



港燈電力投資
HK Electric Investments

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

CHANGING WORLD
UNCHANGING PLEDGE

ANNUAL REPORT 2015





CHANGING WORLD UNCHANGING PLEDGE

Our operating company, HK Electric has been Hong Kong's energy partner for the past 125 years, powering the city's growth and evolution into an international financial centre. Throughout this time of rapid technological change, we have remained true to our founding principles of reliability, affordability and service. The cover of our 2015 annual report reflects our commitment to Hong Kong over the years.

The image of Hong Kong's world-famous skyline showcases the dynamic city we serve. The junk sailing in the harbour symbolises our progress in this changing world.

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 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.



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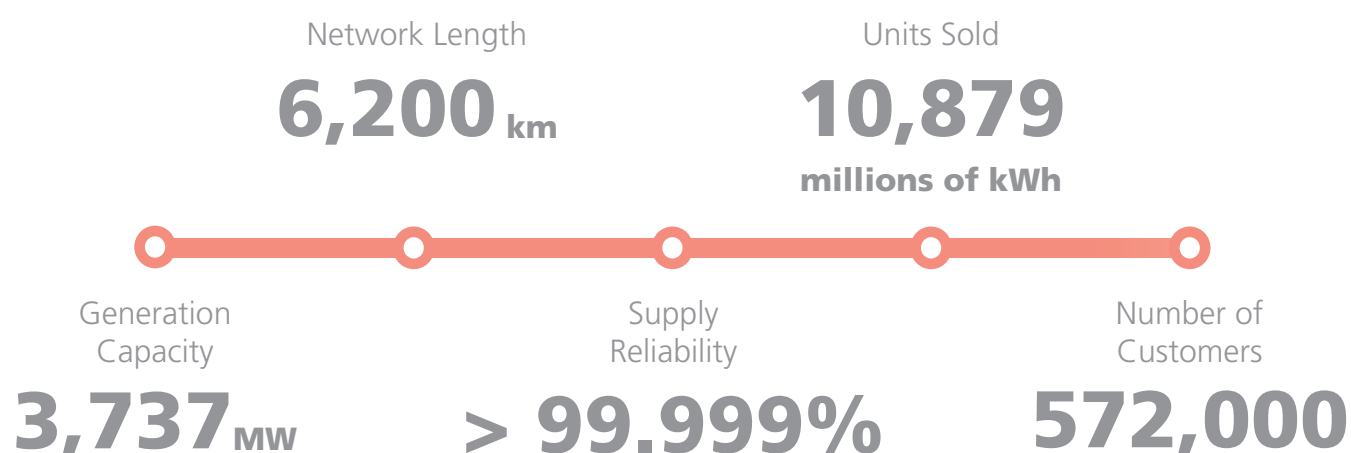
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PERFORMANCE HIGHLIGHTS

FINANCIALS		
	2015	2014
REVENUE	HK\$ 11,210 million	HK\$ 10,504 million
DISTRIBUTABLE INCOME*	HK\$ 3,538 million	HK\$ 3,218 million
TOTAL DISTRIBUTION PER SSU*	HK 40.04 cents	HK 36.42 cents
INTERIM DISTRIBUTION PER SSU	HK 19.92 cents	HK 16.53 cents
FINAL DISTRIBUTION PER SSU	HK 20.12 cents	HK 19.89 cents
TOTAL ASSETS	HK\$ 113,715 million	HK\$ 112,811 million
NET DEBT-TO-NET TOTAL CAPITAL RATIO	46%	47%
S&P CREDIT RATING		
HK ELECTRIC INVESTMENTS LIMITED	A- / Stable	–
HK ELECTRIC	A- / Stable	A- / Stable

* 2014 distributable income and total distribution per SSU was for the period from the listing date on 29/1/2014 to 31/12/2014.

OPERATIONS



CHAIRMAN'S STATEMENT



In 2015, HKEI completed its second year of operations as a business trust, once again achieving all its goals and objectives. While we are a relatively new entity on the Stock Exchange, our heritage in Hong Kong is long: for over 125 years we have been providing electricity to the city's citizens and businesses.

KEEPING OUR PROMISES IN A CHANGING WORLD

The power sector in Hong Kong has evolved over the years, but our promise has always remained the same: to provide customers with safe, reliable, clean and affordable power while ensuring steady returns for our investors. Our constant focus on delivering this pledge has helped both residential and commercial customers in Hong Kong achieve their own aspirations - be they a comfortable lifestyle or business growth. Our experience and deep understanding of Hong Kong's energy sector inform how we move forward to serve our customers' evolving energy needs.

I extend a warm welcome to Qatar Investment Authority which during the year acquired a 19.9% stake in HKEI to become our third largest shareholder after Power Assets Holdings Limited and the State Grid Corporation of China.

In 2015, our performance reflects our success in delivering on three strategic parameters. First, we kept our promise to pay out 100% of distributable income to holders of our Share Stapled Units (SSU). Second, we delivered power at over 99.999% supply reliability while freezing tariffs

for the second year in a row. And thirdly, we reduced our environmental footprint and made investments to enable us to continue to do so in future.

FINANCIAL RESULTS AND DISTRIBUTIONS

For the year ended 31 December 2015, HKEI's EBITDA was HK\$8,035 million (2014: HK\$7,698 million) and audited profits attributable to SSU holders was HK\$3,591 million (2014: HK\$3,201 million).

Distributable income for the year was HK\$3,538 million (2014: HK\$3,218 million – from listing date on 29 January 2014 to 31 December 2014) and will be distributed to SSU holders in its entirety.

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK20.12 cents (2014: HK19.89 cents) per SSU, payable on 13 April 2016 to SSU holders whose names appear on the Share Stapled Units Register on 1 April 2016. This, together with the interim distribution of HK19.92 cents (2014: HK16.53 cents) per SSU, amounts to a total distribution of HK40.04 cents per SSU for the year (2014: HK36.42 cents per SSU – from listing date on 29 January 2014 to 31 December 2014).

CHAIRMAN'S STATEMENT

POWER SECTOR NEEDS A STABLE AND BALANCED REGULATORY REGIME

Hong Kong's electricity companies operate on the basis of a Scheme of Control Agreement (SCA) with the government, which sets out their returns and performance obligations. The current SCA will expire in 2018 with an option for the government to extend it by five years. During the year the government conducted a public consultation on the future development of the electricity market in Hong Kong, seeking the community's views on a number of strategic topics including regulatory arrangements going forward and the introduction of more competition to the market.

Following extensive consultation with our stakeholders we have submitted to the government that the proposals contained in the consultation paper will only bring about uncertainties, and not benefits. We are encouraged that the majority of the respondents to the consultation exercise share our views on all key facets of the consultation.

Hong Kong is a highly compact vertical city and an unflinching supply of electricity is fundamental to the lives and businesses of those who work here. In fact, it underpins Hong Kong's very position as a global financial and trade hub. The prevailing SCA is cost-effective and provides stability, allowing industry players to operate effectively. Almost all respondents to the exercise concurred with us that the current arrangement had generally worked well and allowed the government to achieve its energy policy objectives of safety, reliability, affordability and environmental protection.

The rate of return permitted under the current SCA has proven effective in balancing the interests of consumers and industry players, creating a stable environment where the long-term investments necessary for Hong Kong's electricity infrastructure can be made. More than half of the submissions from the public supported the maintenance of the rate of return at the current level of 9.99% to provide the necessary incentives for power companies to make investments.

The majority of the respondents also agreed with our view that the duration of the SCA should be maintained at ten years, with an option exercisable by the government to extend for five more years.

Experiences in overseas markets have proved that deregulation processes are laborious and protracted. Competition may not deliver tariff reduction, and choice may not guarantee customer satisfaction. The majority of the respondents considered that the power supply in Hong Kong was reliable and safe at an affordable price. They did not see a need to introduce competition for the sake of bringing in choice.

It is our belief and conviction that the current Scheme of Control regime, with its clear and proven track record, is the best way forward for Hong Kong.

FURTHER STEPS TOWARDS REDUCING EMISSIONS

As a power company we recognise that our operations affect Hong Kong's environment as a whole and we run a multi-pronged emissions reduction programme to minimise our impact. As a result we have consistently outperformed statutory targets, reducing emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates by 40% to 90% since 2008.

We strive to constantly improve our emissions performance to leave a clean Hong Kong for the generations to come. In this context we agreed to more stringent environmental targets as contained in the government's relevant Technical Memorandum No. 5, which will come into force from 2020 onwards.

Our primary strategy to achieve these targets is to increase the proportion of electricity we generate from natural gas. Following formal approval by the government, we are moving full steam ahead with the development of a new gas-fired generating unit (L10) at Lamma Power Station. The project is part of our Five-year Development Plan (2014-2018). Among other things, it will enable us to increase the proportion of gas-fired generation to about 50% while maintaining reliability. The L10 unit will play an important role in reducing emissions and our carbon footprint when it is commissioned in 2020.

We have strengthened our support for electric vehicles (EVs) in order to aid the community's efforts to reduce roadside emissions. A special advisory service has been launched to facilitate the setting up of EV charging facilities at private buildings.

The Smart Power Fund, which helps private residential buildings to carry out energy efficiency measures by providing financial support on a matching basis, provided funding to 15 projects in 2015. The programme has now supported 21 projects since its introduction in June 2014.

AN UNCHANGING COMMITMENT TO QUALITY

2015 saw HK Electric successfully maintaining its high standards with respect to system reliability and power quality, excellence in customer service, and community engagement. Through investment in new equipment, proactive network upgrading and monitoring as well as staff recruitment and training, we delivered value to our stakeholders within the community.

During the year power supply reliability was maintained at over 99.999%, a record we are proud to have achieved consistently since 1997. For the 7th consecutive year, our customers experienced on average less than one minute of unplanned power interruption per customer per year. We once again met all our 18 pledged customer service standards and achieved high customer satisfaction ratings. Apart from excellence in service to the residential sector, we won a number of awards during the year for our range of customised services to Hong Kong's thriving SME sector.

Electricity sales in 2015 dropped slightly by 0.7% primarily as a result of energy conservation measures undertaken by consumers despite record high monthly mean temperatures recorded for June and November which have increased the cooling load.

We believe in a healthy work-life balance and strive to offer an environment where employees can perform at their best. During the year we offered a total of 82,288 hours of staff development through comprehensive programmes that included technical skills training, safety courses, management skills and holistic development.

2015 was also a successful year for our employee volunteering programme. Our employees spent 6,708 hours supporting 136 services including environmental work, services for the elderly and fund raising for charities. By lending a helping hand and listening ear they have made a positive difference in the lives of those less fortunate than ourselves. I invite you to review their work in our 2015 sustainability report which will be published later in the year.

OUTLOOK

The current SCA will expire in 2018 and one of the most important priorities in the year ahead is to engage with the government to establish a stable and long-term post-2018 regime to guide the development of Hong Kong's electricity market. The agreed scheme must retain the key elements of the current SCA including the rate of return to enable operators to make long-term investments conducive to the continued provision of safe, reliable and clean electricity to customers at affordable prices.

In order to pass on the benefits of low international fuel prices to customers, HK Electric has reduced net tariffs across the board by an average of 1.1% in 2016. This goes one step beyond our December 2013 commitment to keep tariffs unchanged till end 2018, based on which we had frozen tariffs for the past two years.

Globally and no less in Hong Kong, the power industry is dynamic, affecting and being affected by a wide range of factors including technologies, fuels, climate, emissions policy, consumer behaviour and more. In this environment of change, we strive to be as responsible and responsive as we can to satisfy the evolving energy needs of our customers.

At the heart of our success in keeping this pledge is every employee's zeal for service excellence. It is only when a skilled workforce and a strong management team work together that we can deliver service that the community can rely on. To these dedicated colleagues I am deeply grateful.

FOK KIN NING, CANNING

Chairman

Hong Kong, 15 March 2016

YEAR AT A GLANCE

JAN - MAR

- “Web for the elderly” with accessible features is launched to provide elderly internet users with useful information such as safety tips on using electricity.
- “Green Energy Dreams Come True”, a new HK Electric Smart Power Campaign initiative, helps students bring their green ideas to life. Twelve green projects, ranging from energy efficiency to renewables and sustainability are completed. The campaign culminates in an inspiring competition in December.



- A HK Electric symposium on trends and challenges in developing data centres attracts about 200 local IT practitioners.
- HK Electric commences food waste separation in support of the government’s Food Wise Charter.
- HK Electric partners with district councils, Lamma rural committees and elderly service agencies to launch the “CAREnJOY” programme in March. Volunteers visit single elderly, help them buy bulky necessities and encourage them to get involved in the community.



- About 500 HK Electric employees participate in the World Environment Day by pledging to adopt a low-carbon lifestyle. Initiatives include improved waste reduction at source and recycling.

- In response to the government’s public consultation on future development of the electricity market, HK Electric reaffirms its conviction that maintaining current regulatory regime is the best way forward for Hong Kong.



APR - JUN

- HK Electric organises the “Smart Power Fund Seminar” for about 200 participants including representatives from district councils, owners’ corporations and management companies to enhance awareness of building energy efficiency.
- Qatar Investment Authority acquires a 19.9% strategic stake in HKEI and becomes the third largest shareholder.
- 11 local retirees named “Outstanding Third Age Citizens” in a biennial award scheme organised 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.





- Construction for a new gas-fired generating unit (L10) is underway – contract for power block equipment is conditionally awarded to Mitsubishi Corporation before formal government approval.
- HK Electric launches an “Eco-Quality Home” YouTube Channel to promote a green and quality living environment.

香港背後的動力
The Power behind Hong Kong

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- Riding on HK Electric’s 125th anniversary, employees are invited to share their most treasured photos of memorable times along its long history.
- HKEI launches a new corporate website, featuring a modern and visual-based look and feel, plus user-friendly navigation.
- A new “Safety Excellence Scheme” is introduced to promote workplace safety and recognise employees’ efforts towards incident-free operation.



- HKEI’s finance company issues US\$250 million of zero coupon bonds listed on the Taipei Exchange to secure long-term funding.

- HK Electric decides to reduce tariff for 2016 by 1.5 cents per unit of electricity, meaning that all 572,000 HK Electric customers will enjoy on average a 1.1% tariff reduction.

- HK Electric Institute collaborates with The Hong Kong Polytechnic University to enhance teaching and learning opportunities for future engineers.
- More than 1,200 people join the Green Hong Kong Green Eco-tour Festival 2015 which promotes eco-tourism and environmental awareness.

- HK Electric organises a seminar cum exhibition to support wider EV use and introduce “Drive EV Charge Easy” – a one-stop service for setting up EV charging facilities in buildings. Free EV charging services will be available until the end of 2016.



CEO'S REPORT

A RELIABLE PARTNER FOR HONG KONG

We are proud to have once again delivered on all our stakeholder pledges in our second year of operations as a listed entity on the main board of the Hong Kong Stock Exchange.



In 2015, HK Electric remained one of the world's most reliable suppliers of electricity, an indispensable partner to Hong Kong's economic and social success. Our customer service and supply standards are world-class, with affordable tariffs that were frozen for 2014 and 2015. We have also met our obligations to SSU holders by achieving a steady profit and meeting our distributable income targets.

OPERATION REVIEW

During the year, HK Electric generated over 12,000 GWh of electricity to our customer base of 572,000 (2014: 570,000) on Hong Kong Island and Lamma Island. Electricity sales decreased slightly by 0.7% to 10,879 million kWh (2014: 10,955 million kWh). There was an increase in residential and commercial customers.

Global coal prices remained soft throughout the year, enabling us to source coal at advantageous rates. Declines in world oil prices eased pressure on the cost of natural gas.

CONTRIBUTING TO THE FUTURE DEVELOPMENT OF HONG KONG'S ENERGY MARKET

In 2015, the government conducted a public consultation on the future development of the electricity market to determine the way forward after 2018, when the current Scheme of Control Agreement (SCA) expires.

Following extensive stakeholder research, HK Electric concluded that the current SCA provides the most effective framework for power companies to achieve the government's energy policy objectives with respect to safety, reliability, affordability and environmental protection.

With a power supply reliability rating of over 99.999% since 1997, HK Electric has been able to achieve an average of less than one minute of unplanned power interruption per customer per year since 2009. During the term of this SCA, we have made investments in clean energy and reduced significantly our emissions of sulphur dioxide (SO₂), nitrogen oxide (NO_x) and respirable suspended particulates (RSP) by 40% to 90%. Tariffs had been frozen for two years before



Systematic equipment inspection and maintenance ensure supply reliability.

being reduced across the board in 2016. From 2008 to 2016, net tariffs have only been marginally increased by 4.7% compared to overall inflation of about 27% over the same period.

The prevailing regulatory regime provides a perfect balance whereby consumers enjoy both quality and value for money services and investors receive a rate of return conducive to making long-term investments in electricity infrastructure. As such we believe that change for the sake of change is counterproductive and the SCA should continue in its present form.

The results of the consultation as published by the government show widespread support for our position that the current SCA, with its 9.99% rate of return and 10 year duration, offers an effective and stable platform for innovation and reliability. Respondents saw the power supply in Hong Kong as affordable and cautioned against the introduction of competition just for the sake of bringing in choice.

GENERATING PERFORMANCE OF A HIGH STANDARD

Lamma Power Station (LPS), with an installed capacity of 3,737 MW, forms the heart of our generation activities. LPS operates eight coal-fired units, two gas-fired combined cycle units, five oil-fired open cycle gas turbine units, one commercial-scale wind turbine, and a solar power system consisting of 8,662 thin-film photovoltaic panels.

Following formal approval by the government, we began construction of a new gas-fired generating unit (L10) at LPS in January 2016. Tendering for the unit was completed as planned and the contract was awarded in November 2015. Preliminary engineering design layouts and piling designs have been confirmed and piling will commence in early 2016 with a target of commissioning in 2020. The new unit will enhance our natural gas-fired capacity, helping meet stringent new emissions and carbon intensity targets.

The L2 coal-fired unit was taken offline during the fourth quarter of 2015 for six months to replace aged boiler parts and optimise the combustion system for extension of its service life. Work on the main generation unit will be completed during the second quarter of 2016.

During the year, work progressed on a 3-year refurbishment project to modernise LPS various water supply systems, which are up to 30 years old. Phase 1, involving the replacement of fresh water pipes at the water reservoir and slope area, was completed in December 2015.



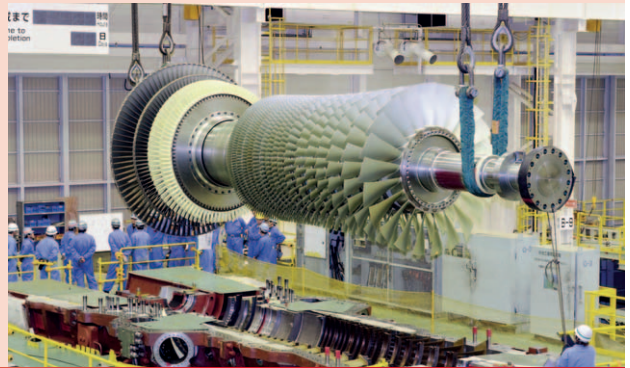
Lamma Winds has generated over 8 million units of green energy since its commissioning.

NEW L10 UNIT TO ADDRESS TIGHTENED ENVIRONMENTAL GOALS

Hong Kong has adopted a carbon intensity reduction target of 50%-60% by 2020 compared with 2005. To support this target we aim to provide 50% of our electricity supply to the customers using natural gas by this date.

Our upcoming L10 gas-fired combined cycle generating unit will be central to meeting these natural gas-based energy targets. Combined cycle generation technology is one of the cleanest and most efficient ways in the world to generate electricity from fossil fuels. The high efficiency of the new L10 unit means that using the same amount of fuel, more power can be generated at a lower cost.

Equipped with a Selective Catalytic Reduction system and state-of-the-art Dry Low NO_x combustion system, the new L10 turbine will further minimise NO_x emissions beyond the levels of the existing units.



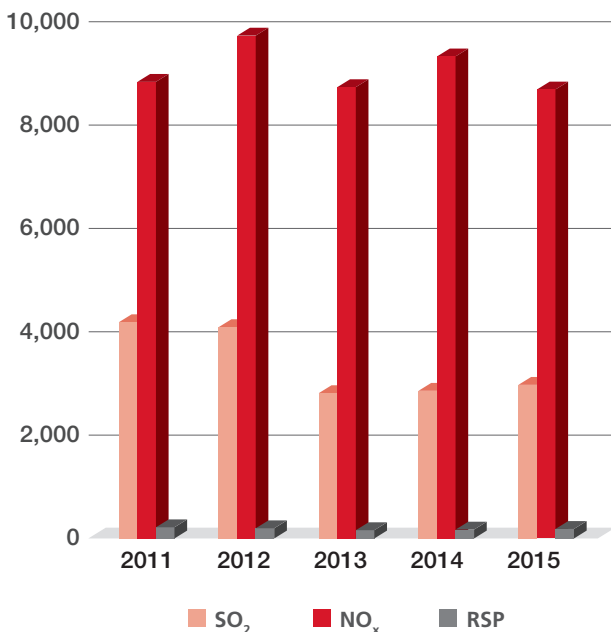
LOW-EMISSION ENERGY PRODUCTION FOR THE NEW GENERATION

We constantly review the environmental impact of our generation activities. In 2015, natural gas and low-sulphur coal remained our primary fuels with the proportion of gas-fired power standing at about 34%.

Natural gas was primarily sourced from Australia and Qatar. Our supply of low-sulphur coal with lower ash content from Indonesia, Russia and Australia played a role in improving our environmental performance during the year. During selection and throughout our engagement we aim to ensure that our suppliers uphold our own standards for sustainability including ethics, human and labour rights, health and safety, and environmental protection.

SO₂, NO_x and RSP emission performance

Tonnes



A range of emissions reduction measures is in place at LPS including flue gas desulphurisation plants and low-nitrogen-oxide burner systems. In 2015 we outperformed the emissions targets set by the government.

During the year, we worked with the government to determine emissions allowances from 2020 onwards. From 2020, our target emissions levels will further decrease by 26% for SO₂, 29% for NO_x and 28% for RSP respectively. Apart from increasing production of gas-fired and renewable energy, we will continue to invest in emissions reduction technology and manage our fuel supply to meet the challenge.

GENERATING GREEN ENERGY FOR BLUE SKIES

Renewable energy forms an important part of our sustainability strategy. We utilise both solar and wind energy for power generation on Lamma Island. In 2015 the renewable energy we generated offset 1,530 tonnes of carbon dioxide emissions.



Our solar power system at LPS generated over 1 million units of electricity during the year.

Lamma Winds, Hong Kong's first commercial-scale 800-kW wind turbine, generated 811,000 units of electricity. The turbine has cumulatively generated 8,909,000 units of green electricity since its commissioning in 2006.

The 1-MW solar power system located on the roof and grounds of LPS generated over 1 million units of electricity.

We completed three years of wind monitoring for our proposed wind farm project. Initial analysis of the wind resource data has confirmed the feasibility of developing a wind farm at the site. Additional data to optimise its design is now being collected. Discussions with key stakeholders have revealed that the community in general is supportive of the project.

The System Control Centre runs on advanced IT platforms.



DELIVERING RECORD LEVELS OF RELIABILITY

HK Electric's transmission and distribution network is responsible for taking the electricity generated from LPS, the wind turbine and solar power system, to homes and businesses on Hong Kong and Lamma Islands. We own and operate a network of 6,145 km of underground and submarine cables, run on a state-of-the-art IT platform at our System Control Centre.

Good management and maintenance of our network assets delivers long term value for our customers as well as investors. We run a proactive network maintenance and improvement programme to ensure supply excellence combined with safe and cost-effective operations.

During the year, the System Control Centre continued with an upgrade of its sophisticated computer systems with smart and green grid features. The Centre's backup systems were reviewed and enhancements and drills were carried out to ensure these critical cyber assets are protected in line with international standards.

We completed tendering for a major project to replace four distributed computer rooms with two next-generation computer rooms with high-speed fibre connectivity. The new rooms will significantly enhance the capacity and capabilities of our existing IT services and operations. The project will be completed in 2017.

CRISIS SIMULATION DRILLS TO PREPARE FOR EMERGENCIES

HK Electric aims to be well prepared to respond effectively to the impact of unforeseen emergencies. We have in place crisis plans which we test in "drill situations" on an annual basis, after which they are evaluated, adapted, and updated based on feedback received.

During March 2015, a drill was conducted in order to evaluate and test our crisis preparedness and response procedures. Featuring system-wide hypothetical scenarios involving a fire incident at our facility, the drill involved senior management across divisions. Follow-up actions identified after the drill are being implemented.



In 2015, we continued to replace components of the outgoing feeder cables at our twenty-five 11 kV zone substations. We have also retrofitted eleven zone substations with on-line partial discharge detection systems to monitor the conditions of the switchgear and cables.

Improvement and cabling work progressed during the year on the North Point 132 kV switching station, which serves as the hub between HK Electric and CLP Power's networks, and also acts as the switching hub for HK Electric's 132 kV system. The first phase of the project commenced in 2014 and will be completed in April 2017. The remaining phases will be considered in the next development plan.

To increase transformer capacity and improve supply reliability and safety, one of the two aged oil-filled transformers located at the MTR Admiralty substation was replaced in 2015. Replacement of the second transformer has commenced and the new transformer will be commissioned in June 2016.

The MTR's proposed Shatin-to-Central Link will extend the existing East Rail Line across Victoria Harbour to Wan Chai North and Admiralty. To supply power for this project we will install two 132/25 kV transformers fed by two 132 kV single-phase cable circuits from the Marsh Road 132 kV switching station. Design and trenching work are under way to go live in March 2020.

Our coordinated network maintenance and improvement approach enables us to maximise customer satisfaction, maintain safety and minimise costs. We achieved a supply reliability rating of over 99.999% in 2015, one of the highest in the world. This is the 19th consecutive year that we have maintained the record.

During the year, representatives from HK Electric participated in a task force run by the government's Electrical and Mechanical Services Department to update and modernise the Electricity Supply Code for electricity suppliers in Hong Kong. The review was completed with the latest version officially released in August 2015.



Replacement of the Admiralty substation transformer will improve safety and reliability.

OUR CARBON FOOTPRINT MATTERS

We all share the responsibility to minimise the environmental impact of our business activities. We believe that by instilling public awareness, reducing waste and recycling, we can do our bit to help protect Hong Kong’s environment.

LPS continued its efforts to run the greenest operation possible. In 2015 it obtained the first ISO 14001:2015 Certificate awarded by the Hong Kong Quality Assurance Agency to a public utility for environmentally friendly operations. The Station also expanded its efforts to reduce landfill waste by recycling plastic, glass, paper, used toners, printer cartridges, compact disks, fluorescent lamps and scrap metal. Food-waste eliminators and wood chippers were used to convert organic food waste and grass trimmings into compost for landscaping. 847 kg of organic waste was recycled. During the year we began to supply shore electricity to ash barges while they were berthed at LPS, reducing fuel consumption as well as emissions. We also collected 113,288 m³ of wastewater and rainwater for reuse.

Across our transmission and distribution network we continued to achieve excellent performance under our Environmental Management System, which is



We support community-wide green initiatives around the year to minimise waste.

ISO 14001:2015 certified. The implementation of 21 environmental management programmes including fuel savings as well as the Wastewi\$e Scheme has enabled us to save over HK\$2 million during the year as compared with baseline figures.

HELPING IMPROVE ROADSIDE AIR QUALITY THROUGH ELECTRIC VEHICLES

Environmentally-friendly electric vehicles (EVs) help reduce roadside emissions. We operate a fleet of EVs and provide charging facilities for public use. As at end December 2015, the total number of EVs increased to about 100 units, which represented over one-third of our vehicle fleet, enabling us to reduce fuel consumption during the year.

Our existing 10 charging stations across Hong Kong Island are free to use by the public until end of 2016. We plan to upgrade these stations, reducing charging time by about 60%.

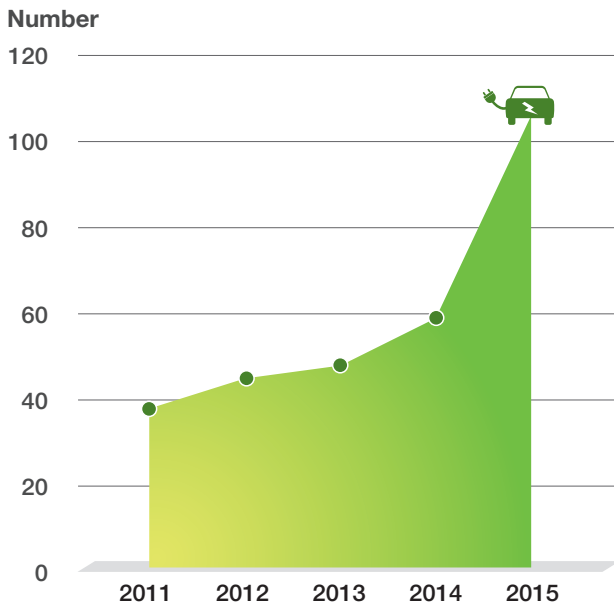
To promote the wider use of EVs, we hosted a number of seminars, exhibitions and panel discussions through the year. We introduced the “Drive EV Charge Easy”

service – a one-stop solution to provide incorporated owners, management offices and EV owners with all-round support for the installation of EV charging facilities in their buildings.



CEO'S REPORT

Growth in HK Electric's fleet of electric vehicles



Our efforts won us four Carbon Reduction Certificates under the Hong Kong Green Organisation Certification scheme. We were also awarded one IAQwi\$e, one Energywi\$e and two Wastewi\$e Certificates under the said scheme, as well as six IAQ Certificates under the Environmental Protection Department's certification scheme. In addition, the Administration Building at LPS was awarded a gold benchmark in Friends of the Earth's Building Energy Consumption Survey while the new LMX Maintenance Building also achieved the BEAM Plus PLATIUM rating.

Our commitment to the environment also includes supporting our customers to reduce their own enviro-impact.

The Smart Power Fund, established in 2014, helps residential buildings improve their energy performance by providing technical advice and subsidies for upgrade projects. In 2015, 15 applications worth about HK\$2.2 million subsidies for energy efficiency improvement were approved, including replacements of lift driving systems, lighting and air-conditioners with more efficient types. A seminar to further promote the Fund was held to mark its first anniversary.

SERVICE EXCELLENCE FOR A SUPERB CUSTOMER EXPERIENCE

Our 18 customer service standards, combined with regular training, ensure that all sections of Hong Kong's diverse community receive consistently high standards of customer

service. We achieved or surpassed all our service standards in 2015, a record we have maintained for sixteen years. These included tightened target service levels for three customer performance indices stipulated in the SCA.

Average waiting times for telephone enquiry services and counter services at our Customer Centre were less than 9 seconds and 3.5 minutes respectively. The average waiting time for calls to the Customer Emergency Services Centre (CESC) was just 2.88 seconds, surpassing our pledged service standard of 9 seconds. An upgrade from analogue to digital trunked lines was completed in CESC to improve the call handling capacity during emergency situations. The number of commendations we received from satisfied customers reached a record high.

Understanding customers' viewpoints enables us to improve and we monitored feedback and suggestions through various channels including customer surveys, "We Meet on Friday" sessions, as well as the "In-Touch Programme". In 2015, the average customer satisfaction index from after-service surveys was 4.6 on a 5-point scale.

We use technology to provide responsive and accessible services that match our customers' lifestyles while being environmentally friendly. To this end we continued to introduce and encourage paperless options including incentives for customers to adopt e-bills. A new e-Receipt Service and e-Cheque Payment Service, as well as convenient smartphone-friendly electronic forms were introduced to improve the customer experience.

To enhance online engagement with customers, we launched a revamped corporate website in September 2015. Featuring a new technology platform and interactive features, both desktop and mobile versions have been well



Our customer service standards are once again recognised by the Hong Kong Retail Management Association.



Our elderly-friendly website makes information easy to find and read.

received. “Web for the Elderly” was also launched during the year, a separate website that incorporates accessible design and provides useful information for senior citizens.

To adhere to global best practice in quality management, we upgraded seven ISO 9001 certificates to the latest version of 2015.

OFFERING SMES THE INFRASTRUCTURE TO SUCCEED

SMEs are vital to Hong Kong’s success as they bring innovation, flexibility and speed to the business landscape. We provide a comprehensive portfolio of services to SMEs covering business start-up and energy management, including advice on supply applications, energy efficiency and safety, and customer installation pre-check services to enable speed to market.

In recognition of our efforts to support the needs of SMEs, the Hong Kong General Chamber of Small and Medium Business named us the Best SME’s Partner of 2015.



Our SME services provide entrepreneurs with end-to-end support.

PROVIDING POWER AND COOLING TO THE REGION’S DATA CENTRES

Data centres remain a key growth sector in Hong Kong. To position ourselves as the best energy partner for data centre operators, HK Electric organised a symposium for about 200 local IT practitioners in 2015 that offered guidance, shared experiences and updates in Hong Kong.

We participated in key industry events and trade shows and conducted intensive marketing campaigns to showcase our one-stop customised data centre services throughout the year.



IT practitioners share experiences at HK Electric Data Centre Symposium.

We are cautiously optimistic about our prospects and performance in the immediate term. We expect that fuel prices will demonstrate some upward movement and will work with our suppliers to continue to achieve efficiencies. Emissions regulations have tightened and our new natural gas-fired L10 unit will form the cornerstone of our efforts to further reduce our carbon footprint. We will retain our emphasis on proactive maintenance and excellent customer service at affordable tariffs. As a result of a decline in international fuel prices, combined with operating efficiencies, we are pleased to be able to reduce net tariff for all customers by an average of 1.1% or 1.5 cents per unit of electricity from 1 January 2016.

CEO REPORT

A SUSTAINABLE FUTURE



HK Electric recognises the impact that its activities have on the community and the environment. As a responsible corporate citizen, we make every effort to measure, understand and communicate our performance in this regard. Apart from caring for our employees, we engage with the community through a range of popular initiatives, continuously striving to enhance our own performance.

Chaired by the Chief Executive Officer and comprising senior management from various divisions, the Group's Corporate Social Responsibility (CSR) Committee steers our efforts in integrating sustainability into our day-to-day operations.

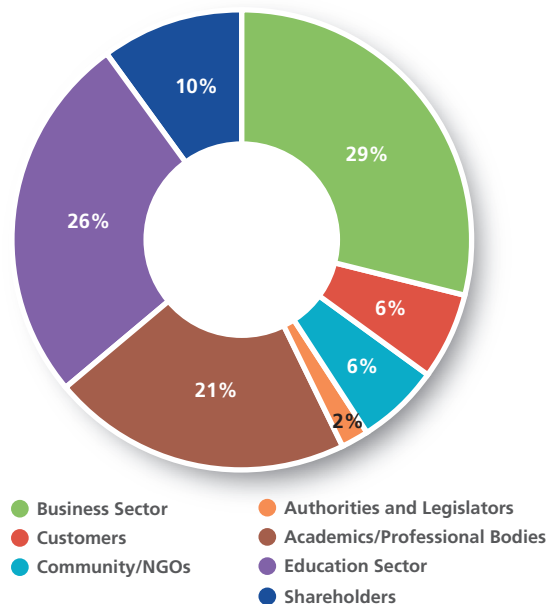
ENGAGING WITH OUR STAKEHOLDERS

The HK Electric Customer Liaison Group (CLG) is the primary formal channel for HK Electric to interact with customers, providing valuable feedback to help us better our services. In 2015, the CLG whose membership now includes customers, district councilors, community leaders and NGO representatives met twice and visited LPS for an update on recent developments of the company.

HK Electric's Joint Consultation Committee with more than 70 members is an important vehicle for communication and consultation between employees and management on a range of topics pertaining to effective operations and employee wellness. The committee held 20 meetings during the year.

Our five district liaison teams continued to serve as the ambassadors of HK Electric at community level. Since 2013, team members have acted as focal points of contact in addressing local concerns as we strive to promote closer and stronger working relationships with various stakeholder groups. During the year, they supported a host of activities organised at district levels.

Visits to LPS and company's facilities by stakeholder groups in 2015



In 2015, we continued to host members of our stakeholder community on visits to LPS and other facilities to enhance their understanding of our operations. Over 240 visits were organised for SSU holders, students, professional bodies, political parties and others.

OUR PEOPLE, CULTURE AND POLICIES

A talented and engaged workforce is central to our sustained success. We strive to create a stimulating and supportive work environment which encourages the pursuit of excellence and rewards success and effective teamwork. We have 1,801 employees in a range of frontline, technical and corporate roles, of which 16.6% are women.



We provide multifaceted orientation and training to graduate trainees.

Attracting the best talent

We recruit employees at all levels, and our graduate trainee programme is central to filling our talent pipeline. During the year we participated in career expos and recruitment seminars organised by universities, government and other bodies, recruiting 24 graduate trainees and 28 technician trainees.

The power industry as a whole needs to make all efforts to attract more of Hong Kong’s young students towards an engineering career. To this end we engaged with secondary schools and took in a number of secondary school interns. We also introduced an industrial attachment scheme to provide on-the-job exposure for final-year students of higher engineering diploma courses.

Remuneration and equal opportunities

Our remuneration policy is designed to ensure the company is able to attract, develop and retain high-performing and motivated employees. We offer

competitive and market-aligned remuneration packages that reward performance and initiative. We provide employees with retirement benefits and facilitate wise management and investment of their pension funds. HK Electric was awarded the 2014/15 Good MPF Employer Award by the Mandatory Provident Fund Scheme Authority in recognition of its efforts in this area.

We believe it is essential to provide equal opportunities to everyone without discrimination in all aspects of employment, including recruitment and promotion, giving

ENHANCING OUR SKILLS WITH THE HELP OF INDUSTRY EXPERTS

The HK Electric Institute, a training faculty which taps into the knowledge and expertise of our retired colleagues and in-house experts, conducted 55 modules for 1,223 participants, providing a total of 3,876 training hours in 2015. Lectures by outside professionals have also been incorporated into the Institute’s programme. These are proving highly effective as a vehicle for knowledge management.

In November 2015, the Institute signed a Memorandum of Understanding with The Hong Kong Polytechnic University for its experts to serve as visiting lecturers at the university’s master’s programme. HK Electric will also offer university students hands-on experience with our modern electricity systems, and provide opportunities for research projects. This partnership between industry and academia will help integrate professional knowledge and technical know-how into study courses, enriching the learning process for Hong Kong’s future engineers.



CEO'S REPORT

guidance and encouragement to employees at all levels to act fairly. We do not condone discrimination, harassment, vilification and victimisation under any circumstances in the workplace.

Staff training and development

We follow a structured staff development strategy to enable employees to achieve both personal growth and corporate goals. Apart from non-selective training, we also offer an integrated talent management mechanism to identify and accelerate the development of high-potential individuals and render them ready to step into senior leadership roles.

We offered on average 41.8 hours of training per employee in 2015 ranging from technical skills, personal effectiveness and teamwork training for graduate trainees to leadership skills workshop for supervisors and managers.



Employee training workshops are central to staff development and retention.

EMPLOYEE HEALTH, SAFETY AND WELLNESS

HK Electric provided a series of talks for employees on physical and psychological health throughout the year. Using the theme "Positive Workplace and Healthy Lifestyle", the programme also offered staff outings and other recreational activities to encourage employees to develop and maintain a healthy lifestyle. 186 employees received additional training to equip them with knowledge and skills in providing social and psychological support to peers or subordinates facing work-related or personal problems.

We aim to provide a work environment that is both safe and productive for our employees. We comply with all statutory requirements and are guided by international best practice.



Regular inspection helps enforce high health and safety standards.

A comprehensive, accredited Safety Management System, Health and Safety Policy, and Alcohol and Drugs Policy are in place and strictly enforced.

In 2015, LPS achieved 201 days of continuous operation without lost time injury. The transmission and distribution network completed the entire year without lost time injuries, a record it has now maintained for five consecutive years.

We expanded the scope of implementation of our 5S Good Housekeeping and Work Safe Behaviour programmes to cover a wider range of operational activities with more trained in-house observers. Internal audits as well as audits by the Hong Kong Quality Assurance Agency were conducted systematically throughout the year. We incentivise employees to participate in health and safety initiatives and work towards incident-free operations.

The company joined the Workplace Hygiene Charter, organised by the Occupational Safety and Health Council, Labour Department and Radio Television Hong Kong Radio 1, to guide our initiatives towards establishing a hygienic workplace.

We continued to organise a range of workshops, quizzes, slogan and poster design contests and other interactive activities across the company to engage employees and keep safe and healthy working practices at the top of their minds. We also released a health and safety guidebook and videos, and launched our Safety Resource Centre.

A company-wide Safety Climate Index survey was conducted in order to examine our current safety culture and establish a roadmap for future improvement.

INVOLVEMENT IN THE COMMUNITY

As a utility, one of our missions is to play a positive role in enhancing the public's social and environmental awareness. In fact, our commitment goes beyond philanthropic donations and extends to hands-on involvement to make a difference. Our passionate and energetic team of volunteers has been lending a helping hand to the aged, underprivileged and vulnerable in society.

Our activities revolve around two themes close to our hearts: assistance for the aged and underprivileged and protecting the environment through education and conservation efforts. 2015 saw the team participate in 136 initiatives involving over 1,600 participants, including visits to the elderly, free electrical inspections and environmental services.



Our volunteers support various worthwhile environmental and social causes.

Supporting senior citizens

Over the past decade our team of volunteers has engaged with local communities to render practical assistance to elderly people.

Three district councils, eight NGOs and two rural committees joined HK Electric during the year to launch "CAREnJOY". Under the scheme volunteers would visit the elderly living alone, help purchase heavy and bulky daily necessities such as rice and oil and conduct simple electrical inspections. More than 200 CAREnJOY ambassadors have been recruited to help identify and engage with socially isolated senior citizens. From March 2015 to January 2016, visits were paid to 1,070 elderly.

Co-founded in 2006 by HK Electric and The Hong Kong Council of Social Service, the University of the Third Age (U3A) continues to bring retired people together to learn from each other, volunteer and contribute to the community. U3A leaders organised a total of 512 courses in 2015/16, providing 9,250 learning opportunities for other senior citizens.

RUNNING A G.R.E.E.N.E.R OPERATION

We are committed to sustainable development and strive to conduct our business in an environmentally responsible manner. We follow a "continuous improvement" model with respect to the impact of our operations on the environment. We comply fully with laws and regulations and endeavour to integrate environmental considerations into all aspects of our business operations.

Our activities are governed by the following principles:

- G** enerate, deliver and use electricity efficiently, and utilise natural gas in power generation to enhance diverse fuel mix;
- R** einforce the "4R" policy to reduce, reuse, recover and recycle materials and resources, and promote biodiversity and conservation as much as possible;
- E** xplore the wider use of all kinds of renewable energy;
- E** mbrace green purchasing practices and adopt best practicable technologies and processes to conserve natural resources;
- N** uture environmental awareness amongst our business partners while educating the public on the smart and efficient use of energy;
- E** nsure commitment from all employees and all levels of management, and maintain a close dialogue with our stakeholders;
- R** eport our environmental performance and related information on a regular basis.

CEO'S REPORT



We visit overseas coal suppliers to help maintain quality standards.

4R policy to conserve resources and eliminate wastage

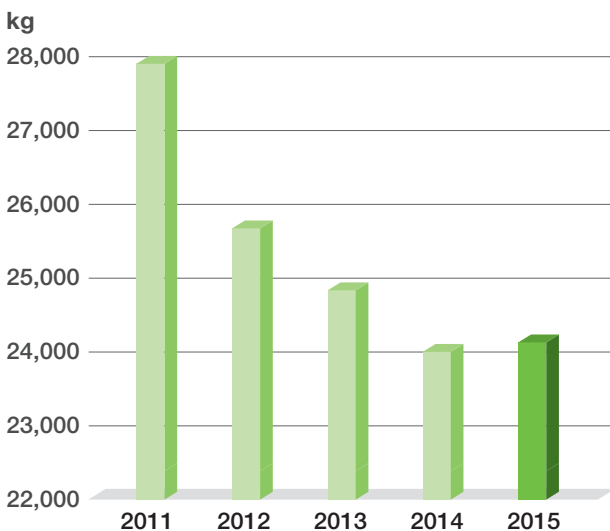
In 2015, we continued to conserve resources and eliminate wastage across our operations through the 4R (reduce, reuse, recover and recycle) policy.

Carbon audits were conducted across our buildings and we maintained the average indoor room temperature of our main office buildings at 24-26°C during the summer months to minimise power consumption.

We increased the scope of our recycling efforts during the year. We separate commercial and industrial waste at source in order to support Hong Kong's efforts with recycling. Glass bottles, plastic and paper are recycled across our facilities.

We endeavor to ensure our suppliers/contractors perform to the same environmental standards as our own. We visited overseas coal suppliers during the year to carry out quality control checks as well as understand their corporate, environmental, social, health, and safety activities.

HK Electric's paper consumption



Educating consumers and businesses about smarter energy choices

We actively educate our stakeholders on green energy and provide them with the tools to make wise energy choices. During the year, we conducted 42 mini energy efficiency workshops at the HK Electric Smart Power Centre for academia/schools, professional institutions, overseas utilities, trade practitioners and property/facility management professionals. We also carried out over 50 free energy audits to help businesses identify energy-saving opportunities at their premises.

Electric cooking is healthy, environmentally friendly and well suited to Hong Kong homes. In order to promote its benefits, the popular HK Electric Home Management Centre hosted demonstrations at public events, competitions, school visits, and the activities of various Hong Kong charities related to electric cooking. It also conducted 930 courses for over 10,000 consumers.



HK Electric's Home Management Centre promotes healthy electric cooking.

In order to educate the younger generation of social consumers on how to be more power-wise during their everyday activities, we launched the "Eco-Quality Home" YouTube channel featuring short videos on creating a green household, Facebook promotions, as well as display centres for innovative green home appliances. These activities attracted more than 5,000 visitors and extensive media coverage.

Our efforts to encourage the catering trade to adopt environmentally-friendly electric kitchen equipment to promote efficiency and provide a healthy working environment enabled us to receive the Green Achievement in Catering Industry Award from the International Association of Gourmet Master Chefs & Hospitality Executives during the year.

INSTILLING GREEN THINKING IN CHILDREN AND FAMILIES

Our Smart Power Campaign ran activities for over 80,000 students and members of the public throughout the year.

The “Happy Green School” initiative, launched in 2012, expanded to include about 310 schools, including over 65,000 students in a range of eco-friendly activities. A competition was held in which school students submitted ideas for implementing renewable energy/energy efficiency initiatives on campus. We offered schools achieving environmental targets incentives in the form of talks on energy conservation, visits to the company’s Smart Power Centre, eco-heritage tours and up-cycling workshops.

Our 2015 “Green Hong Kong Green” Eco-tour Festival involved more than 1,200 people in activities including eco-heritage tours; a carnival featuring music; educational game booths; talks; cooking demonstrations and hands-on workshops.



Supporting eco-initiatives

HK Electric employees and their families supported various external green initiatives in 2015 including the 42nd anniversary of the United Nations’ World Environment Day, which saw 500 employees taking part. To mark “Earth Hour 2015” we switched off external and decorative lighting at nine of the company’s buildings for an hour during the evening of 28 March and provided data for WWF to assess

the impact of the campaign. We also provided data to Green Sense for “No Air Con Night” held on 25 September to estimate its impact.

SUSTAINABILITY PERFORMANCE AND DISCLOSURE



Our sustainability report showcases our performance and achievements in CSR work.

At HKEI we implement proactive business strategies to combat climate change and enhance transparency in information disclosure. As a participant in the Carbon Disclosure Project, we report greenhouse gas emissions as well as our strategies to reduce them on an annual basis. In March 2015, we published our 2014 Sustainability Report in accordance with Global Reporting Initiative’s G4 Sustainability Reporting Guidelines as well as the Hong Kong Stock Exchange’s Environmental, Social and Governance Reporting Guide, with external independent assurance. The Sustainability Report is available on HKEI’s website (www.hkei.hk).

OUR WAY FORWARD

We believe it is not only good practice but also good business to support the “three pillars of sustainability” – people, planet and profitability. Through our everyday activities and behaviour, we will continue to make every endeavor to set an example for our community, and give back to society whenever we can.

WAN CHI TIN

Chief Executive Officer
Hong Kong, 15 March 2016

AWARDS GALLERY

14 Awards CORPORATE/ COMMUNITY

- **Caring Company Award**
 - Caring Company Logo
- **Caring Company Scheme**
 - List of Barrier-free Companies/Organisations 2014/15: Electric Centre (9/F Customer Centre)
- **The Community Chest Corporate and Employee Contribution Programme 2014/15**
 - Gold Award
 - 9th Top Fund-raiser Award
- **The 20th Outstanding Volunteer Awards**
 - Corporate Caring Award
- **2015 ARC Awards International Annual Report 2014**
 - Traditional Annual Report (Electric Power Company Category)
 - Bronze
 - Sustainability Report 2014
 - The 100 Best Annual Reports of 2015
 - Cover Design
 - Best of Category Grand Award (Graphics/Illustrations)
 - Cover Photo/Design (Sustainability Report Category)
 - Gold
 - Interior Design (Sustainability Report Category)
 - Silver
 - Illustrations (Sustainability Report Category)
 - Honors
- **2014 Vision Awards Annual Report Competition Sustainability Report 2014**
 - Sustainability Category
 - Silver
- **Meritorious Websites Contest 2014**
 - Healthy Mobile Phone/Tablet Apps 2014
- **2014/15 Good MPF Employer Logo**

16 Awards CUSTOMER SERVICE

- **HKRMA Mystery Shoppers Programme (Nov 2014 to Jan 2015)**
 - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shoppers Programme (Jul 2015 to Sep 2015)**
 - Service Industry Leader
 - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shoppers Programme**
 - 2015 Service Retailers of the Year: Grand Award
 - Retail (Services) Category: 2015 Service Retailers of the Year

- **2014 Customer Relationship Excellence Awards**
 - Corporate Category
 - Public Service of the Year
 - Individual Category
 - Customer Service Manager of the Year (Public Services – Contact Center)
 - Customer Service Professional of the Year (Public Services – Contact Center)
 - Customer Service Professional of the Year (Contact Centre): Four Merits
- **Hong Kong Call Centre Association Awards 2015**
 - Corporate Category
 - Mystery Caller Assessment Award: Two Gold Awards
- **Best SME's Partner Award 2015**
- **Hong Kong Star Brands Award 2015 (Enterprise)**

23 Awards ENVIRONMENTAL

- **Take a 'Brake' Low Carbon Action - Corporate Green Driving Award Scheme 2014**
 - Fuel Consumption Saver: Silver Award
- **Indoor Air Quality Certification Scheme**
 - "Excellent Class" Certificate: Hongkong Electric Centre (Whole Building)
 - "Excellent Class" Certificate: Electric Centre (9/F Office Area)
 - "Excellent Class" Certificate: Electric Tower (Areas Equipped with MVAC System of the Whole Building)
 - "Good Class" Certificate: Electric Centre (Areas Equipped with MVAC System of the Whole Building)
 - "Good Class" Certificate: Lamma Power Station Administration and Control Building
 - "Good Class" Certificate: Lamma Power Station New Control Building
- **HKGBC BEAM Plus**
 - Platinum Rating: LMX Maintenance Building
- **Hong Kong Awards for Environmental Excellence – Wastewise Label/Certificate**
 - Class of Excellence Label
 - Excellence Level Certificate
- **Hong Kong Awards for Environmental Excellence – Energywise Label**
 - Class of Good
- **Hong Kong Awards for Environmental Excellence – IAQwise Certificate**
- **Hong Kong Awards for Environmental Excellence – Carbon "Less"/Carbon Reduction Certificate**
 - Carbon Reduction 7% Certificate
 - Carbon "Less" 16% Certificate
 - Carbon Reduction 21% Certificate
 - Carbon "Less" 22% Certificate



- Hong Kong Awards for Environmental Excellence
 - Sectoral Awards (Public Organisations and Utilities): Silver Award
- Hang Seng Pan Pearl River Delta Environmental Awards 2013/14
 - Silver Award
- The Hong Kong Institution of Engineers – Environmental Paper Award 2015
 - First Runner-up
- Friends of the Earth Building Energy Consumption Survey
 - Gold Benchmark: Lamma Power Station Administration & Control Building
- Friends of EcoPark 2014/15 logo
- CarbonCare® Label Scheme 2015
 - CarbonCare® Label (Level 2)
 - CarbonCare® Action Label

10 Awards STAFF

- The HKIE Innovation Awards for Young Members 2015
 - Category II - An Innovative Application of Engineering Theories: Certificate of Merit
- The HKIE Professional Volunteers Service Accreditation Programme (Session 2013/2014)
 - Individual Category
 - Silver Award
- Qualifications Framework Award Scheme for Learning Experiences 2015-16, Electrical & Mechanical Services
 - Individual Category
 - Two Awards
- Outstanding Registered Electrical Worker Awards Scheme 2015
 - Gold Prize
 - Bronze Prize
- Runners of “The Green Heroes - Triathlon Race and Bazaar”
 - Corporate Category
 - Champion
- ECO - Rangers
 - Individual Family Group
 - Champion
- 27th Inter-Hong Lawn Bowls Tournament
 - Corporate Category
 - Champion
- Inter-Hong Photo Contest 2015
 - Individual Category
 - Merit Award

14 Awards QUALITY, HEALTH/SAFETY

- The 7th Hong Kong Best OSH Employees Award Scheme
 - Individual Category
 - Silver Award
 - Two Bronze Awards
- The Occupational Safety & Health Council Safety Quiz 2015
 - Enterprise Section
 - Champion in Cup Final
 - 1st Runner-up in Cup Final
 - Champion in Plate Final
 - 1st Runner-up in Plate Final
 - Highest Score Award
- The 14th Hong Kong Occupational Safety & Health Award
 - Work Safe Behaviour Award: Silver
- The 8th Regional (Guangdong, Hong Kong & Macau) Safety Quiz 2015
 - Enterprise Section
 - 2nd Runner-up
- Good Housekeeping Award
 - Corporate Category
 - Best Presentation Award: Gold Award
 - Other Industries: Silver Award
- The 21st Considerate Contractors Site Award Scheme
 - Health & Safety Category
 - Silver Award
 - Bronze Award

1 Award OTHERS

- Green Achievement in Catering Industry 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.



The Nam Fung Parker cable tunnel is one of the longest in the world at 5.7 km.

RISK MANAGEMENT

Effective risk management is 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 systematic approach to identifying and managing risks across the organisation to evaluate risk severity and likelihood of occurrence. Risk workshops are conducted and an ERM Implementation Pack and ERM System Manual are in place so that the framework and process are understood throughout the Group.



STRUCTURE

Management is committed to fostering a risk aware and control conscious environment. Responsibility for risk management resides at all levels within the Group, from the Company Board through the organisation to each manager and employee. The Company Board oversees the overall management of risks. The Risk Management Committee assists the Company Board and Company Audit Committee to review and monitor key risks. Operating units are responsible for the identification and management of risks in their operations and a comprehensive approach is adopted for enterprise-wide risk.



RISK MANAGEMENT PROCESS

The risk management process is integrated into our day-to-day activities and is an ongoing process that flows through the organisation.

When we perform risk identification, we take 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 consistent with risk parameters 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 and updates and monitors it on an ongoing basis by taking into account emerging issues.

A risk management report that highlights key risks and action plans is reviewed by the Risk Management Committee half-yearly and presented to the Company Audit Committee and the Company Board at least annually. Significant changes in key risks on a day-to-day basis are handled 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 page 26 of this Annual Report. The Group continually works to 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

Global economic growth has been weaker than expected with sluggish demand conditions in major economies. Given the economic slowdown on Mainland China, slackening trade flows and weaker tourist spending, growth in the Hong Kong economy was modest.

The prevailing global uncertainty may materially and adversely affect the business of customers or potential customers, or cause a slowdown in economic activity 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 expenditure investment. The Group also strives for efficiency and cost effectiveness in all aspects of its operations to enhance financial performance.

INTEREST RATES AND CURRENCY MARKETS

The Group is exposed to interest rate risk on its interest-bearing assets and liabilities. The risk has increased as the Fed has raised interest rates in December 2015 and pledged a gradual pace of increases in the future. The Group is exposed to currency risk that mainly arises from the import of fuel and capital equipment, and from its debt issuances in capital markets.

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 52 to 54.

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 was renewed in 2008 for a term of ten years commencing 1 January 2009 with an option for the Government to extend it for a further term of five years. The implementation of the 2014-2018 Development Plan under the SCA, its extension beyond 2018, the structure and regulation of the power industry in Hong Kong, and the Government's policies on air quality, 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 proactively engages with various stakeholders, including the Government, on electricity market and regulatory issues.

HEALTH AND SAFETY

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

An accident or the outbreak of a communicable disease 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 and the public by conducting its business in a safe and socially responsible manner.

RELIABILITY OF SUPPLY

The Group can be exposed to supply interruptions. A severe earthquake, storm, flood, landslide, fire, sabotage, terrorist attack, failure of critical information and control systems that support the power system, extreme weather phenomena due to climate change 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 network damage 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.

The Group conducts thorough risk assessment including the emerging risk of climate change, adopts resilient designs, performs regular 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 standards are maintained.

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. Four subsequent Technical Memoranda issued in 2010, 2012, 2014 and 2015 have further tightened the emission allowances starting from 2015, 2017, 2019 and 2020 respectively. The Government will also review later this year the emission allowances for 2021 and beyond based on the policy decision from an earlier public consultation on the future fuel mix for electricity generation for Hong Kong and other updated information.

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

The Group has an Environmental Management System and a dedicated team to ensure compliance with relevant environmental regulations and closely monitor and control the emission of pollutants from the power plant.

LAWS AND REGULATIONS

Our 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, we must comply with the conditions contained in our operational and construction licenses and permits. Failure to do so could expose us to prosecution and litigation and result in fines, sanctions, criminal penalties and/or the suspension, revocation or non-renewal of licenses or permits. Moreover, changes in laws and regulations may cause us to incur additional capital expenses or other obligations or liabilities incurred in order to comply with such changes, or possibly materially and adversely impact our business, financial condition and operating results.

The Group has taken a proactive approach to monitoring changes in laws and regulations to ensure compliance and assess their impacts. Adequate mitigation measures are in place for our compliance risks, and are constantly reviewed for enhancement.

FUEL SUPPLY

Our generating units in Lamma Power Station mainly rely on coal and natural gas as a fuel source. Any interruptions or shortages 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 is also a risk to the Group.

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

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning

Chairman

Aged 64. 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 has been a Non-executive Director of CKH Holdings since January 2015 and has been re-designated as an Executive Director and Group Co-Managing Director of CKH Holdings since June 2015. He is also a Director of Cheung Kong (Holdings) Limited ("Cheung Kong") and Hutchison Whampoa Limited ("HWL"), and the Deputy Chairman of CKI. Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited ("HTHKH") 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"). Mr. Fok is also an Alternate Director of HTHKH. All the companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong, HWL 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 65. 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 a Council Member of the Hong Kong Institution of Engineers and a member of the Engineers Registration Board of Hong Kong.

CHAN Loi Shun

Aged 53. 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 HWL in January 1992 and has been with the Cheung Kong Group since May 1994. All the companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong 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 59. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director and General Manager (Generation) of HK Electric. Mr. Cheng joined the Group in 1979 and had worked in the Technical Services, Operations and Maintenance Departments of the Generation Division of HK Electric. 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.

SHAN Shewu

Aged 48. 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., the national electric and gas grid corporation of Portugal. He is also involved in the management of State Grid International Development Co., Limited. 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. Shan holds a Bachelor and a Master Degree in Electrical Engineering from Xi'an Jiaotong University.

YUEN Sui See

Director of Operations

Aged 65. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Yuen is also a Director of HK Electric. He was previously an 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. Yuen joined the Group in 1986, holding various positions including General Manager (Transmission & Distribution) and Director of Operations. Mr. Yuen has over 30 years of experience in the electricity industry. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer in the United Kingdom, a Registered Professional Engineer in Hong Kong and a Fellow of the Hong Kong Institution of Engineers.

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



BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor

Deputy Chairman of the Company Board

Aged 51. 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 has been a Director of CKH Holdings since December 2014, and has been designated as an Executive Director, Managing Director and Deputy Chairman of CKH Holdings since January 2015 and re-designated as an Executive Director, Group Co-Managing Director and Deputy Chairman of CKH Holdings since June 2015. Mr. Li has been a Director of Cheung Kong Property Holdings Limited ("CK Property") since January 2015 and has been designated as an Executive Director, Managing Director and Deputy Chairman of CK Property since February 2015. He has been the Chairman of the Executive Committee of CK Property since June 2015. He is also a Director of Cheung Kong and HWL. 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, HK Electric, Cheung Kong and HWL, 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 12th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is a member of the Commission on Strategic Development of the Hong Kong Special Administrative Region ("HKSAR") 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 60. 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, General Manager and a board member of Qatar Electricity & Water Co. ("QEWC"), which is listed on the Qatar Stock Exchange. He has worked for QEWC since 1992 and, prior to joining QEWC, 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 Houll Power Co., and is also a board member of Qatar Science & Technology Park. He holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 77. 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 HKSAR 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 and SCMP Group Limited, and a Non-executive Director of Power Assets, a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies.

DU Zhigang

Aged 59. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Du is also a Director of HK Electric. He is the Vice President of State Grid, Chairman of National Grid Corporation of the Philippines and Chairman of SGSP (Australia) Assets Pty Ltd. Mr. Du oversees State Grid's overseas business. He previously held the positions of Chairman of State Grid International Development Limited, Chief Economist, Director General of Department of Development and Planning and Director General of International Cooperation Department of State Grid, and Deputy Chief Engineer, Chief Engineer and Vice President of Shandong Electric Power Company. State Grid and State Grid International Development Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Du holds a PhD Degree in Power System and Automation from Shandong University, and is Senior Member of The Institute of Electrical and Electronics Engineers of the United States.

JIANG Xiaojun

Aged 51. 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 almost 30 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.

Deven Arvind KARNIK

Aged 48. 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 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 59. 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 and a Master of Science degree in Global Finance.

KWAN Kai Cheong

Aged 66. 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 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), United Photovoltaics Group Limited, Win Hanverky Holdings Limited, Dynagreen Environmental Protection Group Co., Ltd. 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, a listed company. 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.

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

LEE Lan Yee, Francis

Aged 75. 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 80. 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 has been a Non-executive Director of CKH Holdings since January 2015. 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 Cheung Kong and HWL. All of these companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong and HWL, are listed companies. Mr. Magnus is also a Director of Husky Energy, a listed company. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 64. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Roberts is also a Director of HK Electric. Mr. Roberts joined the HWL Group

in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. HWL is a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Roberts is a Member of the Listing Committee of the Main Board and Growth Enterprise Market of the Stock Exchange. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Chartered Professional Accountants of Alberta and British Columbia, and also a fellow of the HKICPA.

Ralph Raymond SHEA

Aged 82. 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 62. 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 has been appointed as an Executive Director and Group Deputy Managing Director of CKH Holdings since June 2015. She is a Director of HWL, an Executive Director and an Alternate Director of CKI, a Non-executive Director of HTHKH, and a Director and an Alternate Director of HTAL. Mrs. Chow is also an Alternate Director of TOM Group Limited ("TOM"). All the companies mentioned above, except the Trustee-Manager, HK Electric and HWL, are listed companies. Mrs. Chow acts as a Director of a number of 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.

Frank John SIXT

Aged 64. 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 a Non-executive Director of Power Assets. He has been a Non-executive Director of CKH Holdings since January 2015 and has been re-designated as an Executive Director, Group Finance Director and Deputy Managing Director of CKH Holdings since June 2015. Mr. Sixt has been a Director of Cheung Kong and HWL since 1991. Mr. Sixt is the Non-executive Chairman of TOM and an Executive Director of CKI. He is also a Non-executive Director of HTHKH and HPHMPL which is the trustee-manager of HPH Trust, a Director of HTAL and Husky Energy, and an Alternate Director of HTAL. All the companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong, HWL and HPHMPL, are listed companies, and HPH Trust is a listed business trust. 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

CHAN Ping Kee

Aged 58. General Manager (Transmission & Distribution), has been with the Group since October 1980. He has over 30 years of experience in electricity supply. He holds a Bachelor of Science degree in Electrical Engineering. He is a Chartered Engineer registered with the Engineering Council in the United Kingdom and a Fellow of the Hong Kong Institution of Engineers.

LAU Chi Kwong

Aged 59. 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.

WONG Kim Man

Aged 55. Chief Financial Officer, has been with the Group since September 2010. He has over 25 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. He is a Council member of the HKICPA.

WONG Yuk Keung, Arthur

Aged 58. 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 51. 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).

YEE Tak Chow

Aged 61. 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

BOARDS OF DIRECTORS AND SENIOR MANAGEMENT

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 52. General Manager (Public Affairs), has been with the Group since July 2003. She has over 29 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

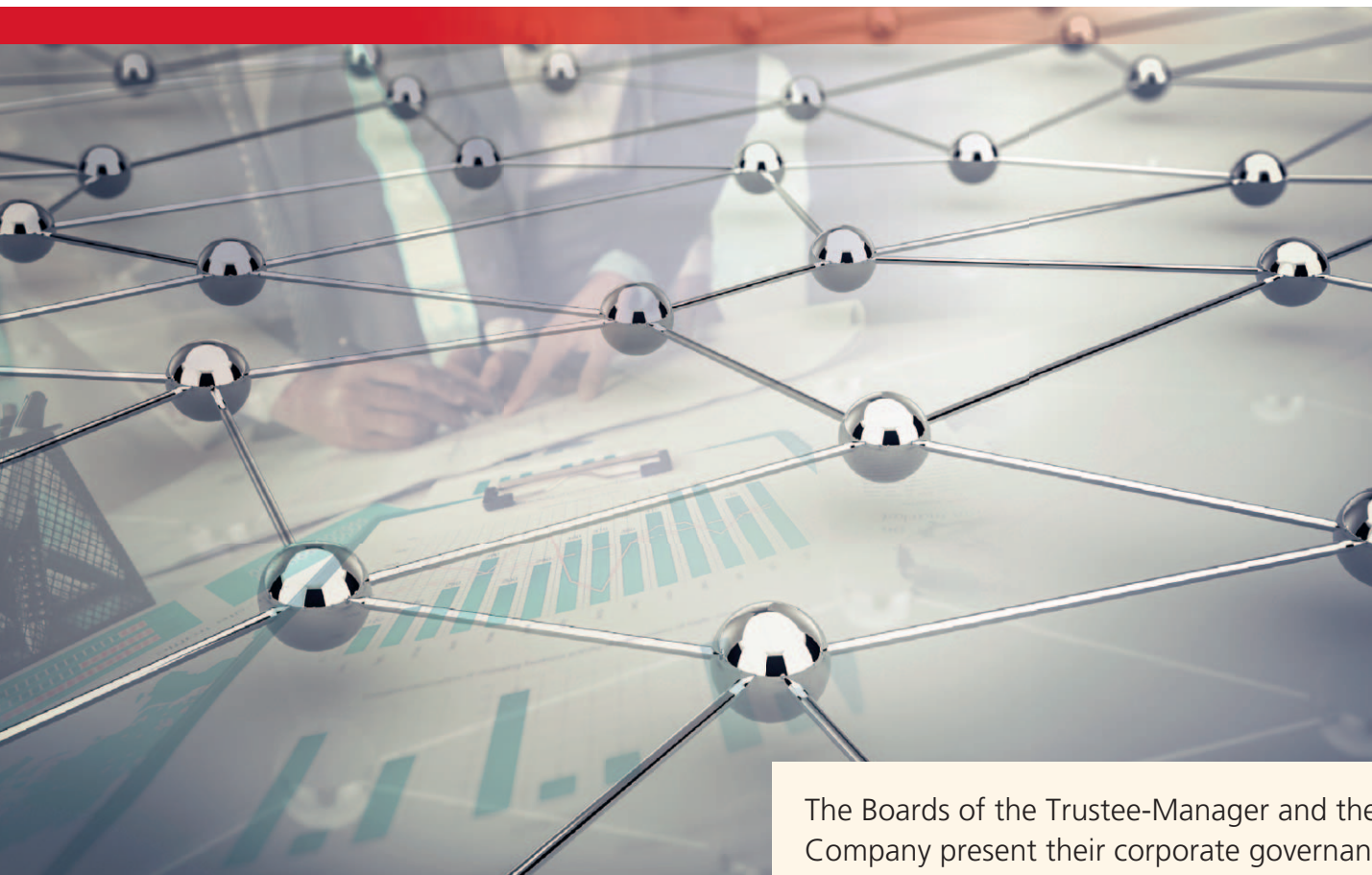
NG Wai Cheong, Alex

Aged 46. 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.

From left to right: WONG Yuk Keung, Arthur; WU Kwok Kwong, Dennis; YEUNG Yuk Chun, Mimi; WONG Kim Man; CHAN Ping Kee; LAU Chi Kwong; YEE Tak Chow; NG Wai Cheong, Alex



COMBINED CORPORATE GOVERNANCE REPORT



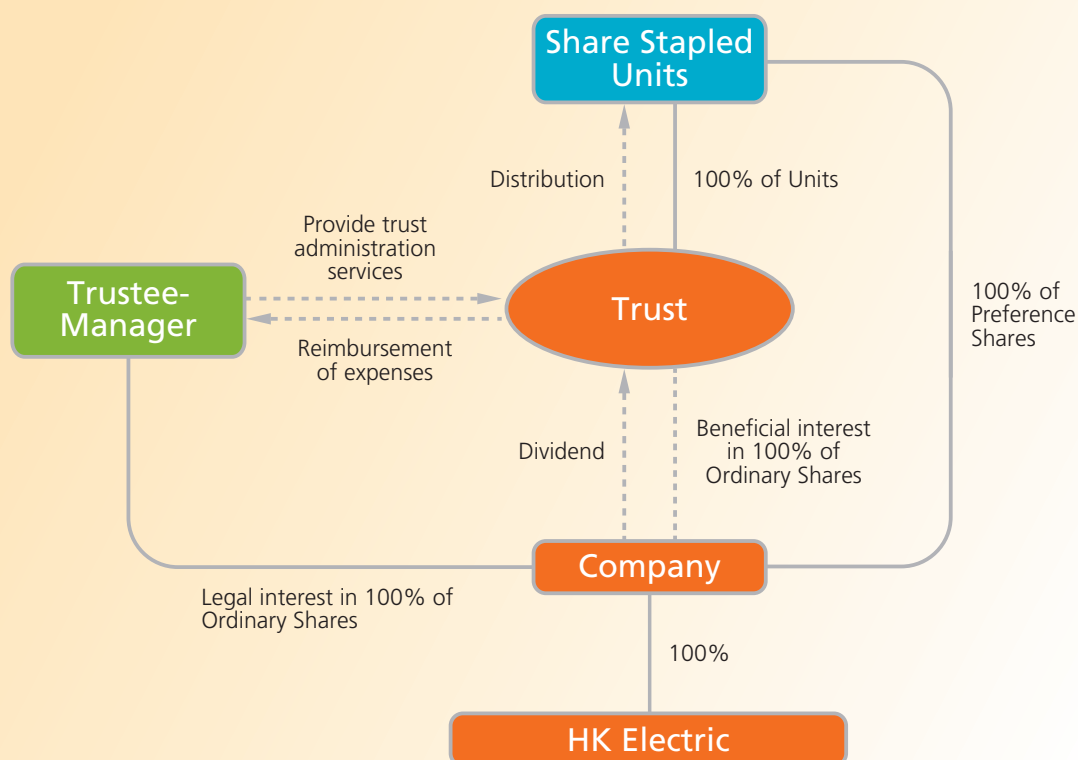
The Boards of the Trustee-Manager and the Company present their corporate governance report on a combined basis for the year ended 31 December 2015.

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 36 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 PRACTICES

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 Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2015, except as noted hereunder.

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. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

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.

The current Directors and their biographical information are set out in the “Boards of Directors and Senior Management” section on pages 28 to 34 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.

During 2015 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2015 annual general meeting are as follows:

Directors	Company				Trustee-Manager			Combined 2015 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)	4/4	–	1/1	2/2	4/4	–	2/2	√
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 ⁽¹⁾	4/4	–	–	–	4/4	–	–	√
Yuen Sui See	4/4	–	–	–	4/4	–	–	√
Non-executive Directors								
Li Tzar Kuoi, Victor (Deputy Chairman) ⁽²⁾	4/4	–	–	2/2	4/4	–	2/2	√
Fahad Hamad A H Al-Mohannadi ⁽³⁾	2/2	–	–	1/1	2/2	–	1/1	–
Ronald Joseph Arculli	4/4	3/3	–	2/2	4/4	3/3	2/2	√
Du Zhigang ⁽⁴⁾	4/4	–	–	2/2	4/4	–	2/2	√
Jiang Xiaojun ⁽⁴⁾	4/4	–	–	2/2	4/4	–	2/2	√
Deven Arvind Karnik ⁽³⁾	2/2	–	–	1/1	2/2	–	1/1	–
Independent Non-executive Directors								
Fong Chi Wai, Alex	3/4	–	1/1	1/2	3/4	–	1/2	x
Kwan Kai Cheong ⁽⁵⁾	4/4	–	–	2/2	4/4	–	2/2	√
Lee Lan Yee, Francis	4/4	3/3	–	2/2	4/4	3/3	2/2	√
George Colin Magnus	4/4	–	–	2/2	4/4	–	2/2	√
Donald Jeffrey Roberts	4/4	3/3	1/1	2/2	4/4	3/3	2/2	√
Ralph Raymond Shea ⁽⁶⁾	1/1	–	–	1/1	1/1	–	1/1	–

Notes:

- (1) Mr. Shan Shewu was appointed Executive Director of the Trustee-Manager and the Company on 6 January 2015.
- (2) Mr. Li Tzar Kuoi, Victor appointed Mr. Frank John Sixt as his alternate with effect from 9 June 2015.
- (3) Each of Mr. Fahad Hamad A H Al-Mohannadi and Mr. Deven Arvind Karnik was appointed Non-executive Director of the Trustee-Manager and the Company on 9 June 2015.
- (4) Each of Mr. Du Zhigang and Mr. Jiang Xiaojun was appointed Non-executive Director of the Trustee-Manager and the Company on 6 January 2015.
- (5) Mr. Kwan Kai Cheong was appointed Independent Non-executive Director of the Trustee-Manager and the Company on 6 January 2015.
- (6) Mr. Ralph Raymond Shea was appointed Independent Non-executive Director of the Trustee-Manager and the Company on 7 October 2015.

COMBINED CORPORATE GOVERNANCE REPORT

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 two meetings 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.

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

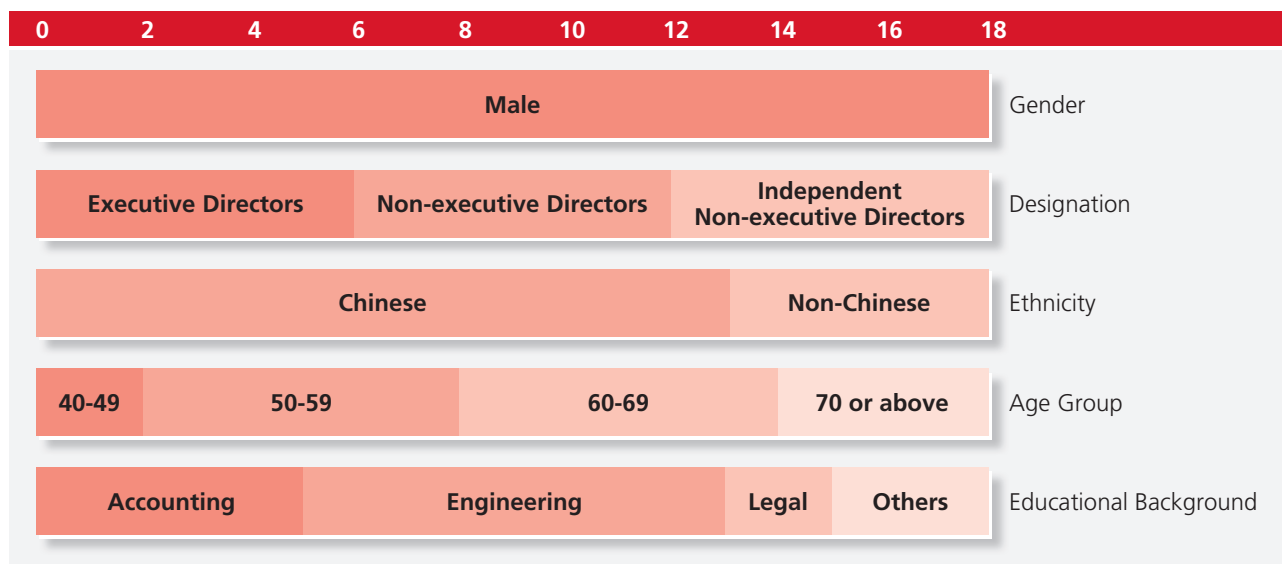
advice whenever deemed necessary by them at the expense of the Trustee-Manager or the Company, as appropriate. Insurance coverage in respect of Directors' liability has been arranged by the Trustee-Manager and the Company.

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 appointments of Mr. Fahad Hamad A H Al-Mohannadi and Mr. Deven Arvind Karnik as Non-executive Directors with effect from 9 June 2015 and Mr. Ralph Raymond Shea as an Independent Non-executive Director with effect from 7 October 2015 were considered and approved on the basis of the abovementioned criteria and procedure.

The diversity profile of the Boards as at 31 December 2015 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.

Following the appointments of Mr. Fahad Hamad A H Al-Mohannadi and Mr. Deven Arvind Karnik as Non-executive Directors of the Trustee-Manager Board and the Company Board with effect from 9 June 2015, the Boards had five Independent Non-executive Directors which fall below the required percentage under Rule 3.10A of the Listing Rules. The Trustee-Manager and the Company applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 3.10A of the Listing Rules for a period of one month from 8 September 2015. On 7 October 2015, Mr. Ralph Raymond Shea was appointed as an additional Independent Non-executive Director of the Trustee-Manager and the Company, following which the numbers of Independent Non-executive Directors of the Boards were in compliance with Rule 3.10A of the Listing Rules.

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed and article 16.21 of the Company's articles of association and offering themselves for re-election at the forthcoming combined annual

COMBINED CORPORATE GOVERNANCE REPORT

general meeting are Mr. Fok Kin Ning, Canning, Mr. Wan Chi Tin and Mr. Chan Loi Shun. Mr. Fahad Hamad A H Al-Mohannadi, Mr. Deven Arvind Karnik and Mr. Ralph Raymond Shea, Directors 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 themselves 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 7 April 2016. 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 2015, 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 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	√	√	√
Yuen Sui See	√	√	√
Non-executive Directors			
Li Tzar Kuoi, Victor	√	√	√
Fahad Hamad A H Al-Mohannadi	√	√	√
Ronald Joseph Arculli	√	√	√
Du Zhigang	√	√	√
Jiang Xiaojun	√	√	√
Deven Arvind Karnik	√	√	√
Independent Non-executive Directors			
Fong Chi Wai, Alex	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

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 regarding directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2015.

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 2015 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.

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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 schedules two meetings 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 2015, the interests or short positions of the Directors and chief executive of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Staped Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Total	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note)	7,870,000	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000	2,000,000	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	74,000	74,000	≈0%

Note:

Such SSUs comprise:

- 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
- 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.

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executive 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 AND IN CONTRACTS OF SIGNIFICANCE

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. No contracts of significance to which the Trustee-Manager, or the Company or any of its subsidiaries was a party and in which a Director had a material interest subsisted at the end of or at any time during the year ended 31 December 2015.

CORPORATE GOVERNANCE FUNCTIONS

The Boards delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee.

At the meetings held in February and July 2015, the Trustee-Manager Audit Committee and the Company Audit Committee reviewed the governance structure of the Trustee-Manager and the Group, the records of continuous professional development activities of directors and senior managers in 2014 and the semi-annual period ended 30 June 2015, the compliance status of the Corporate Governance Code for the period from the Listing Date up to 31 December 2014 and the first six months of 2015, and the Corporate Governance disclosure in the 2014 Corporate Governance Report and the 2015 interim report.

COMBINED CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE OF THE COMPANY

The Remuneration Committee of the Company is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and its 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 2015 which was attended by all members. At that meeting 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 2015 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, Mr. Yuen Sui See, Mr. Cheng Cho Ying, Francis and Mr. Shan Shewu as Chief Executive Officer, Director of Operations, General Manager (Generation) and Co-General Manager (Transmission & Distribution) respectively. 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 2016 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2015 financial year are shown in note 11 to the financial statements on page 82 of the Annual Report. The remuneration paid to members of the senior management for the 2015 financial year is disclosed by bands also in note 11 on page 83 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 its 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 reports directly to the Trustee-Manager Board and its principal responsibilities are to assist the Trustee-Manager Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Trust and the Trustee-Manager, to review the financial information of the Trust and the Trustee-Manager, and to consider issues relating to the external auditor and their appointment.

The Company Audit Committee reports directly to the Company Board and its principal responsibilities are to assist the Company Board in fulfilling its audit duties through the review and supervision of the financial reporting system and internal control system of the Company, to review the financial information of the Company and to consider issues relating to the external auditor and their appointment. The Company Audit Committee also oversees the Company's whistle-blowing procedure under which employees can use in confidence to raise concerns about improprieties in matters related to the Group.

The respective terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee were amended in March 2016 to incorporate the amendments to the Corporate Governance Code relating to risk management and internal control published by the Stock Exchange in January 2016. 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 2015. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2014, the audit fee and auditor engagement letter for the 2014 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees in relation to the audit of the 2014 financial statements, the Group's risk management report as of December 2014, the risk appetite statement, the internal control assessment declarations for the year 2014 and for the half year to 30 June 2015 in respect of the effectiveness of the system of internal controls, the internal audit plan for 2015, the 4-year cycle internal audit plan for 2015 to 2018, the financial statements for the six months ended 30 June 2015, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the 2014 Corporate Governance Report, the corporate governance disclosure in the 2015 interim report, the continuous professional development activities undertaken by Directors and senior managers during 2014 and the six months ended 30 June 2015, KPMG's 2015 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's Competition Compliance Policy and the Group's outstanding litigation and claims as at 31 December 2014 and 30 June 2015.

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 2014 audited financial statements, the 2015 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 2015, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

INTERNAL CONTROL

Introduction

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

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

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 an effective system of internal controls and risk management. The Audit Committees review all material controls, including financial, operational and compliance controls and risk management functions.

COMBINED CORPORATE GOVERNANCE REPORT

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 also review the annual work plans of the Internal Audit Department, and considers the reports of the Chief Executive Officer to the Audit Committees on the effectiveness of internal controls and risk management process in business operations. These reviews and reports are taken into consideration by the Audit Committees when they make their recommendation to the Trustee-Manager Board and the Company Board for approval of the annual financial statements.

Internal Control Environment

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 system of internal control and accordingly the Trustee-Manager's and the Group's internal control systems are designed to 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 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 assess the system of internal control and risk management covering all significant aspects of internal control including financial, operational and compliance controls and risk management functions, formulate an opinion on the system and report their findings to the Audit Committees and the Boards.

Effective risk management is fundamental to the achievement of the Trustee-Manager's and the Company's strategic objectives, and there is in place an enterprise risk management framework that provides a pro-active and systematic approach to the risk management process. More details are given in the Risk Management and Risk Factors on pages 25 to 27 of the Annual Report.

An internal control self assessment has been established requiring division general managers and department heads to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer formulates his opinion on internal control system.

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.

The Chief Executive Officer and other Executive Directors 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.

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 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 its 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.

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 2015 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2015 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 2015 is available on the Company's website at www.hkei.hk.

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EXTERNAL AUDITOR

Independence

KPMG, the external auditor, have confirmed that they have been, for the year ended 31 December 2015, 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 57 and 124 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 80 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 131 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, material results highlights published in newspapers, news releases, the Company's website at www.hkei.hk and meetings with

investors and analysts. All Holders of Share Stapled Units have the opportunity to put questions to the Boards at general meetings, and at other times by 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 137 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 requisition 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.

2015 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2015 annual general meeting was held at Harbour Grand Kowloon on 14 May 2015.

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 2015 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 2014 (99.9972%);
- Election of Mr. Li Tzar Kuoi, Victor (98.3863%), Mr. Du Zhigang (99.9866%), Mr. Jiang Xiaojun (99.9867%), Mr. Kwan Kai Cheong (99.8391%) and Mr. Shan Shewu (96.0243%) 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 (99.8783%); and
- General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (92.6867%).

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, press releases and other necessary announcements are uploaded onto the Company's website.

Trust Deed, 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 2015.

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 2015 interim results	14 July 2015
Payment of 2015 interim distribution (HK19.92 cents per Share Stapled Unit)	14 August 2015
Announcement of annual results for the year ended 31 December 2015	15 March 2016
Record date for 2015 final distribution	1 April 2016
Payment of 2015 final distribution (HK20.12 cents per Share Stapled Unit)	13 April 2016
Closure of registers (annual general meeting)	9 May 2016 to 12 May 2016 (both days inclusive)
2016 annual general meeting	12 May 2016

COMBINED CORPORATE GOVERNANCE REPORT

INTERESTS AND SHORT POSITIONS OF HOLDERS OF SHARE STAPLED UNITS

As at 31 December 2015, Holders of Share Stapled Units (other than Directors or chief executive 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%
Cheung Kong 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%
Hutchison International Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
Hutchison Whampoa Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	2,948,966,418 (Note 4)	33.37%
CK Hutchison Global Investments Limited (formerly known as CK Global Investments Limited)	Interest of controlled corporations	2,948,966,418 (Note 4)	33.37%
CK Hutchison Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 4)	33.37%

Other Persons Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held	Approximate % of Issued SSUs
State Grid Corporation of China	Interest of controlled corporations	1,855,602,000 (Note 5)	21.00%
State Grid International Development Co., Limited	Interest of controlled corporation	1,855,602,000 (Note 5)	21.00%
State Grid International Development Limited	Beneficial owner	1,855,602,000 (Note 5)	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 Hutchison Whampoa Limited ("HWL") in HKEI described in Note (3) below.
- (3) HWL 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 Hutchison International Limited, which holds more than one-third of the issued share capital of Hutchison Infrastructure Holdings Limited ("HIH"). HIH holds more than one-third of the issued share capital of CKI.
- (4) CKH Holdings is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (3) above as it holds more than one-third of the issued shares of Cheung Kong (Holdings) Limited and CK Hutchison Global Investments Limited respectively, each of which in turn holds more than one-third of the issued shares of HWL.
- (5) 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 2015, there was no other person (other than Directors or chief executive 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.

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) the charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2015 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 2015 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 AND DISTRIBUTION

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

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

	2015 HK\$ million	For the period from listing date on 29 January 2014 to 31 December 2014 HK\$ million
Audited consolidated profit attributable to SSU holders	3,591	3,201
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	4,532	4,594
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	1,652	530
– changes in working capital	52	178
– adjustment for employee retirement benefit schemes	18	12
– taxes paid	(918)	(847)
	804	(127)
(iii) capital expenditure payment	(2,237)	(1,662)
(iv) deducting		
– debt repayment	(779)	(500)
– net finance costs	(937)	(1,132)
	(1,716)	(1,632)
(v) deducting		
– reserve for future capital expenditure/debt service and/or compliance with covenants in credit facility agreement	(1,436)	(1,156)
Distributable income	3,538	3,218
Interim distribution	1,760	1,461
Final distribution	1,778	1,757
Distribution amount	3,538	3,218
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	HK19.92 cents	HK16.53 cents
– Final distribution per SSU	HK20.12 cents	HK19.89 cents
Total distributions per SSU	HK40.04 cents	HK36.42 cents

Note:

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.
- (c) Interim distribution per SSU of HK19.92 cents (2014: HK16.53 cents) was calculated based on the interim distribution amount of HK\$1,760 million (2014: HK\$1,461 million) and 8,836,200,000 SSUs in issue as at 30 June 2015 (30 June 2014: 8,836,200,000 SSUs). Final distribution per SSU of HK20.12 cents (2014: HK19.89 cents) was calculated based on the final distribution amount of HK\$1,778 million (2014: HK\$1,757 million) and 8,836,200,000 SSUs in issue as at 31 December 2015 (31 December 2014: 8,836,200,000 SSUs).

CAPITAL EXPENDITURE, LIQUIDITY AND FINANCIAL RESOURCES

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

TREASURY POLICY, FINANCING ACTIVITIES, CAPITAL AND DEBT STRUCTURE

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

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

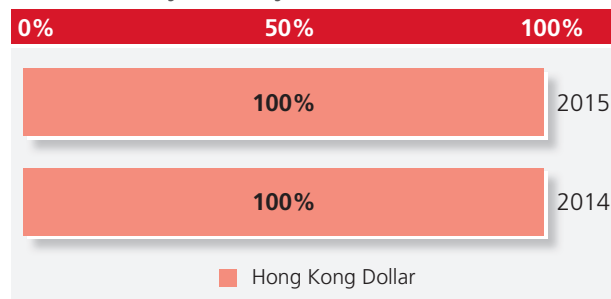
the year. Following the partial disposal of SSUs by Power Assets, the major SSU holder of the Trust Group, Standard & Poor's reaffirmed on 9 June 2015 the "A-" long term credit rating of HK Electric with a stable outlook. On 8 September 2015, Standard & Poor's initiated its coverage for the Company and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

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

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

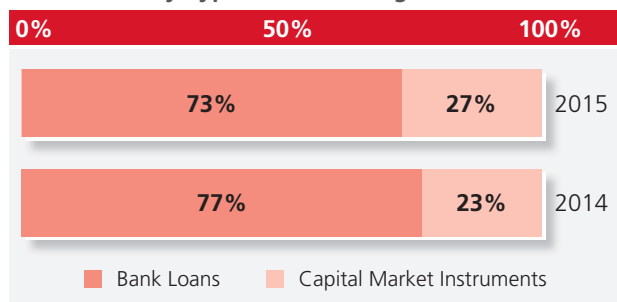
The profile of the Trust Group's external borrowings as at 31 December 2015, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

Debt Profile by Currency

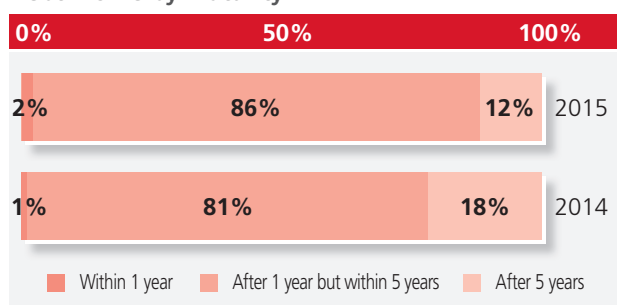


FINANCIAL REVIEW

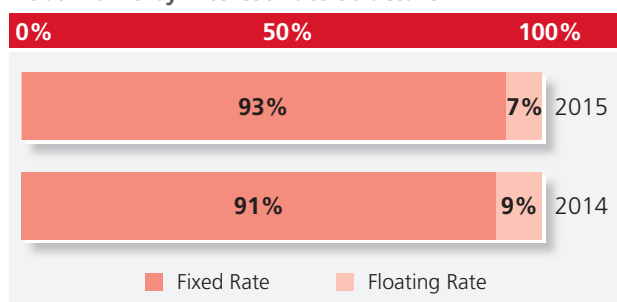
Debt Profile by Types of Borrowings



Debt Profile by Maturity



Debt Profile by Interest Rate Structure



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

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

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 31 December 2015, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts, cross currency and interest rate swaps.

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

CHARGE ON ASSETS

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

CONTINGENT LIABILITIES

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

EMPLOYEES

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

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 2015 (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 2015.

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 21, Financial Review on pages 52 to 54 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 25 to 27. The Trust Group's relationships with its key stakeholders, environmental policies and performance is discussed in the CEO's Report on pages 8 to 21, 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 26 and 27 and Combined Corporate Governance Report on pages 35 to 51. These review and discussion form part of this Combined Report of the Directors.

RESULTS

The results for the year ended 31 December 2015 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 58 to 123.

The results for the year ended 31 December 2015 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 125 to 132.

DISTRIBUTIONS AND DIVIDENDS

Total 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.

The Trustee-Manager Board has declared a final distribution by the Trust of HK20.12 cents (2014: HK19.89 cents) per Share Stapled Unit for the year ended 31 December 2015, payable on 13 April 2016 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 1 April 2016. This, together with the interim distribution of HK19.92 cents (2014: HK16.53 cents) per Share Stapled Unit, brings the total distribution to HK40.04 cents per Share Stapled Unit for the year ended 31 December 2015 (2014: HK36.42 cents per Share Stapled Unit – from listing date on 29 January 2014 to 31 December 2014) representing 100% payout of distributable income per Share Stapled Unit.

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 (2014: HK16.53 cents) and HK20.12 cents (2014: HK19.89 cents) respectively for the year ended 31 December 2015.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2015.

SHARE CAPITAL AND SHARE STAPLED UNITS

Details of the share capital of the Company are set out in note 27(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.

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.

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.

DONATIONS

Charitable and other donations made by the Trust Group during the year amounted to HK\$1 million (2014: 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 133.

COMBINED REPORT OF THE DIRECTORS

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 2015 and 2014.

Purchases from the largest supplier of revenue items for the year represented 33.8% (2014: 42.2%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 66.6% (2014: 72.5%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2015.

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 2015 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 (appointed on 9 June 2015), Mr. Ronald Joseph Arculli, Mr. Chan Loi Shun, Mr. Cheng Cho Ying, Francis, Mr. Du Zhigang (appointed on 6 January 2015), Mr. Fong Chi Wai, Alex, Mr. Jiang Xiaojun (appointed on 6 January 2015), Mr. Deven Arvind Karnik (appointed on 9 June 2015), Mr. Kwan Kai Cheong (appointed on 6 January 2015), Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus, Mr. Donald Jeffrey Roberts, Mr. Shan Shewu (appointed on 6 January 2015), Mr. Ralph Raymond Shea (appointed on 7 October 2015) and Mr. Yuen Sui See.

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 was appointed as the Alternate Director to Mr. Li Tzar Kuoi, Victor on 9 June 2015.

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 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.

DIRECTORS' INTEREST

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 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.

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 2015.

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, 15 March 2016



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)

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 58 to 123 (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 2015, 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of HK Electric Investments Manager Limited (the "Trustee-Manager") (in its capacity as the trustee-manager of HK Electric Investments) and the Directors of the Company are responsible for the preparation of consolidated financial statements for the Trust and for the Company that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements of the Trust and of the Company based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Trust and of the Company give a true and fair view of the financial positions of the Trust Group and of the Group as at 31 December 2015 and of the Trust Group's and the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

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

15 March 2016

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

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	Note	2015 \$ million	2014 \$ million
Revenue	5	11,210	10,504
Direct costs		(5,189)	(4,832)
		6,021	5,672
Other revenue and other net income	7	78	121
Other operating costs		(811)	(766)
Operating profit		5,288	5,027
Finance costs	8	(1,025)	(938)
Profit before taxation	9	4,263	4,089
Income tax:	10		
Current		(1,059)	(880)
Deferred		309	171
		(750)	(709)
Profit after taxation		3,513	3,380
Scheme of Control transfers	12(b)	78	(179)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company		3,591	3,201
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	14	40.64 cents	39.23 cents

The notes on pages 63 to 123 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/dividend 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 2015

(Expressed in Hong Kong dollars)

	2015 \$ million	2014 \$ million
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	3,591	3,201
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	(158)	49
Deferred tax credited/(charged) to other comprehensive income	26	(8)
	(132)	41
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	(167)	(77)
Reclassification adjustments for amounts transferred to profit or loss	4	–
Amounts transferred to the initial carrying amount of hedged items	19	(7)
Net deferred tax credited to other comprehensive income	23	14
	(121)	(70)
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	3,338	3,172

The notes on pages 63 to 123 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 2015

(Expressed in Hong Kong dollars)

	Note	2015 \$ million	2014 \$ million
Non-current assets			
Property, plant and equipment		64,521	64,802
Interests in leasehold land held for own use under finance leases		6,472	6,665
	15	70,993	71,467
Goodwill	16	33,623	33,623
Derivative financial instruments	24	314	352
Employee retirement benefit scheme assets	25(a)	580	668
Deferred tax assets	26(b)	6	3
		105,516	106,113
Current assets			
Inventories	18	882	933
Trade and other receivables	19	1,160	1,135
Bank deposits and cash	20(a)	6,157	4,630
		8,199	6,698
Current liabilities			
Trade and other payables	21	(2,586)	(2,488)
Fuel Clause Recovery Account	22	(2,283)	(631)
Current portion of bank loans and other interest-bearing borrowings	23	(900)	(520)
Current tax payable	26(a)	(360)	(219)
		(6,129)	(3,858)
Net current assets			
		2,070	2,840
Total assets less current liabilities			
		107,586	108,953
Non-current liabilities			
Bank loans and other interest-bearing borrowings	23	(46,317)	(47,349)
Derivative financial instruments	24	(207)	(82)
Customers' deposits		(2,001)	(1,937)
Deferred tax liabilities	26(b)	(9,247)	(9,602)
Employee retirement benefit scheme liabilities	25(a)	(587)	(499)
		(58,359)	(59,469)
Scheme of Control Fund and Reserve			
	12(c)	(215)	(293)
Net assets			
		49,012	49,191
Capital and reserves			
Share capital	27(b)	8	8
Reserves		49,004	49,183
Total equity			
		49,012	49,191

Approved and authorised for issue by the Boards on 15 March 2016.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 63 to 123 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 2015

(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of the Company					Total
	Share capital (note 27(b))	Share premium (note 27(c))	Hedging reserve (note 27(d)(i))	Revenue reserve (note 27(d)(ii))	Proposed/ declared distribution/ dividend (note 13)	
\$ million						
Balance at 1 January 2014	-	-	-	-	-	-
Changes in equity for 2014:						
Profit for the year	-	-	-	3,201	-	3,201
Other comprehensive income	-	-	(70)	41	-	(29)
Total comprehensive income	-	-	(70)	3,242	-	3,172
Issue of Share Stapled Units as part of purchase consideration of HK Electric	4	24,027	-	-	-	24,031
Issue of Share Stapled Units pursuant to global offering	4	24,122	-	-	-	24,126
Transaction costs attributable to issue of Share Stapled Units	-	(677)	-	-	-	(677)
Interim distribution/first interim dividend paid (see note 13(b))	-	-	-	(1,461)	-	(1,461)
Proposed final distribution/second interim dividend (see note 13(b))	-	-	-	(1,757)	1,757	-
Balance at 31 December 2014 and 1 January 2015	8	47,472	(70)	24	1,757	49,191
Changes in equity for 2015:						
Profit for the year	-	-	-	3,591	-	3,591
Other comprehensive income	-	-	(121)	(132)	-	(253)
Total comprehensive income	-	-	(121)	3,459	-	3,338
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	-	-	-	-	(1,757)	(1,757)
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 2015	8	47,472	(191)	(55)	1,778	49,012

The notes on pages 63 to 123 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 2015

(Expressed in Hong Kong dollars)

	Note	2015 \$ million	2014 \$ million
Operating activities			
Cash generated from operations	20(b)	9,852	8,543
Interest paid		(919)	(1,093)
Interest received		49	42
Payment of listing expenses charged to profit or loss		–	(9)
Hong Kong Profits Tax paid		(918)	(847)
Net cash generated from operating activities		8,064	6,636
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		(2,237)	(1,662)
Capitalised interest paid		(67)	(80)
Proceeds from disposal of property, plant and equipment		–	2
Decrease/(increase) in bank deposits with more than three months to maturity when placed		1,214	(1,394)
Net cash consideration paid for acquisition of HK Electric		–	(30,878)
Payment of HK Electric's pre-acquisition profits to Power Assets		–	(499)
Net cash used in investing activities		(1,090)	(34,511)
Financing activities			
New bank loans		–	37,038
Repayment of bank loans		(2,846)	–
Issuance of medium term notes		2,567	–
Redemption of medium term notes		(500)	(500)
New customers' deposits		283	247
Repayment of customers' deposits		(219)	(220)
Distributions/dividends paid		(3,517)	(1,461)
Proceeds received from issue of Share Stapled Units		–	23,523
Payment of listing expenses charged to equity		–	(70)
Repayment of loan and loan capital from Power Assets		–	(27,445)
Net cash (used in)/generated from financing activities		(4,232)	31,112
Net increase in cash and cash equivalents			
Cash and cash equivalents at 1 January		3,236	–
Effect of foreign exchange rate changes		(1)	(1)
Cash and cash equivalents at 31 December	20(a)	5,977	3,236

The notes on pages 63 to 123 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 Company's wholly-owned subsidiary, Treasure Business Limited, acquired the entire issued share capital of HK Electric and the acquisition was completed on 29 January 2014. Following this acquisition, HK Electric has become an indirect wholly-owned subsidiary of 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 2015 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 2015 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 2015 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 statement of cash flows, 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".

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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. A summary of the significant accounting policies adopted by the Groups 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 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 34.

(c) Business combinations and subsidiaries

The Groups apply the acquisition method to account for business combinations. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date except if related to the issue of debt or equity securities. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Groups' share of the identifiable net assets acquired, is recorded as goodwill (see note 3(d)). If the total consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Subsidiaries are entities over which the Groups have control. The Groups control an entity when the Groups are exposed to, or have the rights to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. 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 and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(g)(ii)).

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)

(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(l)).
- (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 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 carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Impairment losses are written off against the corresponding assets directly.

(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.

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)

(ii) Impairment of other assets (continued)

– 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.

(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 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.

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)

(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.

(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.

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)

(o) Hedging (continued)

(ii) Cash flow hedges (continued)

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.

(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 determined.

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)

(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.

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.

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)

(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 a few 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 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

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

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:

	2015 \$ million	2014 \$ million
Sales of electricity	11,165	10,489
Concessionary discount on sales of electricity	(6)	(6)
Electricity-related income	51	21
	11,210	10,504

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

	2015 \$ million	2014 \$ million
Interest income from financial assets not at fair value through profit or loss	46	47
Sundry income	32	74
	78	121

8. Finance costs

	2015 \$ million	2014 \$ million
Interest on overdrafts, bank loans and other borrowings	1,120	1,029
Less: interest capitalised to assets under construction	(78)	(74)
interest transferred to fuel costs	(17)	(17)
Total interest expense arising from financial liabilities not at fair value through profit or loss	1,025	938

Interest expenses have been capitalised at an average rate of approximately 2.1% (2014: 2.1%) per annum for assets under construction.

9. Profit before taxation

	2015 \$ million	2014 \$ million
Profit before taxation is arrived at after charging:		
Depreciation	2,600	2,539
Amortisation of leasehold land	193	179
Costs of inventories	3,728	4,595
Write down of inventories	6	5
Staff costs	635	523
Net loss on disposal and written off of property, plant and equipment	77	90
Auditor's remuneration		
– audit and audit related work	4	3
– non-audit work (see note below)	–	6
Listing expenses	–	19

Non-audit work for 2014 was in relation to global offering of Share Stapled Units and acquisition of HK Electric.

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

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

	2015 \$ million	2014 \$ million
Current tax		
Provision for Hong Kong Profits Tax for the year	1,059	881
Over-provision in respect of prior year	–	(1)
	1,059	880
Deferred tax (see note 26(b))		
Origination and reversal of temporary differences	(309)	(171)
	750	709

The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 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:

	2015 \$ million	2014 \$ million
Profit before taxation	4,263	4,089
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% (2014: 16.5%)	703	675
Tax effect of non-deductible expenses	57	53
Tax effect of non-taxable income	(10)	(18)
Over-provision in respect of prior year	–	(1)
Actual tax expense	750	709

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 ⁽¹⁾ \$ million	Retirement scheme contributions \$ million	Bonuses \$ million	2015 Total emoluments \$ million	2014 Total emoluments \$ million
Executive Directors						
Fok Kin Ning, Canning ⁽²⁾ <i>Chairman</i>	0.12	0.74	–	–	0.86	0.84
Wan Chi Tin <i>Chief Executive Officer</i>	0.07	6.06	0.02	7.62	13.77	12.21
Chan Loi Shun	0.07	2.41	–	–	2.48	2.28
Cheng Cho Ying, Francis	0.07	3.02	0.73	1.41	5.23	4.69
Chow Woo Mo Fong, Susan ⁽⁸⁾	–	0.08	–	–	0.08	0.14
Shan Shewu ⁽³⁾	0.07	2.03	0.02	0.50	2.62	–
Yuen Sui See <i>Director of Operations</i>	0.07	4.10	0.02	3.08	7.27	6.71
Non-executive Directors						
Li Tzar Kuoi, Victor <i>Deputy Chairman to the Company Board</i>	0.07	0.37	–	–	0.44	0.02
Fahad Hamad A H Al-Mohannadi ⁽⁶⁾	0.04	–	–	–	0.04	–
Ronald Joseph Arculli ⁽¹⁾	0.14	0.06	–	–	0.20	0.18
Du Zhigang ⁽⁴⁾	0.07	–	–	–	0.07	–
Jiang Xiaojun ⁽⁴⁾	0.07	–	–	–	0.07	–
Deven Arvind Karnik ⁽⁶⁾	0.04	–	–	–	0.04	–
Frank John Sixt ⁽¹⁰⁾	–	0.03	–	–	0.03	–
Tso Kai Sum ⁽⁹⁾	–	–	–	–	–	6.42
Independent Non-executive Directors						
Fong Chi Wai, Alex ⁽²⁾	0.09	0.02	–	–	0.11	0.10
Kwan Kai Cheong ⁽⁵⁾	0.07	0.01	–	–	0.08	–
Lee Lan Yee, Francis ⁽¹⁾	0.14	0.02	–	–	0.16	0.15
George Colin Magnus	0.07	0.03	–	–	0.10	0.09
Donald Jeffrey Roberts ⁽¹⁾⁽²⁾	0.16	0.02	–	–	0.18	0.17
Ralph Raymond Shea ⁽⁷⁾	0.02	–	–	–	0.02	–
Total for the year 2015	1.45	19.00	0.79	12.61	33.85	
Total for the year 2014	1.03	21.11	0.68	11.18		34.00

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Remuneration Committee.
- (3) Appointed as an Executive Director with effect from 6 January 2015.
- (4) Appointed as Non-executive Director with effect from 6 January 2015.
- (5) Appointed as an Independent Non-executive Director with effect from 6 January 2015.
- (6) Appointed as Non-executive Director with effect from 9 June 2015.
- (7) Appointed as an Independent Non-executive Director with effect from 7 October 2015.
- (8) Resigned as an Executive Director and appointed as an Alternate Director to Mr. Fok Kin Ning, Canning with effect from 28 November 2014.
- (9) Resigned as a Non-executive Director and Deputy Chairman of the Company Board with effect from 28 November 2014.
- (10) Appointed as an Alternate Director to Mr. Li Tzar Kuoi, Victor with effect from 9 June 2015.
- (11) 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 three directors (2014: four) whose total emoluments are shown above. The remuneration of the other two individuals (2014: one) who comprise the five highest paid individuals of the Groups is set out below:

	2015 \$ million	2014 \$ million
Salary and other benefits	8.58	3.88
Retirement scheme contributions	0.60	0.21
	9.18	4.09

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

	2015 Number	2014 Number
\$1,000,001 – \$1,500,000	–	1
\$1,500,001 – \$2,000,000	–	1
\$2,000,001 – \$2,500,000	–	1
\$2,500,001 – \$3,000,000	4	2
\$3,000,001 – \$3,500,000	2	2
\$3,500,001 – \$4,000,000	–	1
\$4,000,001 – \$4,500,000	–	1
\$4,500,001 – \$5,000,000	2	–

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 (continued)

The remuneration of Directors and senior management is as follows:

	2015 \$ million	2014 \$ million
Short-term employee benefits	57	56
Post-employment benefits	3	3
	60	59

At 31 December 2015 and 2014, there was no amount due from Directors and senior management.

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 (to)/from the consolidated statement of profit or loss represents:

	2015 \$ million	2014 \$ million
Tariff Stabilisation Fund	(84)	169
Rate Reduction Reserve	1	–
Smart Power Fund		
– Injection during the year	–	5
– Provisional sum to be injected in the following year	5	5
	(78)	179

A provisional sum of \$4,952,000, representing deduction of HK Electric's 2015 financial incentive (2014: \$4,934,000), 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 2014	–	–	–	–
Addition upon business combination	119	–	–	119
Transfer from the consolidated statement of profit or loss	169	–	–	169
Injection for the year (see note (b) above)	–	–	5	5
At 31 December 2014 and 1 January 2015	288	–	5	293
Transfer (to)/from the consolidated statement of profit or loss	(84)	1	–	(83)
Injection for the year (see note (b) above)	–	–	5	5
At 31 December 2015	204	1	10	215

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/period was as follows:

	2015 \$ million	From listing date on 29 January 2014 to 31 December 2014 \$ million
Audited consolidated profit attributable to the holders of Share Stapled Units	3,591	3,201
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	4,532	4,594
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	1,652	530
– changes in working capital	52	178
– adjustment for employee retirement benefit schemes	18	12
– taxes paid	(918)	(847)
	804	(127)
(iii) capital expenditure payment	(2,237)	(1,662)
(iv) deducting		
– debt repayment	(779)	(500)
– net finance costs	(937)	(1,132)
	(1,716)	(1,632)
(v) deducting		
– reserve for future capital expenditure/debt service and/or compliance with covenants in credit facility agreement	(1,436)	(1,156)
Distributable income	3,538	3,218

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.

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

	2015 \$ million	From listing date on 29 January 2014 to 31 December 2014 \$ million
Interim distribution/first interim dividend declared and paid of 19.92 cents (2014: 16.53 cents) per Share Stapled Unit/share	1,760	1,461
Final distribution/second interim dividend proposed after the end of the reporting period of 20.12 cents (2014: 19.89 cents) per Share Stapled Unit/share	1,778	1,757
	3,538	3,218

For the year ended 31 December 2015, the Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2014: 19.89 cents per ordinary share), amounting to \$1,778 million (2014: \$1,757 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 2015, the Trustee-Manager Board declared a final distribution of 20.12 cents per Share Stapled Unit (2014: 19.89 cents per Share Stapled Unit), amounting to \$1,778 million (2014: \$1,757 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 2015 (2014: 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 Staples Units/shares of the Company attributable to the previous financial year, approved and paid during the year

	2015 \$ million	2014 \$ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 19.89 cents (2014: Nil) per Share Stapled Unit/share	1,757	–

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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 \$3,591 million (2014: \$3,201 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2014: 8,158,354,521 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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 2014	–	–	–	–	–	–	–
Additions upon business combination	16,148	45,891	281	3,073	65,393	6,844	72,237
Additions	8	422	45	1,692	2,167	–	2,167
Transfer	356	1,269	81	(1,706)	–	–	–
Disposals	(3)	(216)	(14)	–	(233)	–	(233)
At 31 December 2014 and 1 January 2015	16,509	47,366	393	3,059	67,327	6,844	74,171
Additions	6	578	88	1,844	2,516	–	2,516
Transfer	37	1,016	41	(1,094)	–	–	–
Disposals	(5)	(308)	(15)	–	(328)	–	(328)
At 31 December 2015	16,547	48,652	507	3,809	69,515	6,844	76,359
Accumulated depreciation and amortisation							
At 1 January 2014	–	–	–	–	–	–	–
Written back on disposals	(1)	(110)	(13)	–	(124)	–	(124)
Charge for the year	467	2,089	93	–	2,649	179	2,828
At 31 December 2014 and 1 January 2015	466	1,979	80	–	2,525	179	2,704
Written back on disposals	(2)	(217)	(15)	–	(234)	–	(234)
Charge for the year	510	2,114	79	–	2,703	193	2,896
At 31 December 2015	974	3,876	144	–	4,994	372	5,366
Net book value							
At 31 December 2015	15,573	44,776	363	3,809	64,521	6,472	70,993
At 31 December 2014	16,043	45,387	313	3,059	64,802	6,665	71,467

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to \$78 million (2014: \$74 million).

Depreciation charges for the year included \$103 million (2014: \$110 million), relating to assets utilised in development activities, which has been capitalised.

16. Goodwill

(a) Carrying amount of goodwill

	2015 \$ million	2014 \$ million
Cost		
At 1 January	33,623	–
Addition upon business combination	–	33,623
At 31 December	<u>33,623</u>	<u>33,623</u>

(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 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 from anticipated legislative and regulatory regime of the industry. The cash flow projections are discounted using a pre-tax discount rate of 6.31% (2014: 6.65%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 10-year period are extrapolated using the terminal growth rates of 0.5% (2014: 0.5%).

There was no indication of impairment arising from review on goodwill as at 30 November 2015.

If the discount rate rose to 6.89% (2014: 6.90%), 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 2015.

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(Expressed in Hong Kong dollars unless otherwise indicated)

17. Investments in subsidiaries

Details of the subsidiaries at 31 December 2015 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\$4,510 million Hong Kong dollar fixed rate notes US\$750 million United States dollar fixed rate notes HK\$1,056 million Hong Kong dollar zero coupon notes US\$250 million United States dollar callable zero coupon notes (see note 23)	100% ⁽¹⁾	British Virgin Islands/ Hong Kong	Financing

⁽¹⁾ Indirectly held

18. Inventories

	2015 \$ million	2014 \$ million
Coal, fuel oil and natural gas	525	572
Stores and materials (see note below)	357	361
	882	933

Included in stores and materials is capital stock of \$205 million (2014: \$213 million) which was purchased for future maintenance of capital assets.

19. Trade and other receivables

	2015 \$ million	2014 \$ million
Trade debtors (see note (a) below)	678	668
Other receivables (see note below)	463	452
	1,141	1,120
Derivative financial instruments (see note 24)	2	3
Deposits and prepayments	17	12
	1,160	1,135

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 \$408 million (2014: \$406 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:

	2015 \$ million	2014 \$ million
Current and within 1 month	625	610
1 to 3 months	36	38
More than 3 months but less than 12 months	17	20
	678	668

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 28(a)) and the balances are considered to be fully recoverable.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

19. Trade and other receivables (continued)

(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 2015, impairment of trade and other receivables of \$1 million (2014: \$1 million) was charged to profit or loss.

20. Bank deposits and cash

(a) Bank deposits and cash comprise:

	2015 \$ million	2014 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	5,712	3,216
Cash at bank and in hand	265	20
Cash and cash equivalents in the consolidated cash flow statement	5,977	3,236
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	180	1,394
Bank deposits and cash in the consolidated statement of financial position	6,157	4,630

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

	Note	2015 \$ million	2014 \$ million
Profit before taxation		4,263	4,089
Adjustments for:			
Interest income	7	(46)	(47)
Finance costs	8	1,025	938
Interest transferred to fuel costs	8	17	17
Depreciation	9	2,600	2,539
Amortisation of leasehold land	9	193	179
Net loss on disposal and written off of property, plant and equipment	9	77	90
Listing expenses	9	–	19
Net financial instrument revaluation and exchange losses/(gains)		1	(1)
Changes in working capital:			
Decrease/(increase) in inventories		43	(41)
Increase in trade and other receivables		(28)	(12)
Movement in Fuel Clause Recovery Account		1,652	530
Increase in trade and other payables		37	231
Increase/decrease in net employee retirement benefit assets/liabilities		18	12
Cash generated from operations		9,852	8,543

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

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Trade and other payables

	2015 \$ million	2014 \$ million
Creditors measured at amortised cost (see note below)	2,557	2,466
Derivative financial instruments (see note 24)	29	22
	2,586	2,488

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:

	2015 \$ million	2014 \$ million
Due within 1 month or on demand	700	798
Due after 1 month but within 3 months	529	475
Due after 3 months but within 12 months	1,328	1,193
	2,557	2,466

22. Fuel Clause Recovery Account

The Fuel Clause Charges per unit for electricity sales was 32.3 cents from 1 January 2015 (2014: 33.1 cents). Movements on the Fuel Clause Recovery Account were as follows:

	2015 \$ million	2014 \$ million
At 1 January	631	–
Addition upon business combination	–	101
Transferred to profit or loss	(1,861)	(2,875)
Fuel Clause Charges during the year	3,513	3,405
At 31 December	2,283	631

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

23. Non-current bank loans and other interest-bearing borrowings

	2015 \$ million	2014 \$ million
Bank loans	34,057	36,788
Current portion	–	(20)
	34,057	36,768
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	4,486	4,983
Zero coupon notes (see note (b) below)	633	–
	5,119	4,983
Current portion	(900)	(500)
	4,219	4,483
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	6,087	6,098
Zero coupon notes (see note (b) below)	1,954	–
	8,041	6,098
	46,317	47,349

- (a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 1.65% to 4.55% per annum (2014: 1.65% to 4.55% per annum).

The United States dollar fixed rate notes bear interest at 4.25% per annum (2014: 4.25% per annum).

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

The United States dollar zero coupon notes have nominal amount of US\$250 million and accrual yields ranging from 4.6% to 4.8% per annum. These notes embed with issuer call options allowing issuer to early redeem the notes on 20 October 2020 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 28(b). As at 31 December 2015 and 2014, 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. Non-current 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:

	2015 \$ million	2014 \$ million
After 1 year but within 2 years	34,357	900
After 2 years but within 5 years	6,417	37,397
After 5 years	5,543	9,052
	46,317	47,349

24. Derivative financial instruments

	2015		2014	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	–	(69)	18	(47)
– Interest rate swaps	–	(88)	–	(21)
– Forward foreign exchange contracts	3	(67)	3	(28)
Fair value hedges:				
– Cross currency swaps	313	(5)	334	(7)
– Forward foreign exchange contracts	–	(1)	–	(1)
	316	(230)	355	(104)
Derivative financial instruments not qualifying as accounting hedges:				
– Interest rate swaps	–	(6)	–	–
	316	(236)	355	(104)
Analysed as:				
Current	2	(29)	3	(22)
Non-current	314	(207)	352	(82)
	316	(236)	355	(104)

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 choices to invest in various investment funds. 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.

(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 2013. 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 2015 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:

	2015 \$ million	2014 \$ million
Present value of defined benefit obligations	3,948	3,976
Fair value of assets of the Schemes	(3,941)	(4,145)
	<u>7</u>	<u>(169)</u>
Represented by:		
Employee retirement benefit scheme assets	(580)	(668)
Employee retirement benefit scheme liabilities	587	499
	<u>7</u>	<u>(169)</u>

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:

	2015 \$ million	2014 \$ million
At 1 January	3,976	–
Addition upon business combination	–	3,991
Current service cost	80	76
Interest cost	78	85
Employee contributions paid to the Schemes	16	16
Actuarial (gains)/losses due to:		
– liability experience	(37)	9
– change in financial assumptions	111	118
Benefits paid	(276)	(319)
At 31 December	<u>3,948</u>	<u>3,976</u>

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

	2015 \$ million	2014 \$ million
At 1 January	4,145	–
Addition upon business combination	–	4,123
Interest income on the Schemes' assets	78	88
Return on Schemes' assets, excluding interest income	(84)	176
Employer contributions paid to the Schemes	62	61
Employee contributions paid to the Schemes	16	16
Benefits paid	(276)	(319)
At 31 December	3,941	4,145

The Groups expect to contribute \$65 million to the Schemes in 2016.

- (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:

	2015 \$ million	2014 \$ million
Current service cost	80	76
Net interest income on net defined benefit asset/liability	–	(3)
	80	73

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

	2015 \$ million	2014 \$ million
Direct costs	53	49
Other operating costs	27	24
	80	73

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 (losses)/gains recognised in the consolidated statement of comprehensive income is as follows:

	2015 \$ million	2014 \$ million
At 1 January	49	–
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	(158)	49
At 31 December	(109)	49

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

	2015 \$ million	2014 \$ million
Hong Kong equities	353	402
European equities	197	205
North American equities	500	533
Asia Pacific and other equities	134	165
Global bonds	2,638	2,713
Deposits, cash and others	119	127
	3,941	4,145

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

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

	2015	2014
Discount rate		
– The Pension Scheme	2.1%	2.3%
– The Guaranteed Return Scheme	1.4%	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

	2015 \$ million	2014 \$ million
Actuarial assumptions	Increase/(decrease) in defined benefit obligation	
Discount rate		
– increase by 0.25%	(56)	(55)
– decrease by 0.25%	59	59
Pension increase rate		
– increase by 0.25%	54	53
– decrease by 0.25%	(51)	(50)
Mortality rate applied to specific age		
– set forward one year	(64)	(61)
– set backward one year	65	61

(b) The Guaranteed Return Scheme

	2015 \$ million	2014 \$ million
Actuarial assumptions	Increase/(decrease) in defined benefit obligation	
Discount rate		
– increase by 0.25%	(42)	(45)
– decrease by 0.25%	43	46
Interest to be credited		
– increase by 0.25%	42	46

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 2014.

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:

	2015	2014
The Pension Scheme	14.1 Years	14.3 Years
The Guaranteed Return Scheme	7.4 Years	7.7 Years

(b) Defined contribution retirement schemes

	2015 \$ million	2014 \$ million
Expenses recognised in profit or loss	43	35

Forfeited contributions of \$2 million (2014: \$1 million) have been received during the year.

26. Income tax in the consolidated statement of financial position

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

	2015 \$ million	2014 \$ million
Hong Kong Profits Tax		
Addition upon business combination	–	186
Provision for Hong Kong Profits Tax for the year	1,059	881
Over-provision in respect of prior year	–	(1)
	1,059	1,066
Provisional Profits Tax paid	(699)	(847)
	360	219

(b) Deferred tax assets and liabilities

	2015 \$ million	2014 \$ million
Deferred tax assets	(6)	(3)
Deferred tax liabilities	9,247	9,602
Net deferred tax liabilities	<u>9,241</u>	<u>9,599</u>

The components of deferred tax liabilities/(assets) recognised and 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 2014	–	–	–	–	–
Addition upon business combination	9,847	(17)	(52)	(2)	9,776
Charged/(credited) to profit or loss	(93)	(87)	9	–	(171)
Charged/(credited) to other comprehensive income	–	–	8	(14)	(6)
At 31 December 2014 and 1 January 2015	9,754	(104)	(35)	(16)	9,599
Charged/(credited) to profit or loss	(44)	(273)	8	–	(309)
Credited to other comprehensive income	–	–	(26)	(23)	(49)
At 31 December 2015	9,710	(377)	(53)	(39)	9,241

The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2015 and 2014.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. 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 27(b))	Share premium (note 27(c))	Hedging reserve (note 27(d)(i))	Revenue reserve (note 27(d)(ii))	Proposed/ declared dividend (note 13)	Total
Balance at 1 January 2014	-	-	-	-	-	-
Changes in equity for 2014:						
Profit for the year	-	-	-	3,648	-	3,648
Other comprehensive income	-	-	(13)	-	-	(13)
Total comprehensive income	-	-	(13)	3,648	-	3,635
Issue of Share Stapled Units as part of purchase consideration of HK Electric	4	24,027	-	-	-	24,031
Issue of Share Stapled Units pursuant to global offering	4	24,122	-	-	-	24,126
Transaction costs attributable to issue of Share Stapled Units	-	(677)	-	-	-	(677)
First interim dividend paid (see note 13(b))	-	-	-	(1,461)	-	(1,461)
Proposed second interim dividend (see note 13(b))	-	-	-	(1,757)	1,757	-
Balance at 31 December 2014 and 1 January 2015	8	47,472	(13)	430	1,757	49,654
Changes in equity for 2015:						
Profit for the year	-	-	-	4,172	-	4,172
Other comprehensive income	-	-	(16)	-	-	(16)
Total comprehensive income	-	-	(16)	4,172	-	4,156
Second interim dividend in respect of previous year approved and paid (see note 13(c))	-	-	-	-	(1,757)	(1,757)
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 2015	8	47,472	(29)	1,064	1,778	50,293

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 per ordinary share (2014: 19.89 cents per ordinary share), amounting to \$1,778 million (2014: \$1,757 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

(b) Share capital

The Company

	2015	
	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

	2014	
	Number of Shares	Nominal value \$
Authorised:		
Ordinary shares of \$0.0005 each		
At 1 January	760,000,000	380,000
Increase during the year	19,240,000,000	9,620,000
At 31 December	20,000,000,000	10,000,000
Preference shares of \$0.0005 each		
At 1 January	760,000,000	380,000
Increase during the year	19,240,000,000	9,620,000
At 31 December	20,000,000,000	10,000,000

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(Expressed in Hong Kong dollars unless otherwise indicated)

27. Capital, reserves and dividends (continued)

(b) Share capital (continued)

	2014	
	Number of Shares	Nominal value \$
Issued and fully paid:		
Ordinary shares of \$0.0005 each		
At 1 January	2	–
Re-designated as preference share	(1)	–
Issue of ordinary shares as part of purchase consideration of HK Electric	4,409,299,999	2,204,650
Issue of ordinary shares pursuant to global offering	4,426,900,000	2,213,450
At 31 December	<u>8,836,200,000</u>	<u>4,418,100</u>
Preference shares of \$0.0005 each		
At 1 January	–	–
Re-designated as preference share	1	–
Issue of preference shares as part of purchase consideration of HK Electric	4,409,299,999	2,204,650
Issue of preference shares pursuant to global offering	4,426,900,000	2,213,450
At 31 December	<u>8,836,200,000</u>	<u>4,418,100</u>

(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 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 2015, the Groups' strategy, which was unchanged from 2014, 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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Capital, reserves and dividends (continued)

(e) Capital management (continued)

The net debt-to-net total capital ratio at 31 December 2015 and 2014 was as follows:

	2015 \$ million	2014 \$ million
Bank loans and other interest-bearing borrowings	47,217	47,869
Less: Bank deposits and cash	(6,157)	(4,630)
Net debt	41,060	43,239
Total equity	49,012	49,191
Net debt	41,060	43,239
Net total capital	90,072	92,430
Net debt-to-net total capital ratio	46%	47%

28. 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 \$445 million of trade and other receivables at 31 December 2015 (2014: \$442 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.

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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk (continued)

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.

\$ million	Note	2015			2014		
		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
Financial assets							
Cross currency swaps	28(e)(i)	313	(101)	212	352	(30)	322
Forward foreign exchange contracts	28(e)(i)	3	(2)	1	3	(3)	-
Total		316	(103)	213	355	(33)	322
Financial liabilities							
Cross currency swaps	28(e)(i)	74	(3)	71	54	-	54
Interest rate swaps	28(e)(i)	94	(76)	18	21	(17)	4
Forward foreign exchange contracts	28(e)(i)	68	(24)	44	29	(16)	13
Total		236	(103)	133	104	(33)	71

(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 \$1,000 million at 31 December 2015 (2014: \$1,000 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	2015					Total	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			
Non-derivative financial liabilities							
Bank loans and other borrowings and interest accruals	1,721	34,913	7,221	10,966	54,821	47,295	
Creditors and accrued charges	2,413	-	-	-	2,413	2,413	
	4,134	34,913	7,221	10,966	57,234	49,708	
Derivative financial instruments							
Net settled							
Interest rate swaps and related interest accruals	179	35	-	-	214	117	
Gross settled							
Cross currency swaps and related interest accruals:						(225)	
– outflow	360	166	352	-	878		
– inflow	(437)	(269)	(741)	-	(1,447)		
Forward foreign exchange contracts held as cash flow hedging instruments:						64	
– outflow	3,148	1,611	-	2,305	7,064		
– inflow	(3,143)	(1,609)	-	(2,438)	(7,190)		
Other forward foreign exchange contracts:						1	
– outflow	88	-	-	-	88		
– inflow	(88)	-	-	-	(88)		

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk (continued)

\$ million	2014					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	1,342	1,713	38,809	9,867	51,731	47,956
Creditors and accrued charges	2,346	–	–	–	2,346	2,346
	3,688	1,713	38,809	9,867	54,077	50,302
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	181	181	37	–	399	45
Gross settled						
Cross currency swaps and related interest accruals:						(281)
– outflow	358	359	406	117	1,240	
– inflow	(397)	(397)	(762)	(247)	(1,803)	
Forward foreign exchange contracts held as cash flow hedging instruments:						25
– outflow	3,549	44	9	–	3,602	
– inflow	(3,530)	(37)	(7)	–	(3,574)	
Other forward foreign exchange contracts:						1
– outflow	351	–	–	–	351	
– inflow	(349)	–	–	–	(349)	

(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 2015, the Groups had cross currency swaps with a total notional amount of \$21,244 million (2014: \$21,244 million) and interest rate swaps with a total notional amount of \$25,872 million (2014: \$25,872 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 2015 were recognised as derivative financial instrument assets and liabilities amounting to \$313 million (2014: \$352 million) and \$74 million (2014: \$54 million) respectively. The fair values of interest rate swaps entered into by the Groups at 31 December 2015 were recognised as derivative financial instrument liabilities amounting to \$94 million (2014: \$21 million).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(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).

	2015		2014	
	Weighted average interest rate %	\$ million	Weighted average interest rate %	\$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	0.69	5,892	1.33	4,610
Bank loans and other borrowings	2.25	(44,120)	2.13	(43,593)
		<u>(38,228)</u>		<u>(38,983)</u>
Net variable rate assets/(liabilities)				
Cash at bank and in hand	–*	265	–*	20
Bank loans and other borrowings	1.05	(3,097)	1.04	(4,276)
Customers' deposits	–*	(2,001)	–*	(1,937)
		<u>(4,833)</u>		<u>(6,193)</u>

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2015, 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 \$24 million (2014: \$49 million). Other components of consolidated equity would have increased/decreased by approximately \$342 million (2014: \$667 million) in response to the general increase/decrease in interest rates.

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 2014.

(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 2015, the Groups had forward foreign exchange contracts hedging committed and forecast transactions with a net fair liability value of \$20 million (2014: \$25 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 2015 was a net liability of \$45 million (2014: \$1 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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(iii) Exposure to currency risk (continued)

'million (expressed in original currencies)	2015	
	USD	JPY
Bank deposits and cash	–	2
Trade and other payables	(47)	(1,895)
Bank loans and other borrowings	(2,837)	–
Gross exposure arising from recognised assets and liabilities	(2,884)	(1,893)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	102	1,183
Notional amounts of cross currency swaps designated as hedging instruments	2,736	–
Net exposure arising from recognised assets and liabilities	(46)	(710)

'million (expressed in original currencies)	2014	
	USD	JPY
Bank deposits and cash	–	2
Trade and other payables	(60)	(1,511)
Bank loans and other borrowings	(2,736)	–
Gross exposure arising from recognised assets and liabilities	(2,796)	(1,509)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	40	493
Notional amounts of cross currency swaps designated as hedging instruments	2,736	–
Net exposure arising from recognised assets and liabilities	(20)	(1,016)

(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.

	2015		2014	
	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)	8	(1)	15

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 2014.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(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

	Note	Level 2	
		2015 \$ million	2014 \$ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	28(a)	313	352
– Forward foreign exchange contracts	28(a)	3	3
		316	355
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	28(a)	74	54
– Interest rate swaps	28(a)	94	21
– Forward foreign exchange contracts	28(a)	68	29
Medium term notes subject to fair value hedges		4,554	4,568
Bank loans subject to fair value hedges		3,097	4,256
		7,887	8,928

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

Trade and other receivables, trade and other payables and other external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2015 and 2014.

(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.

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

29. Capital commitments

The Groups' capital commitments outstanding at 31 December and not provided for in the financial statements were as follows:

	2015 \$ million	2014 \$ million
Contracted for:		
Capital expenditure for property, plant and equipment	2,248	964
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	9,588	11,474

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Contingent liabilities

At 31 December 2015, the Groups had no guarantee or indemnity to external parties (2014: Nil).

31. 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 \$37 million (2014: \$36 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 2015, the total outstanding balance receivable from Power Assets group was \$4 million (2014: \$2 million).

(b) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of 31(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.

32. Statement of financial position of the Company

	Note	2015 \$ million	2014 \$ million
Non-current assets			
Investments in subsidiaries		59,016	58,338
Deferred tax assets		6	3
		59,022	58,341
Current assets			
Trade and other receivables		5	6
Bank deposits and cash		2	1
		7	7
Current liabilities			
Trade and other payables		(26)	(29)
		(19)	(22)
Net current liabilities		(19)	(22)
Total assets less current liabilities		59,003	58,319
Non-current liabilities			
Bank loans		(8,671)	(8,646)
Derivative financial instruments		(39)	(19)
		(8,710)	(8,665)
Net assets		50,293	49,654
Capital and reserves			
	27(a)		
Share capital		8	8
Reserves		50,285	49,646
Total equity		50,293	49,654

Approved and authorised for issue by the Boards on 15 March 2016.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

(Expressed in Hong Kong dollars unless otherwise indicated)

33. 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 and Qatar Investment Authority hold 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2015 and are considered substantial holders of Share Stapled Units of the Trust Group.

34. 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 28 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 2015.

35. Possible impact of amendments and new standards issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements.

The Groups are in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the following 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:

	Effective for accounting periods beginning on or after
• <i>Annual Improvements to HKFRSs 2012-2014 Cycle</i>	1 January 2016
• <i>Amendments to HKAS 1, Disclosure initiative</i>	1 January 2016
• <i>Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
• <i>HKFRS 15, Revenue from contracts with customers</i>	1 January 2018
• <i>HKFRS 9, Financial instruments</i>	1 January 2018



INDEPENDENT AUDITOR'S REPORT

To the sole member of HK Electric Investments Manager Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of HK Electric Investments Manager Limited (the "Company") set out on pages 125 to 132, which comprise the statement of financial position as at 31 December 2015, 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 a summary of significant accounting policies and other explanatory information.

Directors' responsibility 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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2015 and of the Company's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

KPMG

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

15 March 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	Note	2015 \$	2014 \$
Revenue		–	–
Administrative expenses		–	–
Profit before taxation	4	–	–
Income tax	5	–	–
Profit and total comprehensive income for the year		–	–

The notes on pages 129 to 132 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2015

(Expressed in Hong Kong dollars)

	Note	2015 \$	2014 \$
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 15 March 2016.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 129 to 132 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	Share capital	Reserves	Total
	\$	\$	\$
Balance at 1 January 2014	1	–	1
Changes in equity for 2014:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2014 and 1 January 2015	1	–	1
Changes in equity for 2015:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2015	1	–	1

The notes on pages 129 to 132 form part of these financial statements.

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2015

(Expressed in Hong Kong dollars)

	2015 \$	2014 \$
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 129 to 132 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 Holdings Limited, 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 86, 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 a few 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 material impact on the Company's financial statements.

The Company has not applied any new standard or amendment that is not effective for the current accounting period.

4. Profit before taxation

Auditor's remuneration of \$55,000 (2014: \$52,000) and all other expenses of the Company which were incurred for the administering of the Trust of \$503,448 (2014: \$404,328) 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 year (2014: \$Nil).

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

	2015		2014	
	Number of shares	\$	Number of shares	\$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	1	1	1	1

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 2015, 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 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 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 and new standards 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	2015	2014
Revenue	11,210	10,504
Operating profit	5,288	5,027
Finance costs	(1,025)	(938)
Profit before taxation	4,263	4,089
Income tax	(750)	(709)
Profit after taxation	3,513	3,380
Scheme of Control transfers	78	(179)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	3,591	3,201

Consolidated Statement of Financial Position

\$ million	2015	2014
Property, plant and equipment and interests in leasehold land	70,993	71,467
Goodwill	33,623	33,623
Other non-current assets	900	1,023
Net current assets	2,070	2,840
Total assets less current liabilities	107,586	108,953
Non-current liabilities	(58,359)	(59,469)
Scheme of Control Fund and Reserve	(215)	(293)
Net assets	49,012	49,191
Share Capital	8	8
Reserves	49,004	49,183
Total equity	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 Hong Kong SAR Government with a term of 10 years commencing 1 January 2009 and a Government option to extend the agreement for a further term of 5 years.

The agreement 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 SCA. An excess capacity adjustment of HK\$24 million was made in 2015 (2014: HK\$25 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, profit 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	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Sales of electricity	11,165	11,165	10,176	10,364	10,140	10,338	10,331	12,704	12,452	12,326
Transfer from Fuel Clause Recovery Account	1,861	2,994	3,510	3,867	3,755	2,794	2,329	1,802	413	15
Other Scheme of Control revenue	74	63	67	74	100	62	63	36	455	42
Gross tariff revenue	13,100	14,222	13,753	14,305	13,995	13,194	12,723	14,542	13,320	12,383
Fuel costs	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)	(4,570)	(4,104)	(3,597)	(2,167)	(1,780)
Operating costs	(1,277)	(1,143)	(995)	(1,040)	(1,040)	(1,097)	(1,158)	(1,283)	(1,260)	(1,155)
Interest	(838)	(789)	(285)	(264)	(248)	(112)	(91)	(166)	(369)	(186)
Depreciation and amortisation	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)	(1,793)	(1,623)	(1,516)	(2,025)	(1,892)
Net revenue before taxation	5,234	5,484	5,220	5,409	5,333	5,622	5,747	7,980	7,499	7,370
Scheme of Control taxation	(1,140)	(1,009)	(988)	(856)	(794)	(930)	(1,025)	(1,218)	(1,331)	(1,453)
Net revenue after taxation	4,094	4,475	4,232	4,553	4,539	4,692	4,722	6,762	6,168	5,917
Interest on borrowed capital	729	690	288	271	239	118	103	154	307	285
Interest on incremental customers' deposits	-	-	-	-	-	-	-	1	9	9
Scheme of Control net revenue	4,823	5,165	4,520	4,824	4,778	4,810	4,825	6,917	6,484	6,211
Transfer from/(to) Tariff Stabilisation Fund	84	(249)	389	72	46	(58)	(174)	(297)	(14)	-
Shortfall in Tariff Stabilisation Fund	-	-	-	-	-	-	-	-	-	487
Permitted return	4,907	4,916	4,909	4,896	4,824	4,752	4,651	6,620	6,470	6,698
Shortfall in Tariff Stabilisation Fund	-	-	-	-	-	-	-	-	-	(487)
Interest on borrowed capital	(729)	(690)	(288)	(271)	(239)	(118)	(103)	(154)	(307)	(285)
Interest on incremental customers' deposits	-	-	-	-	-	-	-	(1)	(9)	(9)
Transfer to Smart Power Fund	(5)	(10)	-	-	-	-	-	-	-	-
Transfer to Rate Reduction Reserve	(1)	-	(1)	(1)	(1)	(1)	-	(13)	(1)	-
Net return	4,172	4,216	4,620	4,624	4,584	4,633	4,548	6,452	6,153	5,917

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR STATEMENT OF FINANCIAL POSITION

At 31 December

HK\$ million	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Non-current assets										
Property, plant and equipment and interests in leasehold land	49,482	49,198	49,137	49,345	48,848	47,976	47,523	46,550	46,123	46,565
Employee retirement benefit scheme assets	580	668	615	216	271	796	456	–	1,033	539
Derivative financial instruments	314	352	241	646	433	21	31	29	8	1
	50,376	50,218	49,993	50,207	49,552	48,793	48,010	46,579	47,164	47,105
Current assets										
Coal, fuel oil and natural gas	525	572	592	763	780	433	629	375	255	204
Stores and materials	357	361	356	351	335	314	301	283	281	278
Trade and other receivables	1,155	1,129	1,104	1,183	1,078	1,118	1,035	1,104	1,071	1,056
Fuel Clause Recovery Account	–	–	1	820	1,035	569	551	998	336	566
Cash and bank balances	6,155	4,629	1,060	8	24	9	92	11	4	21
	8,192	6,691	3,113	3,125	3,252	2,443	2,608	2,771	1,947	2,125
Current liabilities										
Bank loans and other borrowings	(900)	(520)	(503)	(5,317)	(617)	(52)	–	(1,687)	(1,405)	(3,735)
Fuel Clause Recovery Account	(2,283)	(631)	–	–	–	–	–	–	–	–
Trade and other payables	(5,519)	(4,740)	(2,081)	(2,305)	(2,565)	(1,577)	(1,487)	(1,009)	(860)	(898)
Current taxation	(360)	(219)	(340)	(330)	(218)	(157)	(236)	(187)	(410)	(540)
	(9,062)	(6,110)	(2,924)	(7,952)	(3,400)	(1,786)	(1,723)	(2,883)	(2,675)	(5,173)
Net current assets/(liabilities)	(870)	581	189	(4,827)	(148)	657	885	(112)	(728)	(3,048)
Total assets less current liabilities	49,506	50,799	50,182	45,380	49,404	49,450	48,895	46,467	46,436	44,057
Non-current liabilities										
Bank loans and other borrowings	(37,646)	(38,703)	(29,574)	(21,893)	(26,691)	(25,727)	(24,909)	(10,037)	(9,796)	(9,845)
Derivative financial instruments	(168)	(63)	–	–	(10)	(132)	(15)	(14)	(7)	(1)
Customers' deposits	(2,001)	(1,937)	(1,900)	(1,839)	(1,801)	(1,747)	(1,676)	(1,634)	(1,585)	(1,537)
Deferred tax liabilities	(5,698)	(5,927)	(5,955)	(5,912)	(5,883)	(5,763)	(5,622)	(5,479)	(5,426)	(5,432)
Employee retirement benefit scheme liabilities	(587)	(499)	(443)	(821)	(827)	(587)	(722)	(1,267)	(423)	(307)
	(46,100)	(47,129)	(37,872)	(30,465)	(35,212)	(33,956)	(32,944)	(18,431)	(17,237)	(17,122)
Tariff Stabilisation Fund (note 1)	(204)	(288)	(36)	(425)	(497)	(543)	(485)	(311)	(14)	–
Rate Reduction Reserve (note 2)	(1)	–	(3)	(2)	(1)	(4)	(14)	(14)	(1)	–
Smart Power Fund (note 3)	(10)	(5)	–	–	–	–	–	–	–	–
Net assets	3,191	3,377	12,271	14,488	13,694	14,947	15,452	27,711	29,184	26,935
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	921	1,002	1,000	–	4	–	6	22	6	4
Hedging reserves	(141)	(36)	15	3	(4)	8	(6)	(22)	(6)	(4)
Proposed dividend	–	–	–	3,229	2,438	3,683	4,196	3,455	4,928	4,878
	3,191	3,377	3,426	5,643	4,849	6,102	6,607	5,866	7,339	7,289
Loan capital	–	–	8,845	8,845	8,845	8,845	8,845	21,845	21,845	19,646
Total equity	3,191	3,377	12,271	14,488	13,694	14,947	15,452	27,711	29,184	26,935

Notes:

- The Tariff Stabilisation Fund is not part of shareholders' funds.
- 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.
- 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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Units sold (millions of kWh)										
Commercial	8,012	8,015	8,011	8,164	8,081	8,124	8,084	8,082	8,109	7,984
Residential	2,541	2,610	2,437	2,541	2,482	2,472	2,495	2,416	2,394	2,372
Industrial	326	330	325	331	334	337	342	367	388	417
Total (millions of kWh)	10,879	10,955	10,773	11,036	10,897	10,933	10,921	10,865	10,891	10,773
Annual increase/(decrease) (%)	(0.7)	1.7	(2.4)	1.3	(0.3)	0.1	0.5	(0.2)	1.1	0.2
Average Net Tariff (cents per kWh)										
Basic Tariff	102.6	101.9	94.4	93.9	93.0	94.5	94.5	116.9	114.3	114.4
Fuel Clause Charge	32.3	33.1	40.2	37.0	30.2	25.4	25.4	10.5	5.9	4.9
Special Rebate	-	-	-	-	-	-	-	-	-	(1.9)
Rate Reduction Rebate (note 1)	-	-	-	-	(0.1)	(0.1)	-	-	-	-
Net Tariff (cents per kWh)	134.9	135.0	134.6	130.9	123.1	119.8	119.9	127.4	120.2	117.4
Number of customers (000's)	572	570	569	567	567	566	564	563	561	559
Installed capacity (MW)										
Gas turbines and standby units	555	555	555	555	555	555	555	555	920	920
Coal-fired units	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined cycle unit	680	680	680	680	680	680	680	680	335	335
Wind turbine and photovoltaic system (note 2)	2	2	2	2	1	1	1	1	1	1
Total (MW)	3,737	3,737	3,737	3,737	3,736	3,736	3,736	3,736	3,756	3,756
System maximum demand (MW)	2,427	2,460	2,453	2,494	2,498	2,510	2,537	2,589	2,552	2,597
Annual increase/(decrease) (%)	(1.3)	0.3	(1.6)	(0.2)	(0.5)	(1.1)	(2.0)	1.4	(1.7)	1.2
Annual load factor (%)	57.3	56.9	56.1	56.6	55.9	55.8	55.4	53.9	54.8	53.6
Thermal efficiency (%)	36.2	36.1	36.3	36.0	36.2	36.2	36.2	35.8	36.4	35.5
Plant availability (%)	85.5	88.4	85.7	84.6	84.4	85.6	83.4	85.5	83.8	86.3
Number of switching stations	24	24	24	25	25	25	24	24	23	23
Number of zone substations	27	27	27	27	27	27	26	26	26	26
Number of consumer substations	3,818	3,793	3,776	3,755	3,741	3,710	3,667	3,648	3,632	3,617
Number of employees	1,801	1,814	1,826	1,820	1,848	1,851	1,862	1,841	1,857	1,907
Capital expenditure (HK\$ million)	2,516	2,252	1,973	2,613	2,887	2,427	2,751	2,084	1,747	2,307

Notes:

1. Rate Reduction Rebate in 2011 is applicable from January 2011 to May 2011.
2. 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
YUEN Sui See (*Director of Operations*)

Non-executive Directors

LI Tzar Kuoi, Victor (*Deputy Chairman*)
(Frank John SIXT as his alternate)
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DU Zhigang
JIANG Xiaojun
Deven Arvind KARNIK

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

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

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong
Telephone: 2843 3111
Facsimile: 2810 0506
Email: mail@hkei.hk

Share Stapled Units Registrar

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

Principal Share Registrar

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Hong Kong Branch Share Registrar

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

ADR (Level 1 Programme) Depository

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: 2843 3111
Facsimile: 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

FINANCIAL CALENDAR AND SHARE STAPLED UNITS INFORMATION

Financial Calendar

Interim Results Announcement	14 July 2015
Annual Results Announcement	15 March 2016
Ex-distribution Date	31 March 2016
Record Date for Final Distribution	1 April 2016
Annual Report Despatch Date	On or before 7 April 2016
Distribution per Share Stapled Unit	
Interim : HK19.92 cents	14 August 2015
Final : HK20.12 cents	13 April 2016
Closure of Registers	9 May 2016 to 12 May 2016
– Annual General Meeting	(both days inclusive)
Annual General Meeting	12 May 2016

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2015	HK\$57,435 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
"CKH Holdings"	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"	Cheung Kong 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 (港燈電力投資有限公司), a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
"Company Audit Committee"	Audit committee of the Company
"Company Board"	Board of directors of the Company
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Government"	HKSAR Government
"Group"	The Company and its subsidiaries
"HK Electric"	The Hongkong Electric Company, Limited (香港電燈有限公司), a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"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
"Listing Date"	29 January 2014, being the date of listing of Share Stapled Units jointly issued by the Trust and the Company on the Main Board of the Stock Exchange

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: <ul style="list-style-type: none"> (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 (港燈電力投資), as constituted pursuant to the Trust Deed under the Laws of Hong Kong
"Trust Deed"	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
"Trust Group"	The Trust and the Group
"Trustee-Manager"	HK Electric Investments Manager Limited (港燈電力投資管理人有限公司), a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
"Trustee-Manager Audit Committee"	Audit committee of the Trustee-Manager
"Trustee-Manager Board"	Board of directors of the Trustee-Manager

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.

