FINANCIAL REVIEW

Financial Performance

The Group's unaudited profit for the six months ended 30 June 2017 amounted to HK$4,024 million (2016: HK$3,476 million), an increase of 16% compared to the same period of last year.

Investments in the United Kingdom achieved satisfactory results, contributed earnings of HK$2,078 million (2016: HK$2,234 million). The drop in earnings was mainly due to a lower exchange rate of pound sterling when compared to the same period of last year.

Our Australian investments contributed profits of HK$621 million (2016: HK$561 million) which was higher than last year mainly due to DUET commenced profit contribution to the Group following its acquisition in May 2017.

Investments in mainland China yield profit of HK$163 million (2016: HK$139 million).

Investments in Canada recorded higher earnings than last year mainly due to contribution from Husky Midstream which was acquired in July 2016. Our investments in the Netherlands, Portugal, Thailand and New Zealand continued to contribute stable earnings to the Group.

Our investment in HK Electric Investments recorded earnings of HK$335 million (2016: HK$367 million).

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2017 interim dividend of HK$0.77 per share (2016: HK$0.70 per share) representing a 10% growth plus a one-off special interim dividend of HK$7.50 per share.

FINANCIAL REVIEW *(Continued)*

Capital Expenditure, Liquidity and Financial Resources

The Group's capital expenditure and investments were primarily funded by cash from operations, dividends and other repatriation from investments. Total unsecured bank loans outstanding at 30 June 2017 were HK$8,859 million (31 December 2016: HK$8,514 million). In addition, the Group had bank deposits and cash of HK$41,923 million (31 December 2016: HK$61,710 million) and no undrawn committed bank facility at 30 June 2017 (31 December 2016: HK$Nil).

Treasury Policy, Financing Activities and Debt Structure

The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from dividends and other repatriation from investments, are generally placed on short term deposits denominated primarily in Hong Kong dollars and United States dollars. The Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

The Group's financial profile remained strong during the period. On 23 January 2017, Standard & Poor's reaffirmed the "A-" long term credit rating of the Company with a stable outlook which has remained unchanged since January 2014. As at 30 June 2017, the net cash position of the Group amounted to HK$33,064 million (31 December 2016: HK$53,196 million).

The profile of the Group's external borrowings as at 30 June 2017, after taking into account interest rate swaps, was as follows:

(1) 10% were in Euro, 41% were in Australian dollars and 49% were in pounds sterling;

(2) 100% were bank loans;

(3) 49% were repayable within 1 year and 51% were repayable after 1 year but within 5 years;

(4) 78% were in fixed rate and 22% were in floating rate.

The Group's policy is to maintain a portion of its debt at fixed interest rates. 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 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 Group's principal foreign currency exposures arise from its investments outside Hong Kong. Foreign currency transaction exposure also arises from settlement to vendors which is not material and is managed mainly through purchases in the spot market or utilisation of foreign currency receipts of the Group. Currency exposures arising from investments outside Hong Kong are, where considered appropriate, mitigated by financing those investments in local currency borrowings or by entering into forward foreign exchange contracts and cross currency swaps. The fair value of such borrowings at 30 June 2017 was HK$8,892 million (31 December 2016: HK$8,553 million). The fair value of forward foreign exchange contracts and cross currency swaps at 30 June 2017 was an asset of HK$451 million (31 December 2016: asset HK$870 million). Foreign currency fluctuations will affect the translated value of the net assets of investments outside Hong Kong and the resultant translation difference is included in the Group's reserve account. Income received from the Group's investments outside Hong Kong which is not denominated in Hong Kong dollars is, unless otherwise determined, converted into United States dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 30 June 2017 amounted to HK$33,424 million (31 December 2016: HK$24,358 million).

Charges on Assets

At 30 June 2017, the Group's interest in an associate of HK$313 million (31 December 2016: HK$321 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Contingent Liabilities

As at 30 June 2017, the Group had given guarantees and indemnities totalling HK$833 million (31 December 2016: HK$821 million).

Employees

The Group continues its policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the six months ended 30 June 2017, excluding directors' emoluments, amounted to HK$10 million (2016: HK$12 million). As at 30 June 2017, the Group employed 11 (31 December 2016: 12) permanent employees. No share option scheme is in operation.