

港燈電力投資

HK Electric Investments

(根據香港法律按日期為二零一四年一月一日的信託契約組成，
其受託人為港燈電力投資管理人有限公司。)

(As constituted pursuant to a deed of trust on 1 January 2014 under the laws of Hong Kong,
the trustee of which is HK Electric Investments Manager Limited.)

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港燈電力投資有限公司

HK Electric Investments Limited

(於開曼群島註冊成立的有限公司 Incorporated in the Cayman Islands with limited liability)

(股份代號 Stock Code : 2638)



港燈電力投資

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2019 ANNUAL RESULTS

CHAIRMAN'S STATEMENT

2019 was the first year for HK Electric Investments (HKEI) and its wholly owned subsidiary HK Electric operating under the new 2019–2033 Scheme of Control Agreement (SCA), when we made significant strides in line with our strategy to build a smarter, greener future for Hong Kong. Our initiatives in this regard fell under two umbrellas: steady migration to gas-fired generation, and support for customers in cutting their own carbon footprints. The successful synchronisation of L10, our new 380-MW gas-fired generating unit, was a major achievement during the year on this first front. At the same time, we launched a total of four funds and three schemes in 2019 under the “Smart Power Services” to promote energy efficiency and renewable energy in the community.

Infrastructure development under our 2019–2023 Development Plan continued to be our top priority. The extensive capital investments under the Plan will not only increase our assets base but also our proportion of gas-fired electricity generation from about 30% to about 70%. Apart from completing testing and commissioning works for L10, we are also constructing L11 and L12, two more gas-fired units, and have finalised plans for one of the world's largest offshore liquefied natural gas (LNG) terminals.

In order to help shape the way forward for carbon reduction in Hong Kong, we responded to the “Long-term Decarbonisation Strategy Public Engagement” launched during the year by the Council for Sustainable Development on behalf of the Government. In the near future, we see room for further increasing the proportion of electricity we generate from natural gas, while continuously exploring ways to introduce more low or zero-carbon electricity.

When the community as a whole is involved, decarbonisation efforts can be transformative. With this philosophy in mind we believe our efforts to promote “Smart Power Services” and local renewable energy help foster widespread momentum for low-carbon lifestyles.

The year saw us upholding our solid performance on all operational fronts, in the midst of the challenges posed by the social unrest that has been gripping Hong Kong since June 2019. We put resources into innovation to drive efficiencies, enhance reliability standards and customer services.

During the year, we reflected changes in actual fuel costs on our tariff in a timely manner every month, while continuing to extend the “Special Rent & Rates Rebate” and “Special Fuel Rebate”. In December 2019, we announced the tariff adjustments for 2020 and a series of relief measures to help SMEs, in particular small catering establishments, to weather the economic downturn.

Financial results and distributions

For the year ended 31 December 2019, HKEI’s EBITDA was HK\$7,194 million (2018: HK\$8,100 million) and profits attributable to SSU holders was HK\$2,327 million (2018: HK\$3,051 million).

There has been a material drop of approximately 20% in the rate of permitted return for electricity companies under the terms of the new SCA. As a result, total distribution for the year also dropped by about 20%.

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK16.09 cents (2018: HK20.12 cents) per SSU, payable on 14 April 2020 to SSU holders whose names appear on the Share Stapled Units Register on 1 April 2020. This, together with the interim distribution of HK15.94 cents (2018: HK19.92 cents) per SSU, amounts to a total distribution of HK32.03 cents (2018: HK40.04 cents) per SSU for the year.

Decarbonising to take Hong Kong to a greener and smarter future

Our 2019–2023 Development Plan focuses on moving us to a gas-fired low-emission generation model through a major programme of capital works involving the construction of three new 380-MW gas-fired generating units – L10, L11 and L12 – to replace ageing coal-fired units. 2019 witnessed significant progress as L10 was synchronised in October 2019 and commissioned in February 2020.

Construction of L11 and L12 moved to the superstructure and piling stages respectively in 2019. Once fully operational in 2022 and 2023 respectively, the two generating units will help further cut our carbon emissions. Plans for an offshore LNG terminal based on Floating Storage and Regasification Unit (FSRU) technology moved closer to implementation during the year and suppliers for the FSRU vessel as well as LNG were finalised. The contract for the terminal’s engineering, procurement and construction was also awarded in January 2020. The offshore LNG terminal is scheduled for commercial operation in 2022, and will play a central role in our ability to secure gas supplies at competitive prices.

We have been encouraged by the community’s response to our two major schemes to promote renewable energy despite the constraints in Hong Kong. The Feed-in Tariff (FiT) scheme has received 130 applications for solar energy installations involving a total capacity of 2.6 MW. About 60 systems have been connected to our grid, including two large-scale installations at Ocean Park and Canadian International School. The Renewable Energy Certificates (RECs) are also well received by our customers. The RECs covering the total green electricity of over 2 million kWh generated in 2019 have been fully subscribed.

To promote energy efficiency and conservation, the Smart Power Building Fund subsidised 83 buildings for improvement initiatives in 2019 while Smart Power Care Fund provided energy-efficient electrical appliances and offered subsidies to more than 1,100 underprivileged families including those living in sub-divided units.

Smart metering can enable communities to manage energy consumption more effectively. In 2019, we completed a successful pilot project of Advanced Metering Infrastructure (AMI) and smart meters, and plan to fully roll out across our entire customer base as far as practicable by end 2025. Smart meters provide customers a clearer picture of their own electricity usage in near real time with the potential to trigger energy-wise behaviours that allow them to contribute to carbon reduction while saving money.

Our long-standing support for electric vehicles (EV) through the provision of free charging facilities at 12 EV charging stations on Hong Kong Island is aligned with the Government's green and smart mobility push. We also handled 280 advisory service requests to help customers install EV chargers at residential and commercial buildings.

Recognition for high operating performance

Alongside these strategic projects, we maintained our focus on our most fundamental priority – ensuring high-quality, reliable power supply and excellent customer services.

We served more than 580,000 customers and delivered 10,519 million kWh of electricity over the year, and maintained our world-class reliability performance of over 99.999% for the 23rd year in a row since 1997. Another remarkable result is achieving an unplanned customer minutes lost record of less than one minute every year since 2009.

We were honoured to have received the Sustainability Award from the Hong Kong Management Association in November 2019 with special recognition in innovation. At the same time, we were recognised as the 4th most attractive company to work for amongst 75 employers in Hong Kong in the 2019 Randstad employer brand awards, motivating us to do even better in the coming years.

Outlook

The energy sector and the community at large have much to do to tackle climate change and leave the planet in a better state for future generations. In the coming year, HK Electric will continue to work in partnership with all our stakeholders to support the Government's strategic plans for decarbonisation, climate change mitigation and smart city development.

In 2020, as always, we are committed to the continued delivery of highly reliable electricity supply with a minimal environmental impact to underpin Hong Kong's status as a World City. We also pledged to work hard to ensure the smooth implementation of L11, L12 and the offshore LNG terminal projects while progressing with other strategic initiatives such as smart meter deployment.

Amid Hong Kong's economic slowdown, we have taken the matter of tariffs for 2020 very seriously. To reflect the higher fuel costs and capital expenditure associated with the substantial increase in gas-fired generation and as a result of much lower special rebates, the average net tariff for 2020 increased by 5.2% to 126.4 cents per unit of electricity, which is comparable to the level about 10 years ago – 123.3 cents in 2011. Excluding the impact of the significant reduction in the special rebates, the tariff increase was merely 1.7%.

At the same time, we have announced a package of five special relief measures to help customers, particularly SMEs, who have been hit the hardest. These include a 6-month grace period for tariff increase for about 70,000 non-residential customers, as well as subsidies and dining coupons to stimulate spending. These measures, together with the Government's subsidy schemes, will mean that almost all HK Electric customers will pay less for electricity in 2020 than in 2019.

Following the novel coronavirus outbreak in January, we have stepped up health and safety measures across our entire operation and implemented contingency plans to ensure that the potential impact on our services can be minimised.

I would like to close my report by thanking all our employees for their dedicated efforts in bringing a green energy future to Hong Kong, and our SSU holders and the Board for their continuous support.

Fok Kin Ning, Canning
Chairman
Hong Kong, 17 March 2020

FINANCIAL REVIEW

Financial performance

The Trust Group's revenue and consolidated profit for the year ended 31 December 2019 were HK\$10,739 million (2018: HK\$11,612 million) and HK\$2,327 million (2018: HK\$3,051 million) respectively.

Distribution

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK16.09 cents (2018: HK20.12 cents) per SSU. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a second interim dividend in lieu of a final dividend in respect of the Company's ordinary shares held by the Trustee-Manager, of HK16.09 cents (2018: HK20.12 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK15.94 cents (2018: HK19.92 cents) per SSU, brings the total distribution to HK32.03 cents (2018: HK40.04 cents) per SSU for the year ended 31 December 2019.

	2019	2018
	HK\$ million	HK\$ million
Consolidated profit attributable to SSU holders	2,327	3,051
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	5,188	5,421
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	(208)	(1,916)
– changes in working capital	25	(267)
– adjustment for employee retirement benefit schemes	11	12
– taxes paid	(107)	(535)
	(279)	(2,706)
(iii) capital expenditure payment	(3,585)	(3,397)
(iv) net finance costs	(1,022)	(883)
Distributable income	2,629	1,486
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	201	2,052
Distributable income after adjustment of the discretionary amount	2,830	3,538

	2019 HK\$ million	2018 HK\$ million
Interim distribution	1,408	1,760
Final distribution	1,422	1,778
Distribution amount	2,830	3,538
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	HK15.94 cents	HK19.92 cents
– Final distribution per SSU	HK16.09 cents	HK20.12 cents
Total distributions per SSU	HK32.03 cents	HK40.04 cents

In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2019, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

Notes:

- (a) Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.
- (b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.
- (c) Interim distribution per SSU of HK15.94 cents (2018: HK19.92 cents) was calculated based on the interim distribution amount of HK\$1,408 million (2018: HK\$1,760 million) and 8,836,200,000 SSUs in issue as at 30 June 2019 (30 June 2018: 8,836,200,000 SSUs). Final distribution per SSU of HK16.09 cents (2018: HK20.12 cents) was calculated based on the final distribution amount of HK\$1,422 million (2018: HK\$1,778 million) and 8,836,200,000 SSUs in issue as at 31 December 2019 (31 December 2018: 8,836,200,000 SSUs).

Capital expenditure, liquidity and financial resources

Capital expenditure (excluding right-of-use assets but including the Trust Group's capital expenditure in the offshore LNG terminal developed by a joint venture) during the year amounted to HK\$4,620 million (2018: HK\$3,809 million), which was funded by cash from operations and external borrowings. Total external borrowings outstanding at 31 December 2019 were HK\$43,045 million (2018: HK\$41,965 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2019 had undrawn committed bank facilities of HK\$5,950 million (2018: HK\$5,495 million) and bank deposits and cash of HK\$299 million (2018: HK\$34 million).

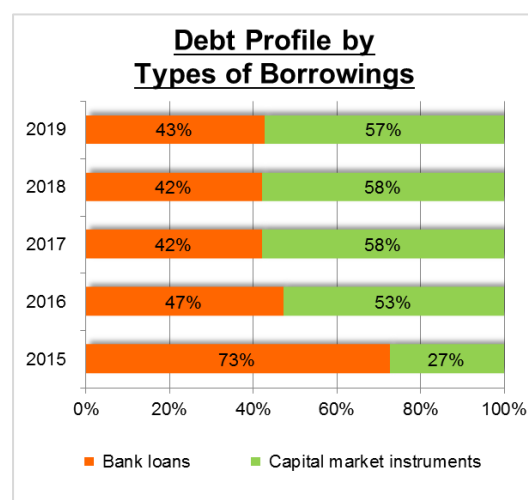
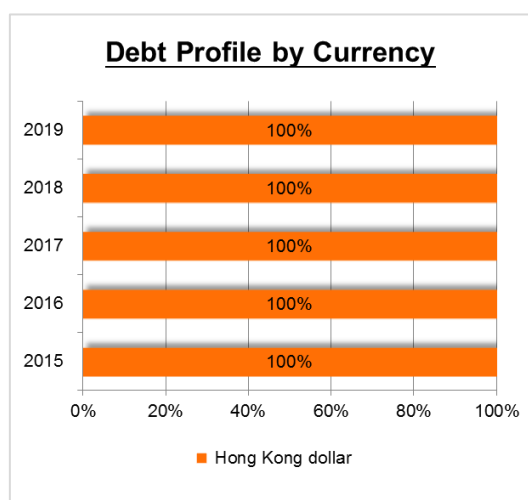
Treasury policy, financing activities, capital and debt structure

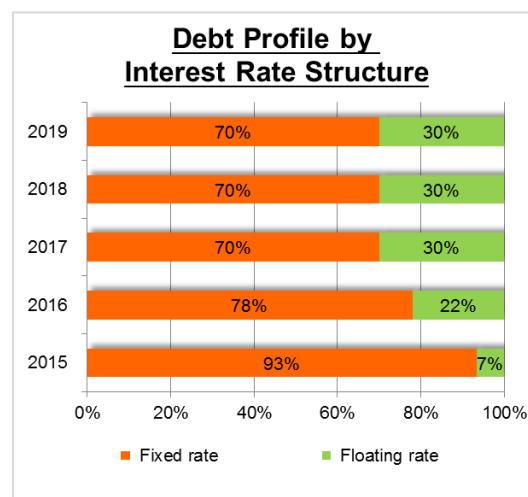
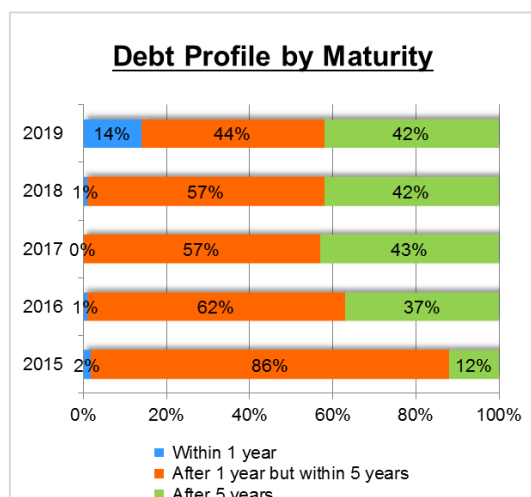
The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity 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.

During the year, the Trust Group extended its debt maturity profile to beyond 2019 by tapping the Hong Kong dollar private placement market for a HK\$500 million 30 year bond issued under its medium term note programme.

As at 31 December 2019, the net debt of the Trust Group was HK\$42,746 million (2018: HK\$41,931 million) with a net debt-to-net total capital ratio of 47% (2018: 46%). The Trust Group's financial profile remained strong during the year. On 10 June 2019, Standard & Poor's reaffirmed the "A-" long term credit rating and the stable outlook for the Company, which have remained unchanged since September 2015. The "A-" long term credit rating and the stable outlook for HK Electric reaffirmed by Standard & Poor's in February 2018 have remained unchanged since January 2014.

The profile of the Trust Group's external borrowings as at 31 December 2019, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:





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 employing 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 2019, 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 or cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2019 amounted to HK\$43,355 million (2018: HK\$43,484 million).

Charge on assets

At 31 December 2019, no assets of the Trust Group were pledged to secure its loans and banking facilities (2018: Nil).

Contingent liabilities

As at 31 December 2019, the Trust Group had no guarantee or indemnity to external parties (2018: 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 2019, excluding directors' emoluments, amounted to HK\$1,165 million (2018: HK\$1,124 million). As at 31 December 2019, the Trust Group employed 1,770 (2018: 1,763) permanent employees. No share option scheme is in operation.

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

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$ million	2018 \$ million
Revenue	5	10,739	11,612
Direct costs		(5,485)	(5,484)
		5,254	6,128
Other revenue and other net income	7	37	54
Other operating costs		(1,078)	(1,096)
Operating profit		4,213	5,086
Finance costs		(1,004)	(967)
Profit before taxation	8	3,209	4,119
Income tax:	9		
Current		(547)	(458)
Deferred		(67)	(301)
		(614)	(759)
Profit after taxation		2,595	3,360
Scheme of Control transfers	10(b)	(268)	(309)
Profit for the year attributable to the holders of Share Stapled Units/ shares of the Company		2,327	3,051
Earnings per Share Stapled Unit/ share of the Company			
Basic and diluted	12	26.33 cents	34.53 cents

As explained in note 3, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the year are set out in note 11.

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

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	2019 \$ million	2018 \$ million
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	2,327	3,051
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	252	(148)
Net deferred tax (charged)/credited to other comprehensive income	(42)	24
	210	(124)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	16	15
Cost of hedging – changes in fair value	(27)	(30)
Net deferred tax credited to other comprehensive income	2	2
	(9)	(13)
	201	(137)
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	(21)	(43)
Reclassification adjustments for amounts transferred to profit or loss	(51)	6
Cost of hedging – changes in fair value	600	(333)
Cost of hedging – reclassified to profit or loss	(63)	(54)
Net deferred tax (charged)/credited to other comprehensive income	(80)	71
	385	(353)
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	2,913	2,561

As explained in note 3, 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 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$ million	2018 \$ million
Non-current assets			
Property, plant and equipment		66,601	65,049
Interests in leasehold land held for own use		5,815	6,010
	13	72,416	71,059
Goodwill		33,623	33,623
Interest in a joint venture		42	-
Derivative financial instruments		649	568
Employee retirement benefit scheme assets		809	593
		107,539	105,843
Current assets			
Inventories		819	989
Trade and other receivables	14	1,060	1,028
Bank deposits and cash		299	34
		2,178	2,051
Current liabilities			
Trade and other payables and contract liabilities	15	(2,980)	(2,447)
Fuel Clause Recovery Account	16	(647)	(855)
Current portion of bank loans and other interest-bearing borrowings	17	(6,010)	(440)
Bank overdrafts – unsecured		(33)	-
Current tax payable		(577)	(137)
		(10,247)	(3,879)
Net current liabilities		(8,069)	(1,828)
Total assets less current liabilities		99,470	104,015
Non-current liabilities			
Bank loans and other interest-bearing borrowings	17	(37,002)	(41,525)
Derivative financial instruments		(14)	(411)
Customers' deposits		(2,241)	(2,195)
Deferred tax liabilities		(9,540)	(9,353)
Employee retirement benefit scheme liabilities		(368)	(393)
Other non-current liabilities	18	(955)	(747)
		(50,120)	(54,624)
Scheme of Control Fund and Reserve	10(c)	(878)	(648)
Net assets		48,472	48,743
Capital and reserves			
Share capital		8	8
Reserves		48,464	48,735
Total equity		48,472	48,743

As explained in note 3, 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)

1. Review of annual results

The annual results have been reviewed by the Audit Committees.

The figures in respect of the preliminary announcement of the Trust Group's and the Group's results for the year ended 31 December 2019 have been compared by the Trust Group's and the Group's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Trust Group's and the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. General information

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

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

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

3. 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 2019 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (together the “Trust Group”) and the Trust Group’s interest in a joint venture. The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the consolidated financial statements of the Company and its subsidiaries (together the “Group”) and the Group’s interest in a joint venture.

The Trust controls the Company and the sole activity of the Trust during the year ended 31 December 2019 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the “consolidated financial statements of the Trust and of the Company”.

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

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

4. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of 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:

- HKFRS 16, *Leases*
- HK(IFRIC)-Int 23, *Uncertainty over income tax treatments*
- Annual improvements to HKFRSs 2015-2017 Cycle
- Amendments to HKAS 19, *Plan amendments, curtailment or settlement*
- Amendments to HKAS 28, *Long-term interests in associates and joint ventures*

The adoption of HKFRS 16, *Leases* and these amendments to HKFRSs does not have a material impact on the Groups’ results and financial positions for the current or prior periods. Details of the changes in accounting policies for HKFRS 16 are discussed below.

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

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Groups have initially applied HKFRS 16 as from 1 January 2019 and elected to use the modified retrospective approach. The adoption of HKFRS 16 does not have material effect to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Groups apply the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Groups have used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lease accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Groups are required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Groups are concerned, these newly capitalised leases are primarily in relation to properties leased for own use.

The adoption of HKFRS 16 does not have material impact on the Groups' financial position and opening balance of equity as at 1 January 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Groups are not required to make any adjustments at the date of initial application of HKFRS 16.

5. Revenue

The principal activity of the Groups is the generation and supply of electricity to Hong Kong Island and Lamma Island. Disaggregation of revenue by type of output and services is analysed as follows:

	2019 \$ million	2018 \$ million
Sales of electricity	10,694	11,541
Less: concessionary discount on sales of electricity	(4)	(4)
	10,690	11,537
Electricity-related income	49	75
	<u>10,739</u>	<u>11,612</u>

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.

7. Other revenue and other net income

	2019 \$ million	2018 \$ million
Interest income on financial assets measured at amortised cost	7	14
Sundry income	30	40
	<u>37</u>	<u>54</u>

8. Profit before taxation

	2019 \$ million	2018 \$ million
Profit before taxation is arrived at after charging:		
Depreciation		
– owned property, plant and equipment	2,790	2,834
– properties leased for own use	2	-
Amortisation of leasehold land	196	194
Expenses of short-term leases with remaining lease term ending on or before the end of reporting period	7	-
Costs of inventories	3,884	4,569
Write down of inventories	16	17
Staff costs	734	699
Net loss on disposal and written off of property, plant and equipment	128	109
Auditor's remuneration		
– audit and audit related work	5	5

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

	2019 \$ million	2018 \$ million
Current tax		
Provision for Hong Kong Profits Tax for the year	547	458
Deferred tax		
Origination and reversal of temporary differences	67	301
	614	759

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Groups which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first \$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

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.

10. Scheme of Control transfers

- (a) The financial operations of HK Electric are governed by the Scheme of Control Agreement (“SoCA”) agreed with the Government which provides for HK Electric to earn a Permitted Return. 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 2009-2018 SoCA, 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.

Under the new SoCA, a Smart Power Care Fund has to be established no later than 1 January 2019 with initial funding provided by the net closing balance of the Smart Power Fund to promote energy efficiency and conservation, such as accelerating end-use energy efficiency through programmes designed to help residential, industrial and commercial customers, and also disadvantaged customers/groups to replace or upgrade end-use appliances to more energy-efficient electrical models. HK Electric consented to deduct an amount equal to 65% of the Energy Efficiency Incentive Amount of each year during the period from 1 January 2019 to 31 December 2033 for funding the contribution to the Smart Power Care Fund provided that there is an Energy Efficiency Incentive Amount in respect of that year.

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

	2019	2018
	\$ million	\$ million
Tariff Stabilisation Fund	222	303
Rate Reduction Reserve	14	6
Smart Power Care Fund		
– Provisional sum to be injected in the following year	32	-
	268	309

A provisional sum of \$32,379,000, representing deduction of HK Electric's 2019 financial incentive, was transferred from the consolidated statement of profit or loss and included in the trade and other payables and contract liabilities as at 31 December 2019 for injection into the Smart Power Care Fund in the following year.

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

\$ million	Tariff Stabilisation Fund	Rate Reduction Reserve	Smart Power Fund/ Smart Power Care Fund	Total
At 1 January 2018	316	1	18	335
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	1	(1)	-	-
Transfer from the consolidated statement of profit or loss	303	6	-	309
Injection for the year	-	-	5	5
Disbursement for the year	-	-	(1)	(1)
At 31 December 2018 and 1 January 2019	620	6	22	648
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	6	(6)	-	-
Transfer from the consolidated statement of profit or loss	222	14	-	236
Disbursement for the year	-	-	(6)	(6)
At 31 December 2019	848	14	16	878

Pursuant to SoCA, 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.

11. Distributions/dividends

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

	2019 \$ million	2018 \$ million
Consolidated profit attributable to the holders of Share Stapled Units	2,327	3,051
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	5,188	5,421
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	(208)	(1,916)
– changes in working capital	25	(267)
– adjustment for employee retirement benefit schemes	11	12
– taxes paid	(107)	(535)
	(279)	(2,706)
(iii) capital expenditure payment	(3,585)	(3,397)
(iv) net finance costs	(1,022)	(883)
Distributable income	2,629	1,486
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	201	2,052
Distributable income after adjustment of the discretionary amount	2,830	3,538

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

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

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

Note 4 In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2019, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

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

	2019	2018
	\$ million	\$ million
Interim distribution/first interim dividend declared and paid of 15.94 cents (2018: 19.92 cents) per Share Stapled Unit/share	1,408	1,760
Final distribution/second interim dividend proposed after the end of the reporting period of 16.09 cents (2018: 20.12 cents) per Share Stapled Unit/share	1,422	1,778
	2,830	3,538

For the year ended 31 December 2019, the Company Board declared the payment of a second interim dividend of 16.09 cents per ordinary share (2018: 20.12 cents per ordinary share), amounting to \$1,422 million (2018: \$1,778 million), in lieu of a final dividend after the end of the reporting period and therefore no final dividend was proposed by the Company Board.

For the year ended 31 December 2019, the Trustee-Manager Board declared a final distribution of 16.09 cents per Share Stapled Unit (2018: 20.12 cents per Share Stapled Unit), amounting to \$1,422 million (2018: \$1,778 million), after the end of the reporting period.

The final distribution/second interim dividend declared after the end of the reporting period is based on the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 31 December 2019 (2018: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2019	2018
	\$ million	\$ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 20.12 cents (2018: 20.12 cents) per Share Stapled Unit/share	1,778	1,778

12. 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 \$2,327 million (2018: \$3,051 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2018: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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

\$ million	Site formation and buildings	Properties leased for own use	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use	Total
Cost								
At 1 January 2018	16,649	-	51,696	759	5,336	74,440	6,844	81,284
Additions	9	-	266	38	3,382	3,695	114	3,809
Transfer	15	-	1,613	65	(1,693)	-	-	-
Disposals	-	-	(334)	(10)	-	(344)	-	(344)
At 31 December 2018 and 1 January 2019	16,673	-	53,241	852	7,025	77,791	6,958	84,749
Additions	3	4	191	48	4,328	4,574	1	4,575
Transfer	152	-	1,366	76	(1,594)	-	-	-
Disposals	(17)	-	(364)	(20)	-	(401)	-	(401)
At 31 December 2019	16,811	4	54,434	956	9,759	81,964	6,959	88,923
Accumulated depreciation and amortisation								
At 1 January 2018	1,996	-	7,752	280	-	10,028	754	10,782
Written back on disposals	-	-	(186)	(10)	-	(196)	-	(196)
Charge for the year	510	-	2,300	100	-	2,910	194	3,104
At 31 December 2018 and 1 January 2019	2,506	-	9,866	370	-	12,742	948	13,690
Written back on disposals	(5)	-	(220)	(19)	-	(244)	-	(244)
Charge for the year	511	2	2,247	105	-	2,865	196	3,061
At 31 December 2019	3,012	2	11,893	456	-	15,363	1,144	16,507
Net book value								
At 31 December 2019	13,799	2	42,541	500	9,759	66,601	5,815	72,416
At 31 December 2018	14,167	-	43,375	482	7,025	65,049	6,010	71,059

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to \$261 million (2018: \$191 million).

Depreciation charges for the year included \$73 million (2018: \$76 million), relating to assets utilised in development activities, which have been capitalised.

14. Trade and other receivables

	2019 \$ million	2018 \$ million
Trade debtors, net of loss allowance (see note (a) below)	513	563
Other receivables (see note below)	414	402
	927	965
Derivative financial instruments	86	2
Deposits and prepayments	47	61
	1,060	1,028

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 \$341 million (2018: \$336 million) to be received from electricity customers.

(a) **Ageing analysis of trade debtors**

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

	2019 \$ million	2018 \$ million
Current and within 1 month	476	513
1 to 3 months	30	35
More than 3 months but less than 12 months	7	15
	513	563

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.

15. Trade and other payables and contract liabilities

	2019 \$ million	2018 \$ million
Trade and other payables		
Creditors measured at amortised cost (see note (a) below)	2,921	2,403
Lease liabilities (see note 18(b))	2	-
Derivative financial instruments	39	6
	<u>2,962</u>	<u>2,409</u>
Contract liabilities (see note (b) below)	<u>18</u>	<u>38</u>
	<u><u>2,980</u></u>	<u><u>2,447</u></u>

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

(a) Creditors' ageing is analysed as follows:

	2019 \$ million	2018 \$ million
Due within 1 month or on demand	1,778	1,316
Due after 1 month but within 3 months	270	139
Due after 3 months but within 12 months	873	948
	<u>2,921</u>	<u>2,403</u>

(b) Contract liabilities

The contract liabilities relate to the advance consideration received from customers for electricity-related services, which consists mainly of (1) permanent supply service, primarily associated with the supply of electricity to customer substations for large new developments and to small new developments without customer substation provisions, and (2) site service primarily associated with the temporary supply of electricity to construction sites or special functions, for which revenue is recognised upon completion of the electricity-related services.

16. Fuel Clause Recovery Account

Effective from 2019, the Fuel Clause Charge per unit for electricity sales was adjusted on a monthly basis to reflect actual cost of fuels in a timely manner (2018: 23.4 cents per unit for electricity sales was applicable for full year).

During the year, Special Fuel Rebate of 2.3 cents per unit for electricity sales (2018: 16 cents) was offered to customers. Movements in the Fuel Clause Recovery Account were as follows:

	2019 \$ million	2018 \$ million
At 1 January	855	2,771
Transferred to profit or loss	(2,051)	(2,696)
Fuel Clause Charges during the year	2,087	2,466
Special Fuel Rebates during the year	(244)	(1,686)
At 31 December	<u>647</u>	<u>855</u>

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs.

17. Bank loans and other interest-bearing borrowings

	2019 \$ million	2018 \$ million
Bank loans	18,333	17,755
Current portion	(113)	(110)
	<u>18,220</u>	<u>17,645</u>
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	6,465	6,295
Zero coupon notes (see note (b) below)	727	702
	7,192	6,997
Current portion	-	(330)
	<u>7,192</u>	<u>6,667</u>
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	11,697	11,673
Zero coupon notes (see note (b) below)	5,790	5,540
	17,487	17,213
Current portion	(5,897)	-
	<u>11,590</u>	<u>17,213</u>
Non-current portion	<u>37,002</u>	<u>41,525</u>

- (a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.55% to 4% per annum (2018: 2.55% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 2.875% to 4.25% per annum (2018: 2.875% to 4.25% per annum).

- (b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of \$1,056 million (2018: \$1,056 million) and accrual yield of 3.5% per annum (2018: 3.5% per annum).

The United States dollar zero coupon notes have nominal amount of US\$650 million (2018: US\$650 million) and accrual yields ranging from 4.375% to 4.8% per annum (2018: 4.375% to 4.8% per annum). These notes embed with issuer call options allowing issuer to early redeem the notes. US\$250 million of these notes are callable on 20 October 2020 and annually thereafter until the penultimate year to maturity. The remaining US\$400 million are callable on 12 October 2022 and annually thereafter until the penultimate year to maturity.

- (c) 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. As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities had been breached.
- (d) 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:

	2019	2018
	\$ million	\$ million
After 1 year but within 2 years	15,222	5,881
After 2 years but within 5 years	3,596	17,944
After 5 years	18,184	17,700
	37,002	41,525

18. Other non-current liabilities

	2019 \$ million	2018 \$ million
Provisions (see note (a) below)	954	747
Lease liabilities (see note (b) below)	1	-
	<u>955</u>	<u>747</u>

(a) Provisions

	2019 \$ million
Provisions for asset decommissioning obligation	
At 1 January	747
Additional provisions made	<u>207</u>
At 31 December	<u>954</u>

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

(b) Lease liabilities

The following table shows the remaining contractual maturities of the Groups' lease liabilities at the end of the current and previous reporting periods:

	2019		2018
	Present value of the minimum lease payments \$ million	Total minimum lease payments \$ million	Present value of the minimum lease payments \$ million
Within 1 year	2	2	-
After 1 year but within 2 years	<u>1</u>	<u>1</u>	<u>-</u>
	<u>3</u>	<u>3</u>	<u>-</u>
Less: total future interest expenses		<u>-</u>	<u>-</u>
Present value of lease liabilities		<u>3</u>	<u>-</u>

19. Comparative figures

The Groups have initially applied HKFRS 16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 4.

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

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$	2018 \$
Revenue		-	-
Administrative expenses		-	-
Profit before taxation	5	-	-
Income tax	6	-	-
Profit and total comprehensive income for the year		-	-

**STATEMENT OF FINANCIAL POSITION
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED**

At 31 December 2019

(Expressed in Hong Kong dollars)

	2019 \$	2018 \$
	<u> </u>	<u> </u>
Current assets		
Amount due from immediate holding company	<u> 1 </u>	<u> 1 </u>
Net assets	<u> 1 </u>	<u> 1 </u>
Capital and reserves		
Share capital	<u> 1 </u>	<u> 1 </u>
Reserves	<u> - </u>	<u> - </u>
Total equity	<u> 1 </u>	<u> 1 </u>

**NOTES TO THE FINANCIAL STATEMENTS
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED**
(Expressed in Hong Kong dollars)

1. Review of annual results

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the HK Electric Investments Manager Limited's (the "Company") results for the year ended 31 December 2019 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Company's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. General information

The Company was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets, which is incorporated in Hong Kong with its shares listed on the Stock Exchange 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.

3. Basis of presentation

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 11 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 20, no distributions statement is therefore presented in these financial statements.

The financial information relating to the years ended 31 December 2019 and 2018 included in this preliminary announcement of annual results does not constitute the Company's statutory annual financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company's financial statements together with the consolidated financial statements of the Trust and of HK Electric Investments Limited for the year ended 31 December 2018 have been delivered to the Registrar of Companies and the Company's financial statements for the year ended 31 December 2019 will be delivered to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Company for the year ended 31 December 2018. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance. The financial statements for the year ended 31 December 2019 have yet to be reported on by the Company's auditor.

4. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. The adoption of HKFRS 16 and these amendments to HKFRSs has no 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.

5. Profit before taxation

Auditor's remuneration of \$56,000 (2018: \$56,000) and all other expenses of the Company which were incurred for the administering of the Trust of \$370,669 (2018: \$510,984) for the year have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior years.

6. 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.

OTHER INFORMATION

Final distribution and closure of Registers

The Trustee-Manager Board has declared a final distribution by the Trust for 2019 of HK16.09 cents per Share Stapled Unit. The final distribution will be payable on Tuesday, 14 April 2020 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 1 April 2020, being the record date for determination of entitlement to the final distribution. To qualify for the final distribution, all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 1 April 2020.

For the purpose of ascertaining Holders of Share Stapled Units who are entitled to attend and vote at the Annual General Meeting to be held on Wednesday, 13 May 2020 (or any adjournment thereof), the Registers will be closed from Friday, 8 May 2020 to Wednesday, 13 May 2020, both days inclusive, during which no transfer of Share Stapled Units will be registered. In order to qualify for the right to attend and vote at the meeting (or any adjournment thereof), all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Thursday, 7 May 2020.

The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

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 the issued Share Stapled Units during the year ended 31 December 2019.

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 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.

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2019, except as noted hereunder.

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.

The Nomination Committee of the Company comprises all Directors of the Company, and accordingly its membership deviates from the code provision A.5.1. In discharging its responsibilities, the Nomination Committee of the Company is, however, assisted by an ad hoc sub-committee which is chaired by the Chairman of the Company Board and its membership is compliant with the requirements under the Listing Rules for a nomination committee. The Trustee-Manager does not have a nomination committee as provided for in code provision A.5, since in accordance with the Trust Deed and the Trustee-Manager's articles of association, the Trustee-Manager Board shall at all times comprise the same individuals who serve as Directors of the Company, and the requirement to establish a nomination committee is hence considered irrelevant to the Trustee-Manager.

The Trust Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the Corporate Governance Code, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the procedures for reporting possible improprieties in financial reporting, internal control or other matters. In addition, the Trustee-Manager and the Company have established a policy relating to inside information and securities dealing for compliance by all employees of the Group.

Model Code for Securities Transactions by Directors

The Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2019.

Trustee-Manager Audit Committee and Company Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Trustee-Manager and the Company established their respective audit committee on 29 January 2014 (the memberships of which are required to be the same pursuant to the Trust Deed), and have formulated their written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the Corporate Governance Code.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Trustee-Manager Audit Committee and the Company Audit Committee report directly to the Trustee-Manager Board and the Company Board respectively. The principal responsibilities of the Audit Committees are to assist the Boards in fulfilling their audit duties through the review and supervision of financial reporting, risk management and internal control systems, the review of financial information, and the consideration of issues relating to external auditor and their appointment.

Remuneration Committee of the Company

In compliance with the Corporate Governance Code, the Company established its remuneration committee on 29 January 2014 with a majority of the members thereof being Independent Non-executive Directors. The Remuneration Committee of the Company is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman) and Dr. Fong Chi Wai, Alex (an Independent Non-executive Director).

Nomination Committee of the Company

The Company established its nomination committee on 1 January 2019 which comprises all Directors of the Company. The Nomination Committee of the Company is chaired by Mr. Fok Kin Ning, Canning, the Chairman of the Company Board. In discharging its responsibilities, the Nomination Committee of the Company is assisted by an ad hoc sub-committee which is chaired by the Chairman of the Company Board and its membership is compliant with the requirements under the Listing Rules for a nomination committee.

Annual General Meeting

The Annual General Meeting will be held at 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 13 May 2020 at 12:00 noon. Notice of the Annual General Meeting will be published and despatched to Holders of Share Stapled Units in the manner as required by the Listing Rules in due course.

Boards composition

As at the date of this announcement, the Directors are:

- Executive Directors : Mr. FOK Kin Ning, Canning (Chairman) (Mrs. CHOW WOO Mo Fong, Susan as his alternate), Mr. WAN Chi Tin (Chief Executive Officer), Mr. CHAN Loi Shun, Mr. CHEN Daobiao and Mr. CHENG Cho Ying, Francis
- Non-executive Directors : Mr. LI Tzar Kuoi, Victor (Deputy Chairman) (Mr. Frank John SIXT as his alternate), Mr. Fahad Hamad A H AL-MOHANNADI, Mr. Ronald Joseph ARCULLI, Mr. DUAN Guangming, Mr. Deven Arvind KARNIK and Mr. ZHU Guangchao
- Independent Non-executive Directors : Dr. FONG Chi Wai, Alex, Mr. KWAN Kai Cheong, Mr. LEE Lan Yee, Francis, Mr. George Colin MAGNUS, Mr. Donald Jeffrey ROBERTS and Mr. Ralph Raymond SHEA

GLOSSARY

In this annual results announcement, 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
“Company”	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
“Company Audit Committee”	Audit committee of the Company
“Company Board”	Board of directors of the Company
“Corporate Governance Code”	Corporate Governance Code set out in Appendix 14 of the Listing Rules
“Government”	HKSAR Government
“Group”	The Company and its subsidiaries
“HK Electric”	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
“HKASs”	Hong Kong Accounting Standards
“HKEI”	The Trust and the Company
“HKFRSs”	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA

Term(s)	Definition
“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 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
“Share Stapled Unit(s)” or “SSU(s)”	Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
“Share Stapled Units Register”	The register of registered Holders of Share Stapled Units

Term(s)	Definition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
“Trust Deed”	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
“Trust Group”	The Trust and the Group
“Trustee-Manager”	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
“Trustee-Manager Audit Committee”	Audit committee of the Trustee-Manager
“Trustee-Manager Board”	Board of directors of the Trustee-Manager