

Financial Performance

Profit attributable to shareholders for 2016 amounted to HK\$6,417 million (2015: HK\$7,732 million). The decrease of profit was primarily due to weakening of pound sterling, lower deferred tax credit adjustment as a result of lower corporate tax rate reduction in the United Kingdom when compared with last year, lower return from HK Electric Investments and HK Electric Investments Limited and reversal of provisions and expenses in 2015.

Our investments in the United Kingdom contributed earnings of HK\$4,443 million (2015: HK\$4,899 million), a drop of 9% as compared to last year. The reduction of earnings was primarily due to weakening of pound sterling and lower deferred tax credit adjustment.

Our investments in Australia yield reliable profit contributions of HK\$973 million (2015: HK\$887 million) which was higher than last year mainly due to lower interest expenses.

Our investments in mainland China recorded less favourable results primarily due to a drop in electricity sales but partly offset by savings in operating costs in Jinwan Power Plant and lower wind yield at Dali windfarm.

Our investments in Canada recorded higher earnings than last year mainly due to contributions from Husky Midstream partnership, which was acquired in July 2016.

Investment in Portugal, which was acquired in November 2015, contributed first full year results to the Group. Our investments in the Netherlands, Thailand and New Zealand continued to contribute stable earnings to the Group.

Our investment in HKEI recorded lower earnings of HK\$1,201 million (2015: HK\$1,364 million) mainly due to reduction of our shareholding from 49.9% to 33.37% since 9 June 2015.

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2016 full year dividends of HK\$7.72 per share including a special dividend of HK\$5 per share paid on 28 February 2017 (2015: HK\$2.70 per share).

Financial Positions, Liquidity and Financial Resources

The Group's financial position remained strong. Capital expenditure and investments were primarily funded by cash from operations, dividends and other repatriation

from investments. Interest in joint ventures and associates increased by 1% to HK\$66,941 million (2015: HK\$66,548 million). In 2016, the Group acquired a 48.75% interest in a portfolio of oil pipeline assets in Canada of Husky Energy Inc.. Total unsecured bank loans outstanding at the year end were HK\$8,514 million (2015: HK\$9,405 million). In addition, the Group had bank deposits and cash of HK\$61,710 million (2015: HK\$68,149 million). Due to its strong cash position, the Group did not maintain any undrawn committed bank facility at the year end (2015: HK\$nil).

Treasury Policy, Financing Activities and Debt Structure

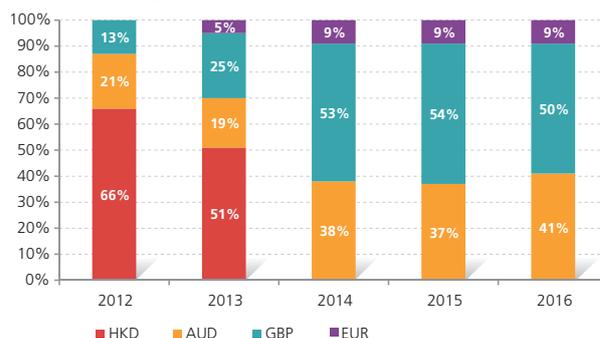
The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from dividends and other repatriation from investments, are generally placed on short term deposits denominated primarily in Australian dollars, Hong Kong dollars, pounds sterling 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 year. On 19 January 2016, Standard & Poor's pronounced that the long term credit ratings of the Company was "A-" with a stable outlook which remains unchanged since January 2014.

As at 31 December 2016, the net cash position of the Group was HK\$53,196 million (2015: HK\$58,744 million).

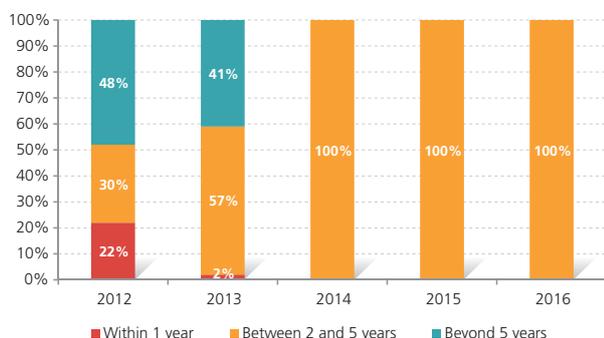
The profile of the Group's external borrowings as at 31 December 2016, after taking into account interest rate swaps, is set out in the tables below:

Debt Profile by Currency



FINANCIAL REVIEW

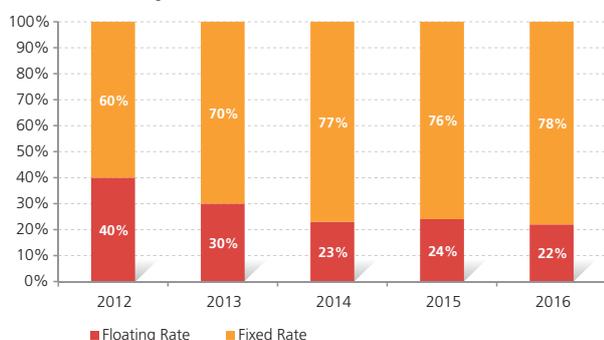
Debt Profile by Maturity



Debt Profile by Types of Borrowings



Debt Profile by Interest Rate Structure



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 exposure arising from investments outside Hong Kong is, where considered appropriate, mitigated by financing those investments in local currency borrowings and by entering into forward foreign exchange contracts. The fair value of such borrowings at 31 December 2016 was HK\$8,553 million (2015: HK\$9,426 million). The fair value of forward foreign exchange contracts at 31 December 2016 was an asset of HK\$870 million (2015: asset of HK\$203 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 placed as foreign currency deposits, converted into United States dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2016 amounted to HK\$24,358 million (2015: HK\$21,967 million).

Charges on Assets

At 31 December 2016, the Group's interest in an associate of HK\$321 million (2015: HK\$422 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Contingent Liabilities

As at 31 December 2016, the Group had given guarantees and indemnities totalling HK\$821 million (2015: HK\$792 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 year ended 31 December 2016, excluding directors' emoluments, amounted to HK\$24 million (2015: HK\$24 million). As at 31 December 2016, the Group employed 12 (2015: 11) permanent employees. No share option scheme is in operation.