288)	(36)	(425)	(497)	(543)	(485)	(311)
Rate Reduction Reserve (note 2)	(1)	(1)	(1)	–	(3)	(2)	(1)	(4)	(14)	(14)
Smart Power Fund (note 3)	(18)	(14)	(10)	(5)	–	–	–	–	–	–
Net assets	4,047	4,065	3,191	3,377	12,271	14,488	13,694	14,947	15,452	27,711
Capital and reserves										
Share capital	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Reserves	1,326	1,057	921	1,002	1,000	–	4	–	6	22
Hedging reserves	310	597	(141)	(36)	15	3	(4)	8	(6)	(22)
Proposed dividend	–	–	–	–	–	3,229	2,438	3,683	4,196	3,455
	4,047	4,065	3,191	3,377	3,426	5,643	4,849	6,102	6,607	5,866
Loan capital	–	–	–	–	8,845	8,845	8,845	8,845	8,845	21,845
Total equity	4,047	4,065	3,191	3,377	12,271	14,488	13,694	14,947	15,452	27,711

Notes:

1. The Tariff Stabilisation Fund is not part of shareholders' funds.
2. The purpose of this reserve is to reduce, by means of rebates, electricity tariffs to customers. Pursuant to 2013 mid-term review of Scheme of Control, the year-end balance of the reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.
3. Pursuant to 2013 mid-term review of Scheme of Control, a Smart Power Fund was established in June 2014 to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations for communal use of non-commercial buildings.

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR OPERATING STATISTICS

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Units sold (millions of kWh)										
Commercial	7,824	7,893	8,012	8,015	8,011	8,164	8,081	8,124	8,084	8,082
Residential	2,485	2,584	2,541	2,610	2,437	2,541	2,482	2,472	2,495	2,416
Industrial	306	315	326	330	325	331	334	337	342	367
Total (millions of kWh)	10,615	10,792	10,879	10,955	10,773	11,036	10,897	10,933	10,921	10,865
Annual increase/(decrease) (%)	(1.6)	(0.8)	(0.7)	1.7	(2.4)	1.3	(0.3)	0.1	0.5	(0.2)
Average Net Tariff per Tariff Review (HK cents per kWh)										
Basic Tariff	108.9	105.5	102.6	101.8	94.7	94.1	93.1	94.5	94.5	116.9
Special Rent & Rates Rebate	(4.0)	—	—	—	—	—	—	—	—	—
Net Basic Tariff	104.9	105.5	102.6	101.8	94.7	94.1	93.1	94.5	94.5	116.9
Fuel Clause Charge	23.4	27.9	32.3	33.1	40.2	37.0	30.2	25.4	25.4	10.5
Special Fuel Rebate	(17.9)	—	—	—	—	—	—	—	—	—
Net Tariff (HK cents per kWh)	110.4	133.4	134.9	134.9	134.9	131.1	123.3	119.9	119.9	127.4
Number of customers (000's)										
	577	575	572	570	569	567	567	566	564	563
Installed capacity (MW)										
Gas turbines and standby units	555	555	555	555	555	555	555	555	555	555
Coal-fired units	2,250	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined cycle units	680	680	680	680	680	680	680	680	680	680
Wind turbine and photovoltaic system (note 1)	2	2	2	2	2	2	1	1	1	1
Total (MW)	3,487	3,737	3,737	3,737	3,737	3,737	3,736	3,736	3,736	3,736
System maximum demand (MW)										
	2,513	2,428	2,427	2,460	2,453	2,494	2,498	2,510	2,537	2,589
Annual increase/(decrease) (%)	3.5	0.0	(1.3)	0.3	(1.6)	(0.2)	(0.5)	(1.1)	(2.0)	1.4
Annual load factor (%)	54.0	56.7	57.3	56.9	56.1	56.6	55.9	55.8	55.4	53.9
Thermal efficiency (%)	35.9	35.9	36.2	36.1	36.3	36.0	36.2	36.2	36.2	35.8
Plant availability (%)	87.1	85.6	85.5	88.4	85.7	84.6	84.4	85.6	83.4	85.5
Number of switching stations	24	24	24	24	24	25	25	25	24	24
Number of zone substations	27	27	27	27	27	27	27	27	26	26
Number of customer substations	3,889	3,848	3,818	3,793	3,776	3,755	3,741	3,710	3,667	3,648
Number of employees	1,776	1,790	1,801	1,814	1,826	1,820	1,848	1,851	1,862	1,841
Capital expenditure (HK\$ million)	2,929	2,799	2,516	2,252	1,973	2,613	2,887	2,427	2,751	2,084

Note:

- The 800 kW wind turbine was commissioned in 2005; the 550 kW thin film photovoltaic system was commissioned in 2010 and was expanded to 1MW in March 2013.

CORPORATE INFORMATION

HK Electric Investments Manager Limited (港燈電力投資管理人有限公司)

(Incorporated in Hong Kong with limited liability, the trustee-manager of HK Electric Investments)

and

HK Electric Investments Limited (港燈電力投資有限公司)

(Incorporated in the Cayman Islands with limited liability)

Board of Directors

Executive Directors

FOK Kin Ning, Canning (*Chairman*)
(CHOW WOO Mo Fong, Susan as his alternate)
WAN Chi Tin (*Chief Executive Officer*)
CHAN Loi Shun
CHENG Cho Ying, Francis
SHAN Shewu

Non-executive Directors

LI Tzar Kuoi, Victor (*Deputy Chairman*)
(Frank John SIXT as his alternate)
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
JIANG Xiaojun
Deven Arvind KARNIK
ZHU Guangchao

Independent Non-executive Directors

FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Trustee-Manager Audit Committee

Donald Jeffrey ROBERTS (*Chairman*)
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Company Audit Committee

Donald Jeffrey ROBERTS (*Chairman*)
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Remuneration Committee

Donald Jeffrey ROBERTS (*Chairman*)
FOK Kin Ning, Canning
FONG Chi Wai, Alex

Company Secretary

Alex NG

Principal Bankers

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

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Email: mail@hkei.hk

Share Stapled Units Registrar

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

Principal Share Registrar

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Hong Kong Branch Share Registrar

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

ADR (Level 1 Programme) Depositary

Deutsche Bank Trust Company Americas
60 Wall Street, New York, NY 10005
Website: www.adr.db.com
Email: adr@db.com

Investor Relations

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

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

Email: mail@hkei.hk
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

FINANCIAL CALENDAR AND SHARE STAPLED UNIT INFORMATION

Financial Calendar

Interim Results Announcement	18 July 2017
Annual Results Announcement	13 March 2018
Ex-distribution Date	27 March 2018
Record Date for Final Distribution	28 March 2018
Annual Report Despatch Date	On or before 4 April 2018
Distribution per Share Stapled Unit	
Interim : HK19.92 cents	11 August 2017
Final : HK20.12 cents	11 April 2018
Closure of Registers	4 May 2018 to 9 May 2018
– Annual General Meeting	(both days inclusive)
Annual General Meeting	9 May 2018

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2017	HK\$63,179 million
Share Stapled Unit to American Depositary Share Ratio	10:1

Stock Codes

The Stock Exchange of Hong Kong Limited	2638
Bloomberg	2638 HK
Thomson Reuters	2638.HK
ADR Ticker Symbol	HKVTY
CUSIP Number	40422B101

GLOSSARY

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Annual General Meeting"	The annual general meeting of unitholders of the Trust and shareholders of the Company, as convened by the Trustee-Manager and the Company held on a combined basis as a single meeting characterised as the annual general meeting of Holders of Share Stapled Units
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"CK Hutchison"	CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1)
"CKI"	CK Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"Company"	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
"Company Audit Committee"	Audit committee of the Company
"Company Board"	Board of directors of the Company
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Government"	HKSAR Government
"Group"	The Company and its subsidiaries
"HK Electric"	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"HKASs"	Hong Kong Accounting Standards
"HKEI"	The Trust and the Company
"HKEX"	Hong Kong Exchanges and Clearing Limited
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI

GLOSSARY

Term(s)	Definition
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
"Registers"	The Share Stapled Units Register, the Units Register, the Principal and Hong Kong Branch Registers of Members and the Register of Beneficial Interests
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Stapled Unit(s)" or "SSU(s)"	Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
"Share Stapled Units Register"	The register of registered Holders of Share Stapled Units
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trust"	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
"Trust Deed"	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
"Trust Group"	The Trust and the Group
"Trustee-Manager"	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
"Trustee-Manager Audit Committee"	Audit committee of the Trustee-Manager
"Trustee-Manager Board"	Board of directors of the Trustee-Manager

This Annual Report has been printed in both the English and Chinese languages. If Holders of Share Stapled Units who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.hkei.hk. If, for any reason, Holders of Share Stapled Units who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Annual Report, they may request that a printed copy of this Annual Report be sent to them free of charge by mail.

Holders of Share Stapled Units may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at 44 Kennedy Road, Hong Kong or to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@hkei.hk.



港燈電力投資
HK Electric Investments

