

## **NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

*(Expressed in Hong Kong dollars)*

### **1. Review of unaudited interim financial statements**

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

### **2. Basis of preparation**

These unaudited consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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

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

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company had delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditor has reported on the financial statements of the Company for the year ended 31 December 2016. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

### 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 Group. Of these, the following developments are relevant to the Group's financial statements:

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

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

### 4. Segment reporting

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

\$ million	2017							All other activities	Total
	Investment in HKI*†	Investments				Sub-total			
		United Kingdom	Australia	Mainland China	Others				
<b>For the six months ended 30 June</b>									
<b>Revenue</b>									
Revenue	—	258	259	—	113	630	1	631	
Other net income	—	—	—	—	3	3	213	216	
<b>Reportable segment revenue</b>	<b>—</b>	<b>258</b>	<b>259</b>	<b>—</b>	<b>116</b>	<b>633</b>	<b>214</b>	<b>847</b>	
<b>Result</b>									
Segment earnings	—	258	259	(12)	116	621	152	773	
Depreciation and amortisation	—	—	—	—	—	—	(1)	(1)	
Bank deposit interest income	—	—	—	—	—	—	318	318	
Operating profit	—	258	259	(12)	116	621	469	1,090	
Finance costs	—	(42)	(78)	—	(9)	(129)	—	(129)	
Share of profits less losses of joint ventures and associates	335	1,855	461	175	265	2,756	2	3,093	
Profit before taxation	335	2,071	642	163	372	3,248	471	4,054	
Income tax	—	7	(21)	—	(16)	(30)	—	(30)	
<b>Reportable segment profit</b>	<b>335</b>	<b>2,078</b>	<b>621</b>	<b>163</b>	<b>356</b>	<b>3,218</b>	<b>471</b>	<b>4,024</b>	

\$ million	2016							All other activities	Total
	Investment in HKEI*	Investments					Sub-total		
		United Kingdom	Australia	Mainland China	Others				
For the six months ended 30 June									
Revenue	—	293	222	—	108	623	6	629	
Other net loss	—	—	—	—	3	3	(262)	(259)	
Reportable segment revenue	<u>—</u>	<u>293</u>	<u>222</u>	<u>—</u>	<u>111</u>	<u>626</u>	<u>(256)</u>	<u>370</u>	
Result									
Segment earnings	—	293	222	(11)	111	615	(324)	291	
Depreciation and amortisation	—	—	—	—	—	—	(1)	(1)	
Bank deposit interest income	—	—	—	—	—	—	248	248	
Operating profit	—	293	222	(11)	111	615	(77)	538	
Finance costs	—	(51)	(66)	—	(9)	(126)	—	(126)	
Share of profits less losses of joint ventures and associates	<u>367</u>	<u>1,966</u>	<u>425</u>	<u>150</u>	<u>148</u>	<u>2,689</u>	<u>2</u>	<u>3,058</u>	
Profit before taxation	367	2,208	581	139	250	3,178	(75)	3,470	
Income tax	<u>—</u>	<u>26</u>	<u>(20)</u>	<u>—</u>	<u>—</u>	<u>6</u>	<u>—</u>	<u>6</u>	
Reportable segment profit	<u>367</u>	<u>2,234</u>	<u>561</u>	<u>139</u>	<u>250</u>	<u>3,184</u>	<u>(75)</u>	<u>3,476</u>	

Note:

\* During the period, the Group has a 33.37% (2016: 33.37%) equity interest in HK Electric Investments and HK Electric Investments Limited (collectively as "HKEI"), which is listed on The Stock Exchange of Hong Kong Limited.

## 5. Revenue

Group revenue represents interest income from loans granted to joint ventures and associates, dividends from other financial assets and engineering and consulting services fees.

	Six months ended 30 June	
	2017 \$ million	2016 \$ million
Interest income	630	623
Others	<u>1</u>	<u>6</u>
	<u>631</u>	<u>629</u>
Share of revenue of unlisted joint ventures	<u>8,580</u>	<u>8,374</u>

## 6. Profit before taxation

	Six months ended 30 June	
	2017	2016
	\$ million	\$ million
Profit before taxation is arrived at after charging:		
Finance costs — interest on borrowings	129	126
Amortisation of leasehold land	—	1
Depreciation	1	—
	<u>130</u>	<u>127</u>

## 7. Income tax

	Six months ended 30 June	
	2017	2016
	\$ million	\$ million
Current tax	38	(6)
Deferred tax	(8)	—
	<u>30</u>	<u>(6)</u>

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

## 8. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$4,024 million for the six months ended 30 June 2017 (2016: \$3,476 million) and 2,134,261,654 ordinary shares (2016: 2,134,261,654 ordinary shares) in issue throughout the period.

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2017 and 2016.

## 9. Property, plant and equipment and leasehold land

\$ million	Buildings	Plant, machinery and equipment	Sub-total	Interests in leasehold land held for own use under finance leases	Total
Net book value at 1 January 2017	10	2	12	17	29
Depreciation and amortisation	(1)	—	(1)	—	(1)
<b>Net book value at 30 June 2017</b>	<b>9</b>	<b>2</b>	<b>11</b>	<b>17</b>	<b>28</b>
Cost	26	5	31	30	61
Accumulated depreciation and amortisation	(17)	(3)	(20)	(13)	(33)
<b>Net book value at 30 June 2017</b>	<b>9</b>	<b>2</b>	<b>11</b>	<b>17</b>	<b>28</b>

## 10. Interest in joint ventures

	30 June 2017 \$ million	31 December 2016 \$ million
Share of net assets of unlisted joint ventures	39,991	34,532
Loans to unlisted joint ventures	13,108	8,084
Amounts due from unlisted joint ventures	225	123
	<b>53,324</b>	<b>42,739</b>
Share of total assets of unlisted joint ventures	<b>121,429</b>	<b>101,345</b>

## 11. Interest in associates

	30 June 2017 \$ million	31 December 2016 \$ million
Share of net assets		
— Listed associate	16,369	16,881
— Unlisted associates	3,702	3,358
	<b>20,071</b>	<b>20,239</b>
Loans to unlisted associates	4,068	3,889
Amounts due from associates	105	74
	<b>24,244</b>	<b>24,202</b>

## 12. Trade and other receivables

	<b>30 June 2017 \$ million</b>	31 December 2016 \$ million
Interest and other receivables	<b>110</b>	79
Derivative financial instruments	<b>—</b>	80
Deposits and prepayments	<b>1</b>	2
	<b>111</b>	161

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

## 13. Bank deposits and cash

### (a) Bank deposits and cash comprise:

	<b>30 June 2017 \$ million</b>	31 December 2016 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	<b>12,290</b>	14,855
Cash at bank and on hand	<b>162</b>	357
Cash and cash equivalents in the consolidated cash flow statement	<b>12,452</b>	15,212
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	<b>29,471</b>	46,498
	<b>41,923</b>	61,710

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

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>\$ million</b>	\$ million
Profit before taxation	<b>4,054</b>	3,470
Adjustments for:		
Share of profits less losses of joint ventures	<b>(2,442)</b>	(2,355)
Share of profits less losses of associates	<b>(651)</b>	(703)
Interest income	<b>(948)</b>	(871)
Finance costs	<b>129</b>	126
Amortisation of leasehold land	<b>—</b>	1
Depreciation	<b>1</b>	—
Unrealised exchange (gains)/losses	<b>(27)</b>	424
Financial instrument revaluation gain	<b>—</b>	(44)
Changes in working capital:		
(Increase)/decrease in trade and other receivables	<b>(19)</b>	168
Increase in trade and other payables	<b>173</b>	175
Decrease/(increase) in amounts due from joint ventures	<b>11</b>	(27)
Increase in net employee retirement benefit liabilities	<b>1</b>	2
Cash generated from operations	<b>282</b>	366

**14. Trade and other payables**

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>\$ million</b>	\$ million
Due within 1 month or on demand	<b>29</b>	64
Due after 1 month but within 3 months	<b>—</b>	1
Due after 3 months but within 12 months	<b>2,781</b>	2,530
Creditors measured at amortised cost	<b>2,810</b>	2,595
Derivative financial instruments	<b>51</b>	—
	<b>2,861</b>	2,595

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

	30 June 2017 \$ million	31 December 2016 \$ million
Bank loans	<u>8,859</u>	<u>8,514</u>

## 16. Derivative financial instruments

	30 June 2017		31 December 2016	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
<b>Derivative financial instruments used for hedging:</b>				
Cash flow hedges				
Interest rate swaps	7	(33)	45	(41)
Net investment hedges				
Forward foreign exchange contracts	627	(99)	881	(11)
Cross currency swaps	—	(77)	—	—
	<u>634</u>	<u>(209)</u>	<u>926</u>	<u>(52)</u>
Analysed as:				
Current	—	(51)	80	—
Non-current	<u>634</u>	<u>(158)</u>	<u>846</u>	<u>(52)</u>
	<u>634</u>	<u>(209)</u>	<u>926</u>	<u>(52)</u>

## 17. Share capital

	Number of shares	30 June 2017 \$ million	31 December 2016 \$ million
<i>Issued and fully paid:</i>			
Voting ordinary shares	2,134,261,654	<u>6,610</u>	<u>6,610</u>

There were no movements in the share capital of the Company during the period.

## 18. Fair value measurement

### (a) Recurring fair value measurements

	Level 2	
	30 June 2017 \$ million	31 December 2016 \$ million
<b>Financial assets</b>		
Derivative financial instruments:		
— Interest rate swaps	7	45
— Forward foreign exchange contracts	627	881
	<u>634</u>	<u>926</u>
<b>Financial liabilities</b>		
Derivative financial instruments:		
— Interest rate swaps	(33)	(41)
— Forward foreign exchange contracts	(99)	(11)
— Cross currency swaps	(77)	—
	<u>(209)</u>	<u>(52)</u>

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

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

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

Unlisted available-for-sale equity securities, amounts due from joint ventures and associates, trade and other receivables, trade and other payables and external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 30 June 2017 and 31 December 2016.

## 19. Interim dividend

The interim dividends declared by the Board of Directors are as follows:

	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>\$ million</b>	\$ million
Interim dividend of \$0.77 per ordinary share (2016: \$0.70 per ordinary share)	<b>1,643</b>	1,494
Special interim dividend of \$7.50 per ordinary share (2016: \$Nil)	<b>16,007</b>	—
	<b>17,650</b>	1,494

## 20. Capital commitments

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

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>\$ million</b>	\$ million
Contracted for:		
Investment in a joint venture	<b>1,480</b>	1,465
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	<b>1</b>	1
Investment in a joint venture	<b>150</b>	144
	<b>151</b>	145

## 21. Contingent liabilities

	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>\$ million</b>	\$ million
Financial guarantees issued in respect of banking facilities available to a joint venture	<b>102</b>	97
Other guarantees given in respect of a joint venture	<b>731</b>	724
	<b>833</b>	821

## 22. Material related party transactions

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

### (a) Shareholder

Outram Limited (“Outram”), a subsidiary of the Company, reimbursed a wholly owned subsidiary of CK Infrastructure Holdings Limited (“CKI”), a substantial shareholder holding approximately 38.87% of the issued shares of the Company, \$15 million (2016: \$15 million) being the actual costs incurred for providing the operation and management services to Outram and its subsidiaries for the period. The transaction constitutes a continuing connected transaction under the Listing Rules for the Company.

### (b) Joint ventures

- (i) Interest income received/receivable from joint ventures in respect of the loans to joint ventures amounted to \$401 million for the six months ended 30 June 2017 (2016: \$400 million). The outstanding balances with joint ventures are disclosed in note 10.
- (ii) Tax credit claimed under the consortium relief received/receivable from joint ventures in the United Kingdom amounted to \$7 million for the six months ended 30 June 2017 (2016: \$26 million).

### (c) Associates

- (i) Interest income received/receivable from associates in respect of the loans to associates amounted to \$229 million for the six months ended 30 June 2017 (2016: \$223 million). The outstanding balances with associates are disclosed in note 11.
- (ii) Other operating costs included support service charge recovered by an associate amounted to \$19 million (2016: \$18 million) for the total costs incurred in the provision or procurement of the general office administration and other support services and office facilities. The outstanding balance at 30 June 2017 with the associate was \$4 million (31 December 2016: \$4 million).