



港燈電力投資
HK Electric Investments

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



Towards A Greener Destination

Annual Report **2019**

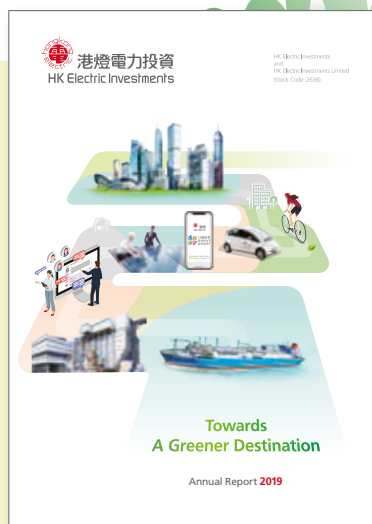


HK Electric Investments, constituted in January 2014, is a fixed single investment trust in Hong Kong focusing purely on the energy sector. Our Share Stapled Units, issued by the trust and HK Electric Investments Limited (collectively known as “HKEI”), are listed on the Main Board of the Hong Kong Stock Exchange. Our trust is structured to enable us to maintain a single-minded focus on delivering stable distributions to holders of our Share Stapled Units, while ensuring we have the potential for sustainable long-term growth.

Our main operating company, HK Electric, is a power utility responsible for the generation, transmission, distribution and supply of electricity to about 581,000 customers in Hong Kong.

Through HK Electric, we have a heritage of powering Hong Kong’s economic growth since 1890, investing in the most appropriate technologies and fuels to support the provision of affordable, safe, reliable and clean electricity to both businesses and residential communities.

We are committed to continuing HK Electric’s long tradition of community engagement and support for the underprivileged, and to remaining a positive and responsible member of the Hong Kong community.



Towards a Greener Destination

This is one of the most important periods in the history of HKEI and our wholly owned subsidiary, HK Electric. We are undertaking a multifaceted journey, passing small and large milestones in every aspect of our operations, as we move towards a low-carbon operating regime. The image on our front cover is a visual analogy for this sustainable journey. It is reminiscent of a board game with tiles representing different check points such as L10, the newly launched gas-fired generating unit, the offshore LNG terminal under development, wider use of technology, and on-going efforts to engage the community to promote local renewables, energy efficiency and conservation and more. Each of these is a critical stage in our journey to this greener destination.

CONTENTS



2	Performance Highlights
BUSINESS REVIEW	
6	Chairman's Statement
9	Long-term Development Strategy
10	Year at a Glance
	CEO's Report
14	Operation Review
26	Sustainability Review
40	Financial Review
43	Awards Gallery
CORPORATE GOVERNANCE	
48	Boards of Directors and Management Team
54	Combined Corporate Governance Report
74	Combined Report of the Directors
77	Risk Management
79	Risk Factors



FINANCIAL STATEMENTS	
HK Electric Investments and HK Electric Investments Limited	
84	Independent Auditor's Report
90	Consolidated Statement of Profit or Loss
91	Consolidated Statement of Comprehensive Income
92	Consolidated Statement of Financial Position
93	Consolidated Statement of Changes in Equity
94	Consolidated Cash Flow Statement
95	Notes to the Financial Statements
HK Electric Investments Manager Limited	
170	Independent Auditor's Report
172	Statement of Profit or Loss and Other Comprehensive Income
173	Statement of Financial Position
174	Statement of Changes in Equity
175	Cash Flow Statement
176	Notes to the Financial Statements
Other Information	
180	Five-year Financial Summary of the Groups
181	HK Electric — Ten-Year Scheme of Control Statement
182	HK Electric — Ten-Year Statement of Financial Position
183	HK Electric — Ten-Year Operating Statistics
184	Corporate Information
186	Financial Calendar and Share Stapled Unit Information
187	Glossary

PERFORMANCE HIGHLIGHTS

Financials

	2019	2018
Revenue	HK\$10,739 million	HK\$11,612 million
Distributable Income	HK\$2,830 million	HK\$3,538 million
Total Distribution per SSU	HK 32.03 cents	HK 40.04 cents
Interim Distribution per SSU	HK 15.94 cents	HK 19.92 cents
Final Distribution per SSU	HK 16.09 cents	HK 20.12 cents
Total Assets	HK\$109,717 million	HK\$107,894 million
Net Debt-to-Net Total Capital Ratio	47%	46%
S&P Credit Rating HK Electric HK Electric Investments Limited	A-/ Stable A-/ Stable	A-/ Stable A-/ Stable

Operations

58

Number of Renewable Energy Installations
Joining Feed-in Tariff Scheme

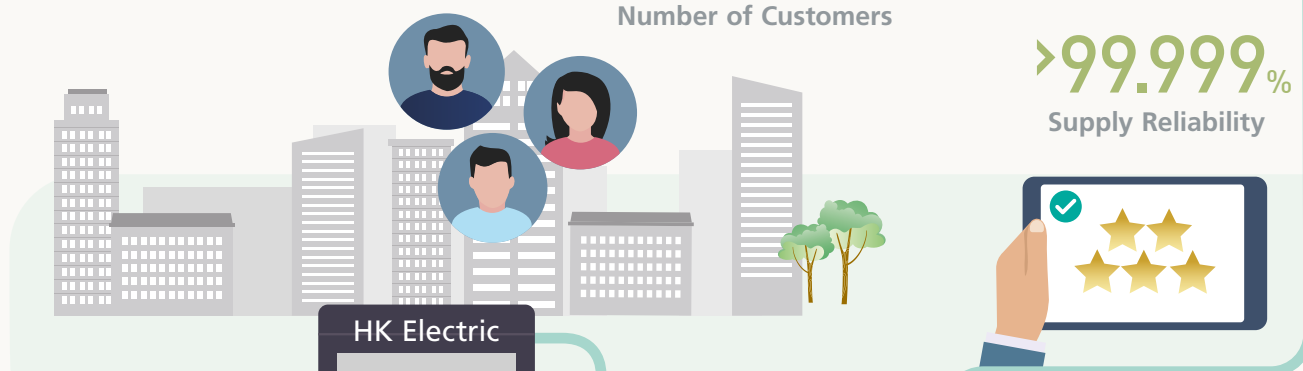
3,237^{MW}
Generation Capacity



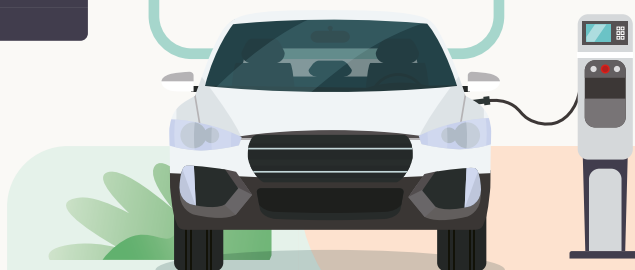
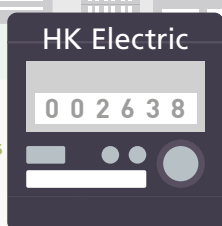
581,000

Number of Customers

>99.999%
Supply Reliability



10,519<sup>millions
of kWh</sup>
Units Sold



6,536^{km}
Network Length

12,314
Number of Free Charging
Operations Provided



BUSINESS REVIEW

Fulfilling our commitments to
customers and the community





CHAIRMAN'S STATEMENT



2019 saw us pass important milestones in our migration to gas-fired generation while supporting customers in cutting their own carbon footprints.

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 audited 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

CHAIRMAN'S STATEMENT

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

LONG-TERM DEVELOPMENT STRATEGY



Over our long history we have consistently supported Hong Kong's economic journey by offering safe, reliable and affordable electricity while minimising the impact of our operations on the environment as we strive to deliver sustainable growth in long-term value to our investors.

To achieve our vision to excel in the power business in Hong Kong and continue our outstanding tradition of efficiency and sustainability performance, we are guided by the following long-term strategies:

Serve Hong Kong through world-class power provision

A fail-safe supply of electricity is critical for Hong Kong's economic success. Our priority is maintaining world-class supply reliability, delivered with unrivalled customer service standards. We are investing in Hong Kong's future by significantly increasing the proportion of green energy we generate in support of Hong Kong's Climate Action Plan 2030+. We are also innovating, deploying technology and equipment that allow us to minimise environmental impact and transform Hong Kong into a smart city.

Sustain steady growth in our asset base

Pragmatic and long-term principles guide our investment in power generation, transmission and distribution facilities. All expenditure must support our goals of maintaining reliability, enhancing efficiency and customer services while conserving the environment with low-emission energy sources. These investments will enable steady growth in our asset base which in turn generates stable and growing returns to our long-term investors.

Run our business on prudent financial and efficient principles

We embrace the values of prudent financial management and maintain an optimal capital structure with strong liquidity. We strive for operational efficiency and effectiveness and rigorously manage operating costs, including fuel costs. These principles enable us to deliver sustainable returns to our investors while allowing us to provide electricity to our customers at affordable prices.

YEAR AT A GLANCE

JAN – MAR

Jan

New Scheme of Control Agreement comes into effect on 1 January 2019 for a period of 15 years from 2019 to 2033.

Strategic Asset Management and Operational Support Applications (SAMOSA), a new IT landscape that will enhance productivity, is rolled out in January 2019.



Feb

"Inno Hub", an online collaborative platform, is launched to encourage innovation across the company, and facilitate idea and experience sharing among colleagues. Many innovation initiatives, for example remotely operated underwater vehicles within Lamma Power Station for the inspection of submerged structures, have helped improve safety and efficiency.



An in-house mobile app named "My HKE", which disseminates corporate news and employee-related information, is launched to enhance communication and engagement between employees and the company.



Mar



In support of the Government's efforts, we register as a dementia-friendly organisation and incorporate education about dementia prevention into our CAREnJOY programme.

APR – JUN



The HK Electric Smart Power Gallery opens to the public to promote energy efficiency, renewable energy and a low-carbon lifestyle.



Ten outstanding Smart Power Ambassadors are recognised for their efforts in promoting energy efficiency and spreading green messages in the community at the annual U3A completion ceremony.

Apr



Celebrating its 15th anniversary, HK Electric volunteers team pledges to diversify its service above and beyond its ongoing focus on elderly care and environmental protection.



We take part again in the Belt and Road Advanced Professional Development Programme for senior professionals from 12 countries and regions attending lectures by our senior engineers and visiting our facilities to understand how we deploy technology to enhance network reliability.

May



To take forward the offshore LNG terminal project, we enter into a long-term contract with Shell Eastern Trading (Pte.) Ltd. for LNG supply and sign an agreement with Mitsui O.S.K. Lines, Ltd. to hire an FSRU vessel.

Jun

YEAR AT A GLANCE

JUL - SEP

Jul



Happy Green Campaign presents its first mini-movie "Happy Green Today for Tomorrow" to promote energy efficiency and a low-carbon lifestyle.

"Smart Power Services", a suite of funds and schemes, is rolled out to help the community go greener. The Smart Power Building Fund subsidises 83 building improvement initiatives while the Smart Power Care Fund provides electrical appliances and offers subsidies to more than 1,100 underprivileged families during the year.



Aug

58 renewable energy systems are installed at customer premises over the year and connected to our grid to receive payment under the Feed-in Tariff Scheme. Renewable Energy Certificates with our entire stock of over 2 million units of green electricity are fully subscribed.



Sep



In line with our plan to systematically migrate from coal-fired to gas-fired generation to meet the Government's fuel mix target, HK Electric signs agreement for construction of a new gas-fired combined-cycle generating unit (L12) for commissioning in 2023.

We respond to the Hong Kong's "Long-term Decarbonisation Strategy Public Engagement". Our response outlines the different potential options that Hong Kong may consider to achieve a decarbonised city in particular those for the electricity generation sector.





L10, the new gas-fired generating unit, achieves two key milestones of “First Firing” and “Synchronisation” during the year for commissioning in February 2020.



‘Elsie’, our new virtual customer service assistant, provides 7 x 24 general enquiry services to our customers through natural language processing technologies.

Oct



The Hong Kong Management Association presents us with the “2018/19 Hong Kong Sustainability Award” and “Special Recognition for Innovation” in recognition of our commitment to these two facets of operations.



A pilot project for smart meters with Advanced Metering Infrastructure (AMI) is successfully implemented. A contract for mass deployment of smart meters commencing from 2020 is awarded after a tendering process.

Nov

Dec



2020 tariff adjustments are announced together with a series of relief measures such as dining coupons for the underprivileged to help the city’s SMEs and small catering establishments mitigate the impacts of social unrest.

CEO'S REPORT

We progressed with our HK\$26.6 billion Development Plan to cut emissions while offering a range of services and schemes to help the community decarbonise.



Wan Chi Tin
Chief Executive Officer



Delivering consistent performance

I am pleased to present the 2019 operation review of HKEI and its wholly owned subsidiary HK Electric.

2019 was the first year under the new Scheme of Control Agreement (SCA), which is effective for a term of 15 years ending on 31 December 2033. The new SCA, with its focus on energy efficiency and conservation and renewable energy, is well aligned with our overall strategy of driving decarbonisation in Hong Kong.

During the year, we progressed with our HK\$26.6 billion worth infrastructure projects under the 2019-2023 Development Plan that aims to, among other meaningful targets, cut emissions in line with Hong Kong's aspiration to become a smart green city. In the meantime we also placed considerable emphasis on the promotion of a range of services and schemes to help the community decarbonise, including plans to support energy saving and renewable electricity.

Innovation lies at the heart of our efforts to improve efficiency, sustainability and reliability. Under a new innovation strategy formulated in 2018, employees are encouraged to use technology to enhance customer experience and operational performance. In 2019, 23 innovation projects initiated by our employees were implemented. We also collaborated with Hong Kong's universities, industry bodies and start-up companies to benefit from external expertise.

By constantly focusing on maintaining and improving operational excellence, customer satisfaction and emissions performance, we were able to fulfil our commitments to customers as well as the community at large alongside these other strategic initiatives.

Investing for a greener, more efficient Hong Kong

Climate change is a very real and urgent threat to our way of life. We are taking action on multiple fronts: greening our power generation, building climate resilience into



our operations, and promoting renewable energy in the community. In addition to these major initiatives, we are also supporting community efforts to combat climate change, as outlined in the Sustainability Review section of this report.

Greener power generation represents a sizeable share of our 2019-2023 Development Plan, as we continue to migrate to gas-fired electricity generation at Lamma Power Station (LPS) and replace ageing coal-fired units. Our most significant achievement during the year was the completion of construction of L10, the first of three new 380-MW gas-fired combined-cycle units, which was commissioned in February 2020. Construction of the other two units is carried out in parallel and both are on schedule. We are also developing, in partnership with CLP Power, a new offshore liquefied natural gas (LNG) terminal to secure natural gas supply for operation of these new units in the future. The buildout of new generation-related infrastructure accounts for over 60% of our investment under the HK\$26.6 billion Development Plan.

Another key initiative is the full-scale rollout of smart meters and associated Advanced Metering Infrastructure (AMI). Implementing these initiatives will help HK Electric's customers improve energy management and further support Hong Kong's transition to a smart city while also enhancing customer service. We have completed a pilot project where AMI was deployed to a variety of locations including those with challenges or safety concerns for meter reading. Drawing on these experiences, we have refined the technical design and awarded the contract for deployment of smart meters to the rest of our supply areas.

To prepare for AMI, we also made further investments in several areas needed to support the rollout. These include implementing new telecommunications infrastructure and data management equipment to ensure that our communication network can support a large number of smart meters and other smart distribution devices when installed in our supply network.

This year, we also completed an important project to enhance connectivity at LPS. We have expanded Wi-Fi coverage across the site including Administration Road, and at the L10 and L11 construction areas and turbine halls. This project was completed in November 2019. All outdoor areas of LPS are now covered by the Lamma Wi-Fi system, improving communication with smart devices within the power station.



▲ Smart meters help customers improve energy management through data collection and analytics.



The Challenges of Constructing a sustainable future



▲ Lamma Power Station is progressing a large-scale construction project while still in full operation.

Over the past few years Lamma Power Station (LPS) has been transformed to a dual-purpose site. Not only does it generate the power essential for Hong Kong, but it is simultaneously moving full speed ahead with a huge capital works programme – the construction of L10, L11 and L12, our three new gas-fired combined-cycle generating units.

With a higher thermal efficiency of around 58.5% and equipped with the latest selective catalytic reduction system, the first of its kind in Hong Kong for gas-fired combined-cycle application, the new units will have much better emissions performance than existing generating units and will help us save fuel costs.

Implementing a programme on this scale has tested our logistical and organisational capabilities to the utmost. We have had to balance three important considerations throughout this process: operational, environmental, and safety.

An operational balancing act

One of the most significant challenges is the limited time and space available on site, particularly as three units are being built almost at the same time. With over 600 workers operating side by side during peak construction, and much of the site occupied by heavy-duty equipment and materials,

“Despite all site constraints and an extremely tight construction schedule, we are on track to complete this challenging project on time, with high quality and a good safety track record. This would not have been possible without the hard work and collaboration of our staff and business partners.”

Lau Chi Kwong
General Manager (Projects)



the working space for the three units has to overlap. Transport and deployment of resources at such a congested site requires prudent planning and close co-ordination among different working parties to maintain the tight operating schedule.

To help alleviate the lack of space and ensure quality workmanship, the team decided to keep on-site fabrication and assembly to a minimum. Piping, welding, and painting is undertaken off-site, and the majority of equipment is shop-assembled before being transported to the site ready for use.

Regular planning and project progress meetings at a project level, sub-team level and intensive co-ordination between construction work and LPS operations ensure on-time delivery.



▲ Off-site fabrication allows construction to stay on track despite space constraints at Lamma Power Station.

Environmental construction

Another priority is to ensure the construction process has the lowest environmental impact possible. A detailed Environmental Monitoring and Audit Programme is in place and monitoring is done on an ongoing basis to ensure compliance.

Take construction noise for example. High-decibel activities, such as piling and the use of certain machines, need careful scheduling so that they are done only during daytime hours. To minimise water use during the piling process we have built two sedimentation pools. All on-site passengers and light equipment transportation use electric vehicles to minimise emissions.

Safety first philosophy

Regular inspections and safety briefings are an integral part of the construction process. We also encourage all employees to become safety ambassadors with near miss reporting and incentive schemes for suggestions. There might have been thousands of workers on site over the year, but we are pleased to achieve zero lost time injury in 2019 for the construction of these three generating units.

Despite several constraints and a tight construction window, this vital project is running on time thanks to the commitment and hard work of our staff. With the success of L10 which went live in February 2020, we are confident that L11 and L12 are on schedule to begin commercial operations in 2022 and 2023 respectively, taking Hong Kong further on its green journey.



▲ Selective Catalytic Reduction System under installation.



▲ Engineers are assembling steam turbine for L10 generating unit.

CEO'S REPORT



▲ A group photo after the synchronisation ceremony of L10.

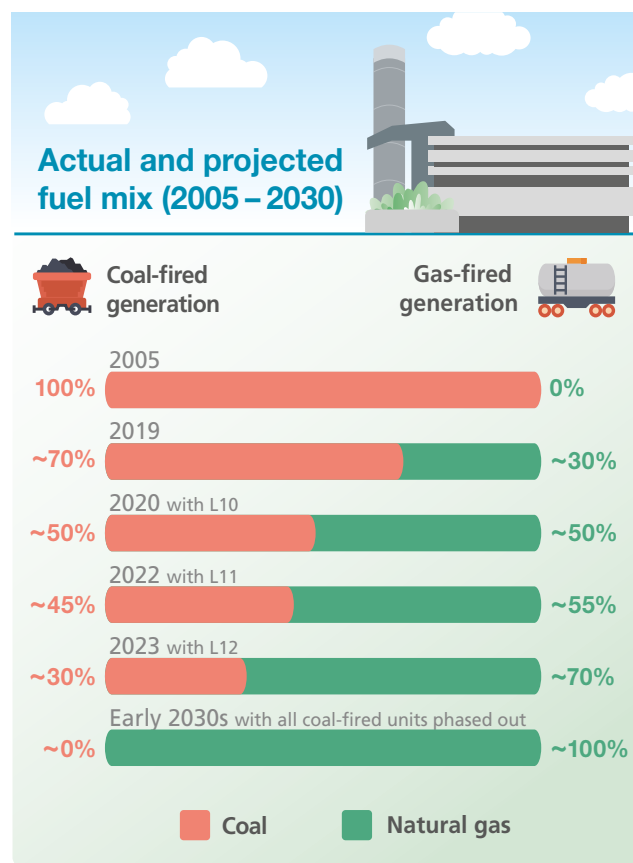
Gearing up for an era of decarbonisation

In October 2019, L10 reached two key final-stage milestones ahead of commercial use, passing its firing and synchronisation commissioning tests. The unit was commissioned in February 2020.

L10 has a higher thermal efficiency of around 58.5%, making it the most efficient energy generating unit within HK Electric's system. This represents a significant step forward in our ongoing transition from coal-fired to gas-fired generation, which has risen from about 30% in 2019 to about 50% in 2020 with the launch of L10. In keeping with the Government's climate and environmental policies, when the next two gas-fired units, L11 and L12, move into their operational phases, approximately 70% of all electricity supplied by HK Electric will come from gas-fired generation. This will not only enable us to reduce carbon footprint, but also the emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates by around 75-90% when compared to those of 2005 before any natural gas was used.

Construction moved forward on schedule for L11, with superstructure works progressing in 2019. At the same time, construction of the pile caps and tie beams of L11 main station building and heat recovery steam generator was substantially completed. Erection of structural steel for L11 main station building and 275-kV Switching Station is underway, and essential engineering design has been completed, with the first batch of construction equipment arriving on site at the end of 2019.

The master layout plan for L12 is being finalised as piling commenced in April 2019. HK Electric also signed an agreement with Mitsubishi Corporation for the supply of the generating plant for L12 in September 2019.



The security of natural gas supply is essential to HK Electric as we continue to migrate towards gas-fired electricity generation. Good progress has been made on the offshore LNG terminal project using Floating Storage and Regasification Unit (FSRU) technology, which will allow us to procure LNG directly from the international market.

A joint-venture company was established between HK Electric and Castle Peak Power Company Limited (CAPCO) in June 2019 to manage the construction and future operation of the offshore LNG terminal. This new entity, named Hong Kong LNG Terminal Limited, took the engineering, procurement, and construction contract to tender in 2019 and the contract was awarded in January 2020. An FSRU vessel has been booked for leasing on a time-charter basis, and a long-term agreement signed to acquire a steady supply of LNG to the terminal once operational.

Construction works are expected to commence in 2020, with the terminal due to launch operations in 2022. After completion of the project, the offshore LNG terminal will supply natural gas to LPS via a dedicated subsea pipeline and will be a key part of the infrastructure needed to increase gas-fired generation.

Meanwhile, the thin-film photovoltaic solar panels at LPS and the iconic Lamma Winds continued to contribute to our

decarbonisation effort, generating 1,757 MWh of green electricity in total in 2019.

Delivering world-class electricity supply

We maintained our outstanding track record in supply reliability, achieving a rating of over 99.999% for the 23rd consecutive year. This was the result of a proactive condition and risk-based approach to the design, management and maintenance of our transmission and distribution network. Our customers on average have experienced unplanned power interruption of less than one minute per year consistently since 2009.

To keep system reliability and performance at their high levels, a total of 29 new distribution substations were commissioned in 2019 and more than 104 km of distribution cables were laid. An advanced on-line partial discharge detection system and modern diagnostic techniques were used to monitor and identify weak components in the network. A new on-line full-function partial discharge monitoring system was tested and will gradually be retrofitted across the network.

Coincidental with the social unrest in 2019, we have been enhancing the physical security systems of our premises which include our office buildings and substation buildings.



▲ The FSRU vessel equipped with LNG tanks and regasification equipment in the offshore LNG terminal project.



Performance in Electricity Supply in 2019

> 99.999%
Reliability rating of electricity supply

0.6 minute
Unplanned power interruption in the year per customer

CEO'S REPORT



▲ The 132-kV transmission network is being extended to MTR's South Ventilation Building in Causeway Bay to support their Shatin to Central Link (Hong Kong Island Section).

We tested a new smart fault indicator technology which has the potential to significantly improve the speed and accuracy of fault detection of low voltage cables. The test was successful, and the technology will be deployed to our network, as a pilot project, in 2020.

After the attack of super-typhoon Mangkhut, apart from enhancing our anti-flooding measures at our low-lying substations, we have further refined the contingency plans for adverse weather and implemented a series of precautionary measures for rainy and typhoon seasons. We also built a computerised reporting platform to act as a single contact point for information gathering and dissemination during typhoons while a new feature was added in the Account-On-Line to provide our customers with information on supply interruption in the past 24 hours as well as planned shutdowns.

To support MTR's Shatin to Central Link (Hong Kong Island Section), two single-phase 132/25-kV oil immersed traction transformers are being installed in time, alongside retrofitting of two 132-kV load break switches and associated equipment and construction of two circuits of 132-kV single phase cables. Significant progress was made on all aspects of this complex project during the year.

Minimising environmental impact

We support the United Nations' Sustainable Development Goals (SDGs) and in 2019 formalised our strategy to support the three goals that are most closely aligned with our business: the provision of affordable and clean energy;

climate action, and industry, innovation and infrastructure. We have established specific targets for each of the three goals that we monitor and track on an ongoing basis in order to support Hong Kong's overall efforts on this front.

We work closely with the Government to review our emissions allowances and through proactive maintenance and management of our generation, transmission and distribution infrastructure, we are always in compliance with these regulatory caps. In 2019, we worked with the regulator to agree on tighter emissions allowances from 2024 onwards under the Eighth Technical Memorandum which was subsequently approved by the Legislative Council.

The ISO 14001 based Environmental Management System and the 4R policy form the framework for our efforts to reduce, reuse, recover, and recycle. These efforts extend across our operations to drive energy efficiency and lower emissions. During the year, 54 environmental management programmes including reduction of fuel use and Wastewater Schemes were implemented.



▲ Rainwater and plant processing water are collected at Lamma Power Station for reuse and help cut down on fresh water used.

To conserve water, a collection system at LPS to enable reuse of rainwater and plant processing water processed approximately 121,000 m³ of water, which helped cut down the volume of water used by the station. The fresh water used by the Station was reduced by 1.3% as compared to that of 2018. Smart meters monitored the use of fresh water throughout the year.

We are a member of the Government's "Programme on Source Separation of Commercial and Industrial Waste". We also collected electricity generation by-products, ash and gypsum, and other in-house wastes for use for other purposes.

In recognition of our commitment to green initiatives and waste reduction, LPS has been awarded a "Class of Excellence" Wastewi\$e Label for the 13th year in a row.

Encouraging adoption of electric vehicles

To encourage a low-carbon lifestyle among residents through the reduction of roadside emissions, we continue to provide support for electric vehicles (EVs) across Hong Kong, offering charging facilities for public use.

We maintain a network of six EV Alternating Current medium/quick-charging stations, two EV Direct Current quick-charging stations, and four EV multi-standard charging stations. These are spread across Hong Kong Island and, throughout 2019, were made available to the public free of charge. In total, we facilitated more than 12,000 EV charging operations during the year, and will continue to offer it in 2020.

In addition, we continued to provide technical support services for customers installing their own EV supply equipment. We have successfully assisted 9 carparks to arrange additional power supply for erecting EV charging facilities and received 280 enquiries during the year.

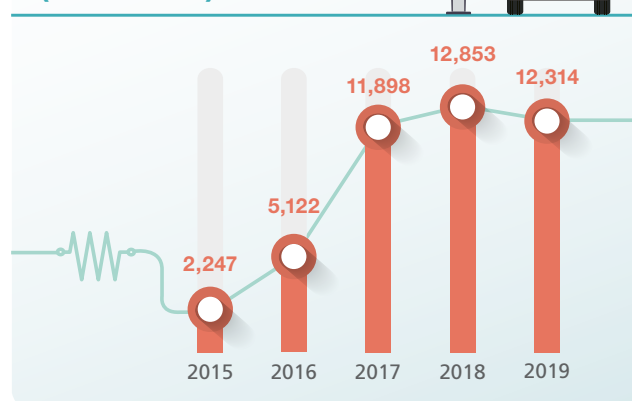
Also, under our EV initiative, we gave technical support to Citybus and First Bus concerning the installation of charging facilities for their electric bus fleets at the Hong Kong Station and Central Ferry bus terminuses. Further to this, we supported the Environmental Protection Department and four commercial ferry companies with their plans to install charging facilities at ferry piers.

At HK Electric, this EV initiative has been incorporated into our own operations. We continued to replace our existing petrol and diesel-powered vehicles with electric alternatives when they are retired from use. EVs now represent more than 47% of our fleet, which has reduced fuel consumption by about 16,000 litres when compared with 2018.

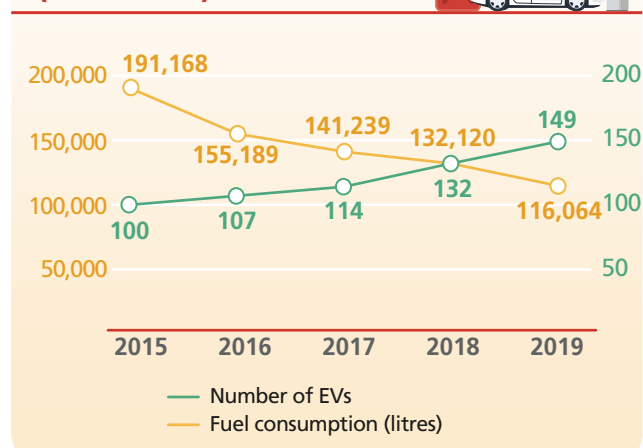


▲ HK Electric has a network of 12 EV charging stations providing free charging services to the public.

Free charging operations provided by our EV charging stations (2015-2019)



HK Electric EV deployment vs fuel consumption (2015-2019)



CEO'S REPORT



Performance in Customer Service in 2019

3.43 seconds

Average waiting time for telephone calls to Customer Emergency Services Centre

1.98 minutes

Average waiting time for counter services at Customer Centre

4.63

Average customer satisfaction index (5-point scale)

2,008

Commendations from satisfied customers

Zero

Service-related complaints

Creating enduring bonds with customers

At the heart of the mission is the commitment to excellent customer service, and we believe that customers have the right to know what level of service they can expect from us. We have consequently set ourselves a set of 18 stringent customer service standards that we measure our own performance by, which are reviewed every year.

We achieved all pledged customer service standards in 2019. Average waiting time for telephone calls to Customer Emergency Services Centre and counter services at our Customer Centre were less than 9 seconds and 3.5 minutes respectively. The number of commendations we received from satisfied customers reached a record high of 2,008.

Several facilities were introduced to cater to the preferences of the mobile-first generation. These included Virtual Assistant, Elsie, who made her first appearance in October 2019, providing a 24x7 channel for customers to make general enquiries. Our mobile payment service was made even more convenient in July 2019 with an auto-debit payment feature via AlipayHK.

Registration for online accounts and electronic bills was simplified through a fast-track registration channel launched in September 2019. Customers could complete the registration process within one minute by simply scanning the QR code printed on hardcopy bills.

We have recently formalised a Complaints Handling Policy which provides assurance to all our stakeholders that any complaints received are dealt with courteously, investigated thoroughly, and resolved quickly and appropriately. All complaints are reviewed by management in the Stakeholder

Satisfaction Steering Committee. We received 14 complaints in 2019 and none of them was service-related. All of the complaints were dealt with promptly.

We cemented our non-residential customer relationships with value-added services including visits to about 51 key corporate customers and SME advisory services and energy audits. Our efforts secured us the Best SME's Partner Award by The Hong Kong General Chamber of Small and Medium Business for the ninth consecutive year.

In December 2019 we announced a series of relief measures to help SME customers, especially small catering establishments, who have been hit the hardest by Hong Kong's unsettled socio-economic climate, including deferral of bill payment, NGO catering subsidy and dining coupons for the underprivileged to stimulate spending. A scheme was also devised to provide non-residential customers including SMEs with subsidies for the purchase of energy-efficient equipment. About 70,000 non-residential customers are receiving a waiver of tariff increase for the first six months of 2020, and more than 170 SME caterers had their electricity bill payment deferred by two months upon successful application.



▲ We will be providing underprivileged with dining vouchers to stimulate business for small catering establishments.

Promoting energy efficiency and RE

To promote energy efficiency and conservation and renewable energy in the community, we invested more than HK\$40 million in the development and promotion of Smart Power Services during the year. Aid was prioritised to disadvantaged members of society as well as buildings lacking financial resources and technical expertise. To increase uptake of the schemes, we worked with community NGOs and developed a mobile app to enable NGO partners to help specific families select the energy-efficient appliances best suited them, and submit applications for review and approval in real time. During the year, subsidy was allocated to over 80 buildings while about 1,000 families received energy-efficient electrical appliances. At the same time, we installed separate electricity meters at two sub-divided units so that a total of seven families could become HK Electric customers and be directly billed for electricity consumption.

Another important initiative under the Smart Power Services programme was the promotion of a Feed-in Tariff Scheme to encourage customers to install their own renewable generation projects. Customers' renewable energy installations – solar power or wind energy – are connected to the HK Electric grid and purchased by the company at special rates ranging from HK\$3 to HK\$5 per unit of electricity. Following the launch of a 200-kW photovoltaic system at Ocean Park in March 2019, we further connected about 60 installations for commercial buildings, residential blocks and schools. All these installations involve a total capacity of about 1 MW.

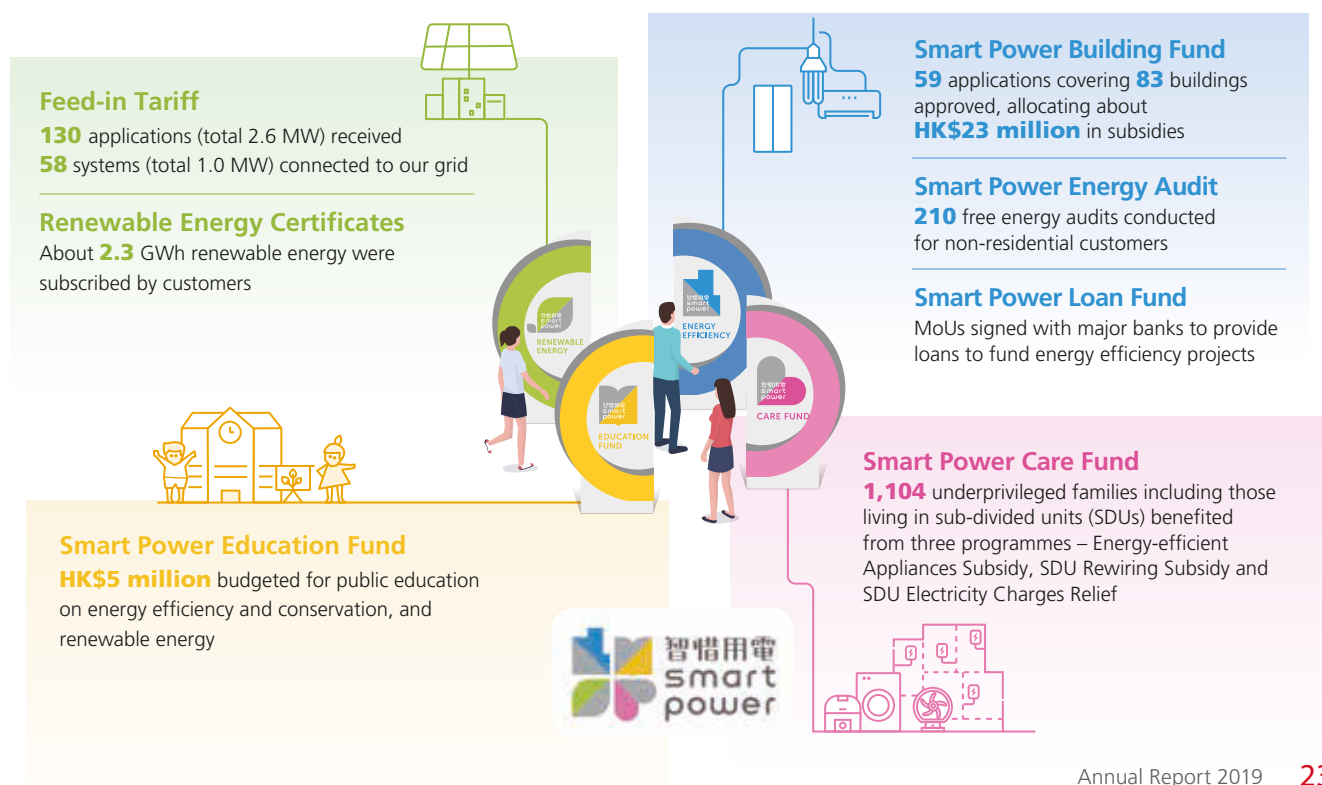


▲ Canadian International School has joined HK Electric's Feed-in Tariff Scheme and installed large-scale solar power system in the campus.

Renewable Energy Certificates (RECs), which allow consumers and businesses to support the local renewable energy generation and offset their own carbon footprint, also saw encouraging uptake from the community. All the renewable energy generated by HK Electric and our customers in 2019 were fully subscribed.

Smart Power Services represent our aspiration to help bring Hong Kong closer to becoming a green and smart city. It is our hope that the community embraces these new offerings and adopts a smarter energy consumption habit over the long term.

Smart Power Services Achievements in 2019





Fostering a culture of **Everyday Innovation**



“ Innovation culture must allow for experimentation, support and openness to new ideas. It must also tolerate failures, encourage diverse viewpoints and foster learning from mistakes. ”

Francis Cheng
Operations Director

▲ Operations Director, Mr. Francis Cheng (right) discussing with General Manager (Information Technology), Mr. Mullar Wan on the innovation projects proposed by colleagues.

At HK Electric, we believe innovation is about leveraging technology to find better ways to do things that are unconventional in the context of our operations.

Continuous innovation lies at the heart of our track record of excellence over the years. To formalise and increase the direction and focus of our efforts, we implemented a new organisation-wide Innovation Strategy in 2018. This strategy has already proved valuable in stimulating out-of-the-box thinking and collaboration, across divisional boundaries and beyond the organisation itself.

Since 2018, our Innovation Steering Committee, chaired by the Managing Director, has approved and funded more than 60 innovation projects initiated by employees of which 23 were implemented in 2019. All these projects started with identifying a problem, and then finding new ways to solve it. Anyone in the company, who spots an opportunity to innovate to improve efficiency, health and safety, sustainability or reliability, and thus benefit operational performance and customer experience, is empowered to suggest a new project by taking ideas to their supervisors or division heads. Once approved, the employee who made the suggestion is awarded with an incentive.

Our efforts were recognised in November 2019 when HK Electric was presented with a Hong Kong Sustainability Award and Special Recognition for Innovation by the Hong Kong Management Association.

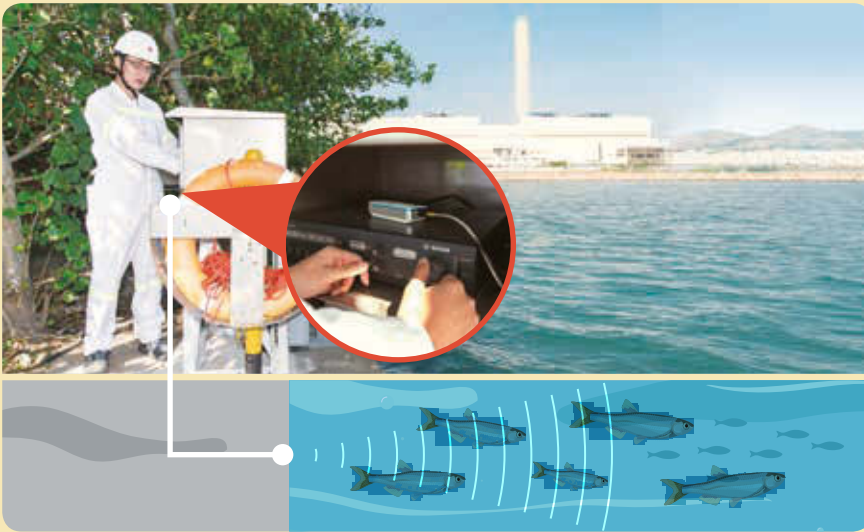
Innovating from the inside and out

Part of building a culture of innovation is to make it easy to innovate.

The Inno Hub is a platform on our intranet that gives information about successful programmes in the company, innovation projects in the pipeline and new ideas generated by others outside the company, to provide inspiration and generate feedback. It is invaluable in stimulating cross-functional initiatives and encouraging employees to share ideas.

Innovation cannot happen in a silo and we collaborate with industry bodies, academia and others in this regard. New industry and cross-industry collaborations have been undertaken in partnership with start-ups, universities and research institutions. One such example is a voice-bot project implemented jointly with Hong Kong Applied Science and Technology Research Institute to help further enhance customer experience.

Fish Deterrent System



Fish ingress is a common problem in cooling water intake systems of coastal power plants like Lamma Power Station. A new deterrent system to repel fish using low-frequency sounds was successful in greatly reducing the volume of fish going into our cooling water system, helping conserve marine life and cutting maintenance costs and operational risk.

eConnect

eConnect is an intuitive, easy-to-use mobile app development platform that enables business users to build their own app to support different aspects of their business and technical operations. Developed in partnership with a local technology start-up, eConnect has proved extremely popular: in 2019, over 65 mobile apps were developed or being developed by staff of which 27 were already fully functional, yielding efficiencies, improved customer experience as well as environmental benefits.

The “Smart Power Care Fund – Energy-efficient Appliances Subsidy Programme” app, developed on the eConnect platform, simplifies the application process for HK Electric customers seeking to upgrade their electrical appliances to energy-efficient ones. It is expected to save more than 5,000 sheets of paper and 28,000 man-hours each year.



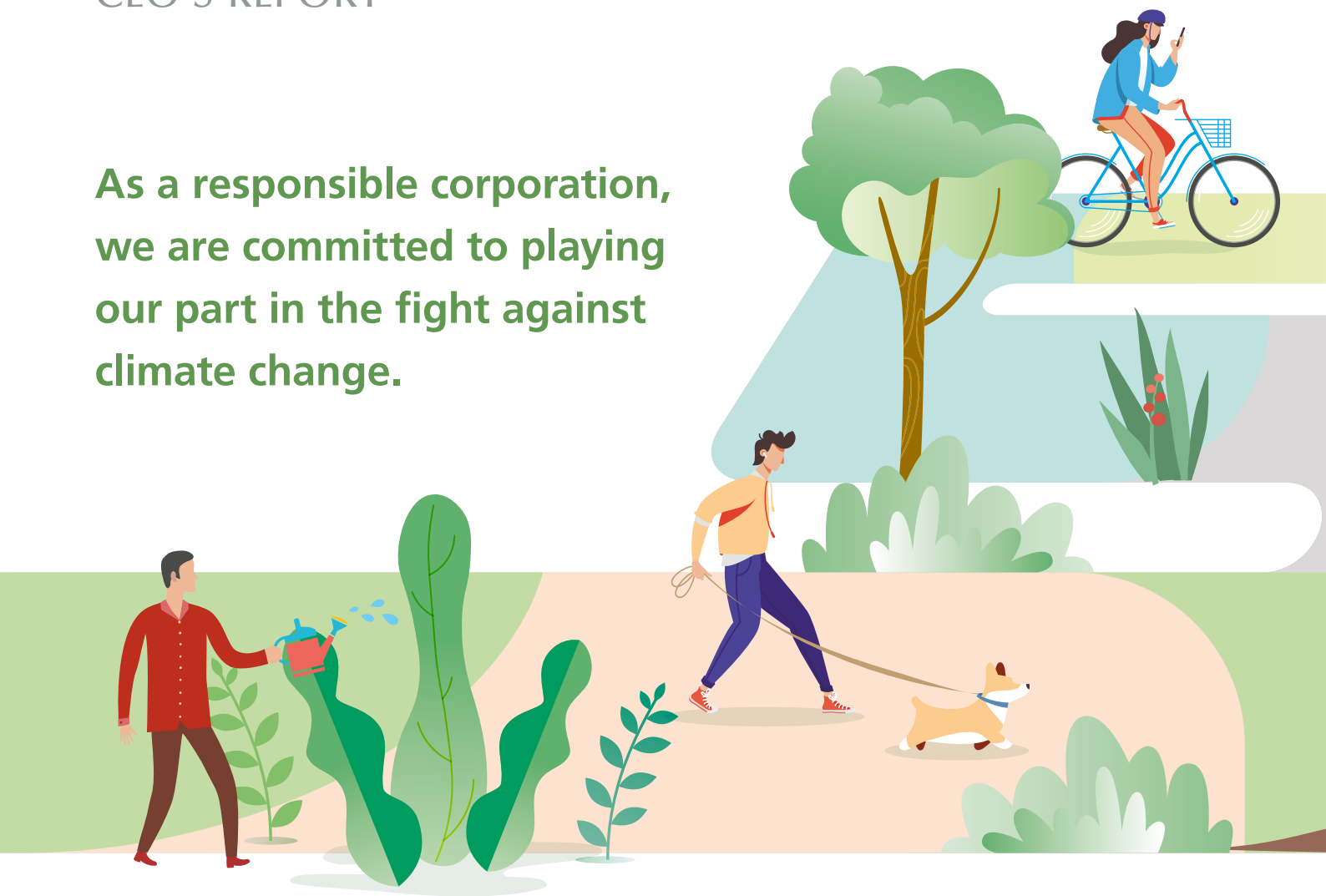
Smart Warehouse Cabinets



To maintain the performance level of our transmission and distribution network, a year-round calendar of maintenance work operates. Queues of employees and contractors waiting for parts and equipment often formed at the issuing counter of the warehouse, resulting in a waste of man-hours. Mobile smart cabinets using dual-authentication electronic locks and position tracking technology were launched during the year to allow authorised personnel to collect their requested materials that placed in the cabinets beforehand anytime round-the-clock, completely eliminating waiting time in many cases.

CEO'S REPORT

As a responsible corporation, we are committed to playing our part in the fight against climate change.



Apart from major initiatives described in the Operation Review section of this report, we also supported the community in its efforts to decarbonise, and ran numerous initiatives to optimise our operations and minimise our environmental footprint.

In 2019, we undertook a study with an external consultant on our potential contribution to the United Nations' Sustainable Development Goals (SDG) based on the materiality to our business. We have decided that in the coming years, we shall focus our efforts on SDG 13 – Climate Action; SDG 7 – Affordable & Clean Energy; and SDG 9 – Industry, Innovation and Infrastructure.

Following deliberation and extensive analysis, we have mapped many of our major ongoing operating initiatives to the chosen SDGs with specific targets, so that we can track our progress in tackling climate change through our day-to-day activities. For example, our efforts to reduce carbon emission from energy generation and help Hong Kong achieve the same are mapped to SDG13, while our reliability standards, efforts to support

needy and underprivileged members of the community with subsidies, energy audits and support for RE are mapped against SDG 7. Revamp of the Company's innovation strategy in mid-2018 and the subsequent increased efforts on cultivation of innovation projects in the company are mapped to SDG 9.



▲ Our selected goals from the United Nations' Sustainable Development Goals.



Our overall efforts are governed by the company's Corporate Social Responsibility (CSR) policy and the CSR Committee, which is responsible for the strategy behind our sustainability initiatives.

Building enduring stakeholder relationships

Maintaining communication with our stakeholders is a responsibility that we take seriously. Our yearly "Annual Report", "Sustainability Report", "Corporate Information" brochure, the quarterly "HK Electric On-line" news bulletin, corporate YouTube channel and Facebook page "@44KennedyRoad", all aimed to keep our stakeholders and customers abreast of company news and developments.

We strengthen these interactions with stakeholder visits to our facilities, building a broader understanding of our operations. 65 guided tours were arranged in 2019 for various stakeholders with Lamma Power Station (LPS) in particular receiving about 1,800 guests.

In addition, we engage District Councils (DCs), NGO groups, and various advisory committees across Hong Kong to keep communities informed of our activities. Periodic gatherings were organised with DCs to share updates on the latest developments of the company that are of districts' interests.

We collect customer feedback through satisfaction surveys and "We Meet on Friday" sessions. The 50-member Customer Liaison Group remains an important conduit to forge a close relationship with customer representatives. A meeting held in January 2019 followed by a visit to Lamma in October 2019 updated members on the new Smart Power Services as well as the company's efforts in supporting the Lamma community.

We also attach great importance to the opinions of our employees. Our long-standing Joint Consultation Committee, established over 40 years ago, gives our employees a platform for their views, and held 20 meetings across its six panels in 2019.

Fostering deeper community engagement

Our employees take an active interest in local affairs, often using their expertise to help address local community issues. Seven in total served on various Government committees including district area committees, fire safety committees, or elderly and welfare committees in 2019.

Our support for local community activities saw us participating in 132 activities organised by community groups, be they festive celebrations, recreational or green activities. We also donated to local and charitable causes.



▲ Our Customer Liaison Group is a valuable channel to gather customer feedback and suggestions.

CEO'S REPORT

Caring for the environment

As one of Hong Kong's leading energy providers, we embrace our social responsibility to tackle climate change and preserve our environment for future generations. To achieve this, we have invested in a number of initiatives to make our operations greener and lower our operating costs.

Our efforts to reduce energy consumption and report on these are based on the Government's Energy Saving Charter and 4Ts Charter. Regular carbon audits of our office buildings in 2019 enabled us to examine the effectiveness of our efforts and identify new ways to reduce power consumption, allowing us to cut electricity use by 5.3%.

We also continue to enforce and expand on our own 4R policy (reduce, reuse, recover, and recycle) to help reduce wastage in our operations. Our efforts in 2019 resulted in 14.3% and 9.6% reduction in food waste and water consumption respectively as compared with 2018.

Waste and water management

In order to minimise ocean pollution, single-use plastic including bags, straws, and cutlery has been discontinued from the head office canteen since May 2019. We reduce food waste at source in our canteens by a system of advance booking of meals while unused food continued to be sent to the underprivileged through a partnership with an NGO, Food Angel – with more than 184 kg donated during the year.

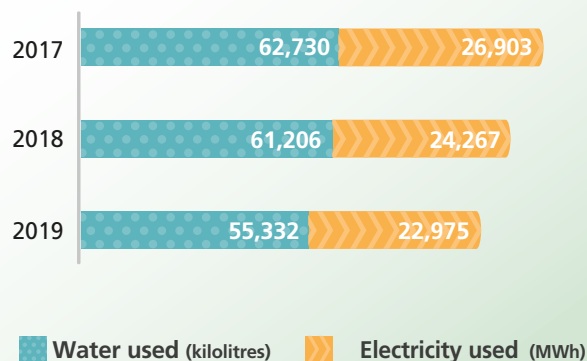
We made extensive efforts to communicate the benefits of reducing, reusing and recycling office waste to our employees. A waste management talk was held in October 2019, in partnership with the Hong Kong Productivity Council and our recycling contractor.

These new initiatives operate in tandem with our existing "Pass-It-On" scheme, a recycling platform hosted on the company's intranet where employees can give away their unused belongings to others. 88 items found new homes via the platform since the scheme was launched in 2017. Our centralised rubbish and recycling bin policies also streamline waste management and recycling effort of the company.

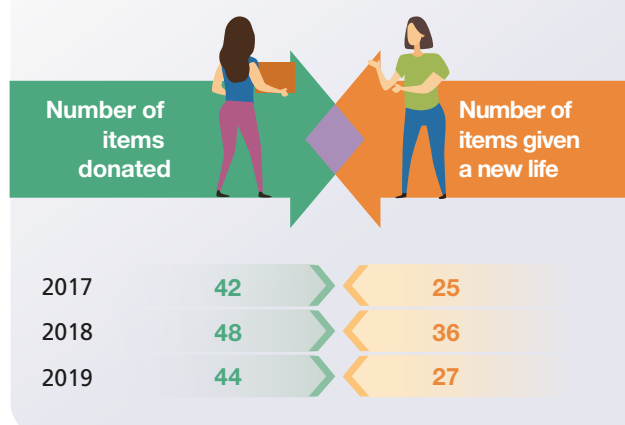


▲ Garden mulch being created out of food and garden waste as part of our 4R operating principles.

Water and electricity consumption of office premises (2017-2019)



Number of items exchanged via the "Pass-It-On" platform (2017-2019)



Water conservation is another focus area, and we worked to achieve new targets for water savings at our two major corporate office premises. Thanks to a series of measures, water consumption at Electric Tower and Electric Centre reduced by 12 – 14% compared to 2016 levels.

Energy management

We have rolled out energy meters across our buildings to fine tune our energy-saving plans. We continued our phased programme of retrofitting LED lamps to office buildings at LPS, replacing 530 lamps during the year to save more than 46,400 kWh of electricity annually.

Another key project is upgrade of the ventilation and air-conditioning system at LPS. When completed in 2024, it will result in a 6% energy reduction.

Continuous efforts were made to maintain the indoor air quality across our buildings, ensuring a healthy working environment for employees. In 2019, the Hongkong Electric Centre, Electric Tower and Customer Centre all obtained “Excellent” class Indoor Air Quality Certifications from the Government.



▲ Computer room air-conditioning unit at our Lamma Power Station new control building is upgraded to optimise energy use.

Helping stakeholders care for the environment

To educate customers about the best ways to save energy, we ran energy efficiency and electrical safety talks for the owners and managers of residential buildings. Fifteen guided tours were also conducted for facilities management professionals to our Power Quality Centre.



▲ In partnership with Green Power, HK Electric helps educate hikers on green habits and “Leave No Trace” principles.

Our employees provide us with some of the environmental management programmes for environmental protection. These programmes will be implemented in 2020. Employees also received refresher training sessions to update them on the latest environmental management and energy conservation initiatives, as well as changes in legal and other relevant requirements.

We hold our suppliers and contractors to the same high standard of environmental performance that we have for ourselves. As such, we endeavour to ensure they incorporate CSR into their operations while conducting business.

Collectively creating a greener Hong Kong

HK Electric actively participates in various external green initiatives, supporting the efforts of others in protecting the environment and tackling climate change, including the United Nations’ World Environment Day. In 2019, more than 600 employees pledged to go “green” and adopt low-carbon lifestyles throughout the month-long campaign.

We assisted the community’s energy saving and environmental protection efforts, too, providing system load data for WWF’s “Earth Hour 2019” and Green Sense’s “No Air Con Night” to assess campaign impact.

At the 2019 Hong Kong Eco Expo Asia we promoted our Smart Power Services, showcasing what the community could do to save energy and go green.



The Smart Power Gallery Inspiring the way people think and act on energy



▲ The Smart Power Gallery helps students understand more about energy saving and renewable energy.

Last year, Greta Thunberg, the teenage Swedish climate change activist named Person of the Year 2019 by TIME magazine, said: "The climate crisis has already been solved. We have all the facts and solutions. All we have to do is wake up and change." For decarbonisation to become a reality, it is essential for people to adopt low-energy practices in their day-to-day lives.

To help bring alive the possibilities of energy conservation and renewable energy to Hong Kong's residents, in April 2019 we launched the Smart Power Gallery – an interactive learning space that is free for all to access.

Located in Possession Street, Sheung Wan, the gallery spans five floors and is steeped in company heritage, occupying the premises of the former HK Electric pay-in centre. Across the different floors, visitors can uncover the story behind HK Electric and what is powering Hong Kong, take a look at the smart living experience of the future, and understand how they can save energy in their everyday lives with our Smart Power Services.

Engaging Hong Kong's residents

To aid the learning experience, the gallery features a range of multimedia displays that communicate, among other things, what Hong Kong residents can do and access to improve

“Connecting visitors from all walks of life, ranging from junior students to different community sectors, in an easy-to-understand and interesting way is a real challenge. I am immensely proud of my team, who did a great job in effectively conveying the essence and spirit of 'smart power' to our stakeholders from the day the Gallery's doors opened.”

Raymond Choi
General Manager (Customer Services)

on their electrical infrastructure, install energy efficient appliances, and more. Visitors can also take part in games and interactive sessions that educate them on renewable energy, energy efficiency and conservation, climate change, smart city development and smart living.

Since opening, the gallery has attracted a lot of interest and provided a platform to bring the climate change conversation to the general public in Hong Kong. More than 2,200 people from over 130 organisations have visited, including primary and secondary schools and community organisations.

Educating the next generation

Cultivating environmental awareness and creating an innovation mindset in Hong Kong's younger generation is an important goal of the gallery. To facilitate this, Smart Power Connect, a dedicated

area within the gallery, hosts a series of workshops that are designed to engage students in a way that is fun, interesting and easy to understand.

These STEAM workshops (so called because they incorporate science, technology, engineering, the arts and mathematics) have been popular with students. "My class enjoyed assembling solar-powered robots as part of learning about the principles of renewable energy," said a schoolteacher who visited the gallery.

Promoting change through technology

Technology start-ups can also use the space to demonstrate their new smart and low-carbon solutions. Together with HK Electric's smart power knowledge and innovative ideas, this enables and inspires the community to go forward towards a low-carbon smart city.

A Look Inside the Smart Power Gallery



Visitors learn about smart cities through interactive games.



Exhibits explain the principles of solar and wind power.



The Gallery introduces to the public HK Electric's vertically integrated operation, including generation, transmission, distribution and supply.

CEO'S REPORT



▲ Our volunteers extend a “hearty” welcome to the recognition by the Social Welfare Department.

Investing in the community

We believe that providing world-class power supply aside, we should also contribute to the betterment of the community. All the way, HK Electric has been focusing on two specific areas in our social outreach activities: senior citizens and the environment. Our programmes aim to achieve long-term social impact by improving the health and wellbeing of participants as well as building a stronger and more inclusive community.

In 2019, our growing team of more than 1,200 volunteers supported 94 services with a total of 4,766 hours. During the year, we further expanded our service areas for volunteering initiatives to cater to community needs and staff interests. Following training and orientation, our volunteers took up new services such as visiting inmates in partnership with The Society of Rehabilitation and Crime Prevention. We helped organise other events such as “Tai Chi for Parkinson Disease” alongside the Hong Kong Parkinson’s Disease Foundation.

Our volunteers team celebrated its 15th anniversary in May 2019, where 260 employee volunteers and guests from NGO partners attended to reminisce our partnerships and the fruits of our collaboration. The ceremony recognised individuals and divisions who had made extraordinary contributions in 2018 and throughout the past 15 years. We also introduced the Volunteers Leave Policy by formalising the previous compensation leave scheme to encourage employees to join volunteer services during their spare time.

Employee volunteerism in action (2019)



▲ HK Electric volunteers help deliver daily supplies to elderlies as part of the CAREnJOY programme.

Educating the Young

The Smart Power Campaign, our anchor green education programme, was rebranded the Happy Green Campaign in 2019. The campaign formed the umbrella for a number of educational activities designed to promote energy efficiency and conservation, renewable energy and low carbon living under the theme of “Smart Power for Smart City”.



▲ The Happy Green Campaign promotes low carbon living with a mini movie featuring popular actor Steven Ma.

Empowering younger generations to make lasting change is a key goal of the Happy Green Campaign. A mini movie starring popular local actor and singer, Steven Ma, was produced to drive home the long-term consequences of environmentally-unfriendly actions. Interactive displays and games at roving exhibitions gave younger audiences and the public information and hands-on experiences of the connection between a smart city and a green city.

To combine environmental education with life-planning skills, the “Green Energy Dreams Come True” competition provided grants to 13 schools for projects that bring their green ideas to life. The Happy Green Schools network, now including more than 450 schools, offered various activities in 2019 to promote green awareness among students, including visits to HK Electric’s facilities, eco-tours, school talks and training on running green campus TV.



▲ Roving exhibition is held to promote the theme of “Smart Power for Smart City” for the Happy Green Campaign.

Also aimed to enhance green awareness among the community, the “Green Hong Kong Green” programme, jointly organised with the Conservancy Association, continued to take members of the public to appreciate the beautiful eco-heritage resources of our city along the 10 routes on Hong Kong and Lamma Islands. Following the success in 2018, new thematic tours were again organised during the year on digital photography, forest bathing and history of Lamma Island. Conducted by guest guides and eco-leaders, the tours have attracted more than 700 participants. Self-guided tours were also possible through the GHKG app, which has attracted a total of 37,963 downloads so far.

CEO'S REPORT

Empowering the elders

Another important aspect of our community engagement is to help the elderly make the most of their lives. We do this through a spectrum of activities that promote their self-confidence and interpersonal skills, encourage active-aging and reaching out to the community. For those who are less active, home visits are paid to spread our message of love and care.

Working hand in hand with the Hong Kong Council of Social Service for the past 13 years, our University of 3rd Age (U3A) network helps local retirees stay active and involved by learning new knowledge or skills, staying fit and contributing to the community. During the year, 10 retirees were named top Smart Power Ambassadors for their commitment to lead a green life and promote the same to their families and friends. They then went on to conduct about 70 sharing sessions for some 1,600 participants, spreading green messages to people around them.

The CAREnJOY for the Elderly programme entered its 11th year with a renewed focus on helping the elderly be more aware of dementia, its possible symptoms, prevention and proper treatment. During the year, the programme reached out to more than 2,250 elders, sharing tips on home electrical safety,

as well as promoting exercise to enhance mental agility. During home visits, we also bring along daily necessities to reduce their needs for shopping bulky goods.

To further promote awareness of dementia internally, we registered as a dementia-friendly organisation and encouraged staff to become "Dementia Friends".



▲ Green education in the form of field trips is arranged for U3A members.

Community Investment Achievements in 2019

Elderly Care



More than 2,250 single elders benefited from community talks and home visits promoting the importance of keeping the brain active, eating right and exercising regularly

17,058 learning opportunities were provided to local retirees under the "U3A Network" through **940** classes organised

The "**CAREnJOY**" programme trained elderly volunteers to become **CAREnJOY Ambassadors**

More than 700 participants learnt about Hong Kong's eco-heritage resources through **57** tours under the "Green Hong Kong Green" programme

Around **70** secondary school students became "Happy Green Ambassadors", sharing tips on green lifestyles with their families and peers

15 schools were provided grants to bring their green ideas to life under The "Green Energy Dreams Come True" competition



Environmental Education

Creating empowered employees

The talent, diversity and commitment of our employees are crucial to enabling us to achieve our ambitious targets and redefine the energy sector in Hong Kong.

Over the years, we have cultivated a work environment that nurtures both personal and professional growth, and rewards innovation and continuous improvement of our employees. Policies and systems are in place to attract, develop and retain our talents.

Attracting the top talent

We are committed to providing equal opportunities in recruitment, training, promotion, transfer, compensation, benefits provision, and termination, regardless of our employees' backgrounds, beliefs, or other personal factors. We take every possible step to ensure that equal opportunity principles are adhered to in our recruitment process, and our employees are recognised and rewarded according to their contribution, performance and skill.

Our commitment to talent management and employee engagement has enabled HK Electric to reach higher rankings in recent years and secure 4th place among the top 20 most attractive companies in the Hong Kong Randstad Employer Brand Awards, which in 2019 surveyed over 3,700 local job seekers and employees on their perception of 75 largest employers in Hong Kong.

As an employer of choice, we review remuneration annually and benchmark against comparable organisations in relevant industries. In 2019, we continued our "pay-for-performance" policy that appraises and rewards our employees on the basis of overall performance including target achievements and competencies displayed. To better support our employees on parental care, maternity leave was extended from 10 weeks to 14 weeks, while paternity leave was extended from three days to five days in 2019.

Of our 1,770 permanent employees, 81.6% were men in 2019. We had a voluntary employee turnover rate of 5%.

To attract the best talent and promote an engineering career to Hong Kong's young talent, we participated in annual career fairs and delivered talks on our graduate trainee (GT)



▲ Our Young Talent Development Programme uses a variety of out-of-the-box techniques to promote teamwork and leadership skills.

programme at all key universities, recruiting nine GTs in 2019. To promote STEM careers, 48 students were offered hands-on experience through our industrial placement, industrial attachment and vacation trainee programmes.

Developing tomorrow's leaders

We promote a workplace that empowers employees, encourages innovation and helps our employees unleash their full potential. We invest in staff development through providing our employees a variety of learning opportunities that will enhance their management and technical skills on the basis of their job capacity, personal capability and development potential. This is done through in-house training, on-the-job coaching and job rotation programmes.

Continuing the theme of empowering our employees to be proactive, passionate and self-driven towards work, a seminar was held in January 2019 for over 480 employees to foster a spirit of taking responsibility. We also step up efforts in nurturing our leadership pipelines through the Young Talent Development Programme and Leadership Development Programme. Participants of both programmes are provided with a range of learning opportunities and activities which are geared to their development needs.



Graduate Trainee Programme

Nurturing future leaders



▲ Many of our senior leaders are proud alums of our graduate trainee recruitment scheme.

For an essential utility like HK Electric, the equipment we use to generate and transmit reliable electricity to about 581,000 customers is only part of the story. We rely upon our people, our most important asset, to innovate and excel daily. Specialist engineering and technical talent make up over 60% of our staff.

Maintaining a pipeline of reliable technical talent is very important to sustain our leadership position. That is why we have been running a Graduate Trainee (GT) programme since the 1970s, recruiting about 10-20 engineering graduates each year from major universities in Hong Kong and overseas.

Following a series of aptitude, written and psychometric tests, the most promising applicants are selected into our programme. All trainees first undergo two or three years of on-the-job training under the Scheme "A" – accredited programme of Hong Kong Institution of Engineers. They will be placed in major departments to learn different aspects of our business operations, ranging from project design, engineering specification, project management, to construction, operation and maintenance in connection with generation, transmission and distribution of electricity.

From GT to senior management

After completing their training, graduates are appointed as engineers and assigned a post based on their strengths. Promising candidates can expect to be promoted after about two to three years on the job.

In HK Electric, we are committed to supporting our graduate trainees' aspirations for long-term career growth that help them make the best of their strengths and expertise. This could take the form of professional development support so that graduates know what is required each step of the way – whether that

is more hands-on experience, professional qualifications, or in-house authorisation – or on-the-job mentoring.

Our carefully structured programme ensures general competencies are matched with specific power industry expertise as graduates develop and subsequently become leaders in the business: we are proud to say that 40% of our management team and senior staff came through it.

We have a high retention rate within this talent pool, too, which bears out our philosophy that people give their best in an environment where they can learn and grow throughout their careers.

GT programme alumni account for 40% of management and senior staff

Total number of management and senior staff	GT alumni
149	60

DIVISION HEAD / GENERAL MANAGER

▲
DEPARTMENT HEAD

▲
SECTION HEAD / CHIEF ENGINEER

▲
SENIOR TITLE ENGINEER

▲
TITLE ENGINEER I / II

▲
ENGINEER I / II

▲
GRADUATE TRAINEE

Four colleagues, all former GTs who joined us at various times in the last three decades, share their tips for a fulfilling career in HK Electric.

“ I’m glad to be able to grow with the company since I was a GT 30 years ago. My top tip for any GT is to be willing to take up challenges and adapt to transition. Instead of simply relying on previous experience, be proactive in searching for innovative ways to drive improvement, and embrace technology to help do so. ”

CS Leung

Head of System Operations, System Control Department



1987 Intake



1992 Intake

“ For long-term growth one should keep an open mind to learning without expecting instant returns. What you have learnt would never be wasted, be patient and it will be useful someday. For example, the rotational training I had when I was a GT gave me exposure to every department – which cut the long-term learning curve as I grew in the organisation. ”

Wilson Kwok

Head of Technical Services, Transmission and Distribution Division

“ Since joining as a GT after an internship at Lamma Power Station, I have had the opportunity to be involved in all aspects of the construction of L10, the new gas-fired combined-cycle unit: a unique and highly fulfilling opportunity so early in my career. All credit to the ongoing support of my team and mentorship from senior colleagues that have helped me push my own limitations. ”

Joey Tang

Project Engineer II, Mechanical Department of Projects Division



2011 Intake



2015 Intake

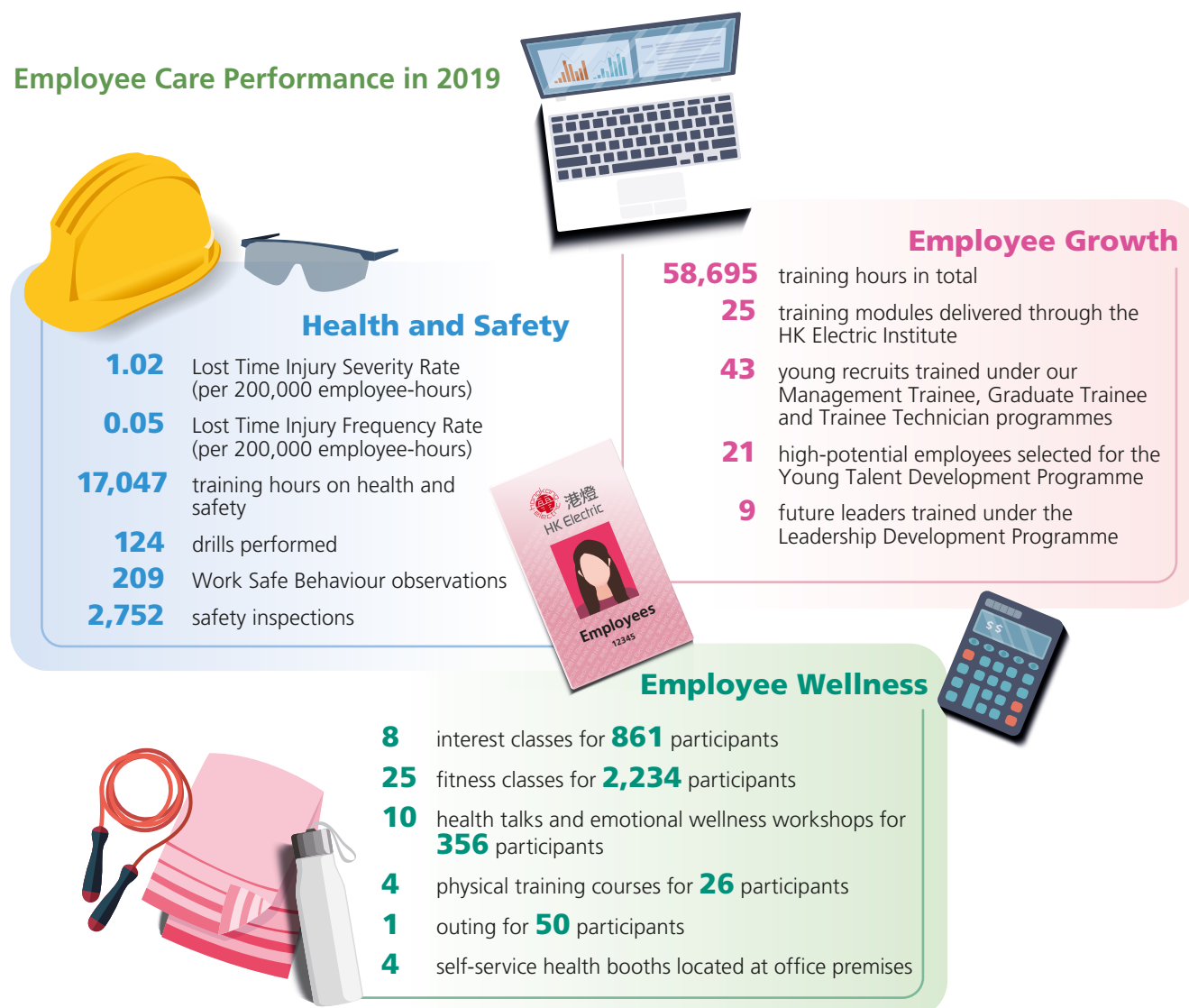
“ Apart from developing technical and managerial abilities, GTs in HK Electric are also introduced to the ethos of giving back to the community by joining a wide variety of community and volunteer services. Activities like paying home visit to elders give a sense of satisfaction, while improving communication skills and facilitating personal growth. ”

Kevin Leung

Project Engineer II, Operations Department of Transmission and Distribution Division

CEO'S REPORT

Employee Care Performance in 2019



To promote and improve STEM education in the region, lecturers from the HK Electric Institute co-taught the "High Voltage Engineering" module to masters students at The Hong Kong Polytechnic University. We also conducted a module for about 25 senior professionals from 12 countries and regions as part of our collaboration with the Belt and Road Advanced Professional Development Programme in Power and Energy run by The Silk Road International School of Engineering for the second consecutive year.

Safeguarding our most important asset

As a heavy industry, ensuring the health and safety of our workforce is amongst our top priorities. In addition to compliance with all statutory requirements, a comprehensive Safety Management System, a Health and Safety Policy, an Alcohol and Drugs Policy and a collection of corporate-wide health-and-safety-related guidelines are in place and are strictly enforced.

The company offers a wide range of incentives including Safety Excellent Scheme, Safe Driving Scheme, and Safety Incentive Scheme for Frontline Employees to motivate them to put health and safety matters into everyday practice and work towards incident-free operations.

The principles for safety at electrical and mechanical work are stipulated in the company's Safety Rules, which are reviewed regularly to incorporate developments in legislation, the power system and working environment, in line with the industry's best practices. We implemented action plans generated from our triennial Safety Climate Index Survey, a company-wide survey aims at assessing our own performance and identifying areas of improvement, conducted in 2018. Improvement in scores was noted when compared to the last survey so we will focus on areas that need further improvement.



▲ A group photo of HK Electric engineers after having training on construction safety at the Safety Experience Training Centre at the Construction Industry Council.

In 2019, we drove innovation across the company and a campaign “Continuous Safety Improvement and Innovation Scheme” was launched to encourage employees to come up with ideas to further improve our safety performance.

The Transmission and Distribution Division continued with its Work Safe Behaviour programme, launched in 2011, under the theme “Driving Safety” to look for ways to improve drivers’ behaviour to enhance driving safety.

Across all our locations, housekeeping inspections were conducted throughout the year to ensure compliance with 55 practices and office safety principles.

Protecting employee wellbeing

As a responsible employer, we recognise the importance of protecting our employees’ overall well-being and have formalised our commitment by being a signatory of the Joyful@Healthy Workplace Charter launched by the Department of Health and the Occupational Safety and Health Council since 2016.

Long-term well-being can be achieved only if people take an active role in managing their own physical and emotional wellness, as well as maintaining a work-life balance. With this in mind, we continued to promote “Drive your own purpose” as our theme, organising 10 health talks and emotional wellness workshops in 2019, attended by 356 employees. Besides, 37 wellness courses including interest classes,

physical training and fitness activities had been organised to enhance employees’ physical and psycho-social wellness.

One popular initiative in 2019 was our Good Neighbours’ Club, which organised a basic counselling skills workshop for 16 employees to prepare them to be Good Neighbours. There were a total of 87 Good Neighbours in 2019.

We continued to provide an Employee Recreational Subsidy to support our staff to organise group activities such as picnics, barbecues and other leisure activities among themselves, contributing to team bonding.



▲ Our extra-curricular activities such as Runners’ Club keep people fit through physical activities, provide platform for work-life balance and team building.

Conclusion

As a participant in the CDP (formerly the Carbon Disclosure Project), we report greenhouse gas emissions and our efforts in reducing these and in building climate resilience annually. We implement proactive strategies to combat climate change and enhance transparency in information disclosure.

Our commitment is to support Hong Kong’s transition to a green, smart city through our business and community related activities. Our various programmes and engagement strategies are part and parcel of our vision to make a positive contribution to the sustainable development of Hong Kong.

FINANCIAL REVIEW

Financial Performance

The Trust Group's revenue and audited 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 HK\$ million	2018 HK\$ million
Audited 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
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

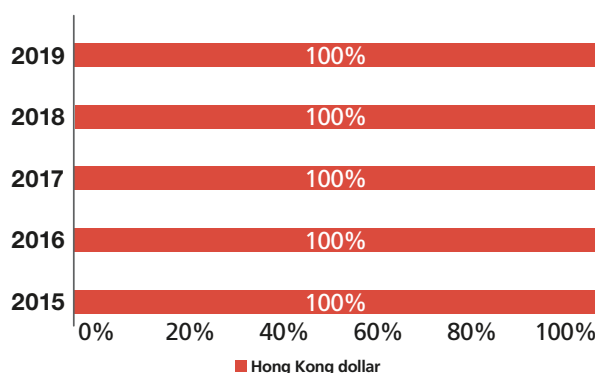
The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity 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 2047 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.

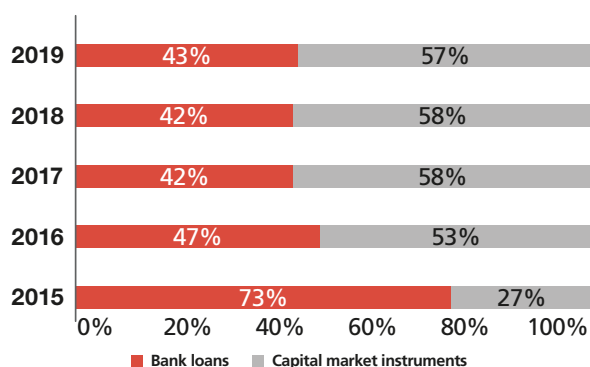
The profile of the Trust Group's external borrowings as at 31 December 2019, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

Debt Profile by Currency

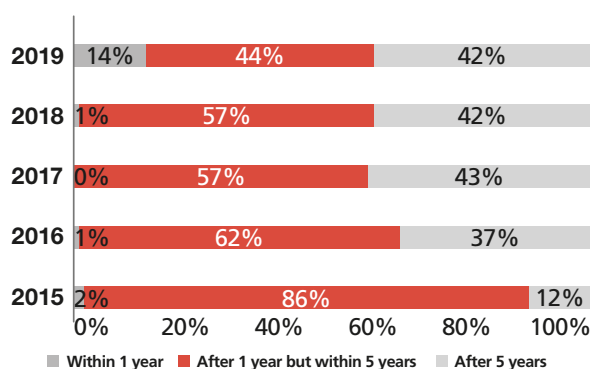


FINANCIAL REVIEW

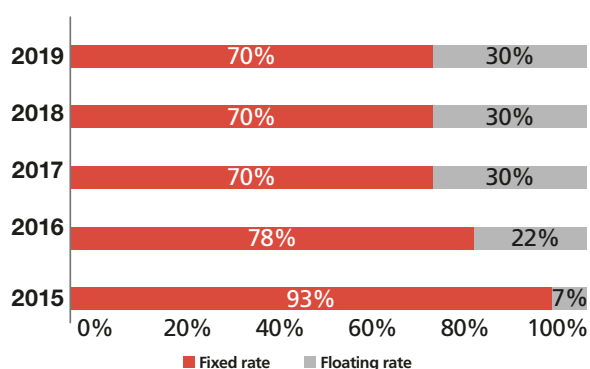
Debt Profile by Types of Borrowings



Debt Profile by Maturity



Debt Profile by Interest Rate Structure



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

AWARDS GALLERY



18 Awards Corporate / Community

- **2018/19 Hong Kong Sustainability Award**
Large-sized Organisation
 - 2018/19 Hong Kong Sustainability Award
 - Special Recognition for Innovation
- **Caring Company Scheme 2018/19**
 - 5 Years Plus Caring Company Logo
- **HSBC Living Business Award 2018**
 - Sustainable Supply Chain Leaders
- **The Community Chest of Hong Kong**
Corporate and Employee Contribution Programme 2018/19
 - Silver Award
 Employee Contribution Programme 2018/19
 - 9th Top Fund-raiser
- **2019 Randstad Employer Brand Awards in Hong Kong**
Corporate Category
 - 4th Place
- **2019 ARC Awards International**
Sustainability Report 2018
Chairman's Letter/Presentation
(Sustainability Report: Asia, Mid-East & Pacific)
 - Silver Award
 Interior Design
(Sustainability Report: Asia, Mid-East & Pacific)
 - Bronze Award
 Written Text
(Sustainability Report: Asia, Mid-East & Pacific)
 - Bronze Award
 Infographics
(Sustainability Report: Asia, Mid-East & Pacific)
 - Honors Award



- **Happiness-at-work Promotional Scheme 2019**
 - "Happy Company 5 Years Plus" Label
- **Construction Industry Council "Construction Industry Volunteer Award Scheme 2019"**
 - Merit Award for Most Supportive Organisation
- **Good MPF Employer 2018-19**
 - Good MPF Employer 5 Years
 - e-Contribution Award
 - MPF Support Award
- **Partner Employer Award 2019**
Corporate Category
 - Excellent Corporation
- **Fair Trade Corporate Label**
Corporate Category
 - Silver Award

25 Awards Customer Service

- **HKRMA Mystery Shopper Programme**
 - 2019 Excellence Award
 - 2019 Service Retailers of the Year – Retail (Services) Category Award
- **HKRMA Service & Courtesy Award**
Individual Category
 - 2019 Excellent Service Star
 - Public Utilities Category: Gold Award (Junior Frontline Level)
- **HKRMA Mystery Shopper Programme (Oct 2018 to Dec 2018)**
 - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shopper Programme (Jan 2019 to Mar 2019)**
 - Service Industry Leader – Gold Award
 - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shopper Programme (Apr 2019 to Jun 2019)**
 - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shopper Programme (Jul 2019 to Sep 2019)**
 - Retail (Services) Category: Service Category Leader
- **HKIM Market Leadership Award 2018/2019**
Corporate Category
 - HKIM Hong Kong Power Brand 2018/2019

AWARDS GALLERY

• 2019 International Customer Relationship Excellence Awards

Corporate Category

- Public Service of the Year (Public Utility)

Individual Category

- Customer Service Team Leader of the Year (Public Utilities – Contact Center)
- Customer Service Professional of the Year (Public Utilities – Contact Center)
- Customer Service Professional of the Year (Public Utilities – Service Center)
- Customer Service Professional of the Year (Public Utilities – Technical Center)
- Customer Service Professional of the Year (Contact Center): 2 Merits
- Customer Service Professional of the Year (Technical Center): 3 Merits



• Best SME's Partner Award 2019

Corporate Category

- Best SME's Partner Award 2019

• Hong Kong Call Centre Association Awards 2019

Corporate Category

- Mystery Caller Assessment Award: 2 Gold Awards (Commerce and Utilities)

Individual Category

- Inbound Contact Centre Representative of the Year: Silver Award

• Hong Kong Star Brand Award 2019 (Enterprise)



26 Awards Environmental

• Charter on External Lighting: Platinum Award

- Tamar Station Building
- Hongkong Electric Centre
- Lamma Power Station
- Electric Tower
- North Point Station Building
- Electric Centre
- Connaught Road Switching Station & Station Building
- Sheung Wan Station Building
- Marsh Road Station Building
- Causeway Bay Station Building

• Hong Kong Green Organisation Certification

- 2 Excellence Level Wastewi\$e Certificates (T & D, Generation)
- Good Level Energywi\$e Certificate (T & D)

• CarbonCare® Label Scheme 2019

- CarbonCare® Star Label
- CarbonCare® Label: Level 1 (Hongkong Electric Centre)

• BOCHK Corporate Environmental Leadership Award 2018

- Manufacturing Sector: Bronze Award

• Indoor Air Quality Certification Scheme

- Excellent Class Certificate: Hongkong Electric Centre (Whole Building)
- Excellent Class Certificate: Electric Centre (9/F Office)
- Excellent Class Certificate: Electric Tower (Areas Equipped with MVAS System of The Whole Building)
- Good Class Certificate: Electric Centre (Areas Equipped with MVAS System of The Whole Building)
- Good Class Certificate: Administration and Control Building, Lamma Power Station
- Good Class Certificate: New Control Building, Lamma Power Station

• FoodWaste Lean and Green Label Scheme

- FoodWaste Lean Label (Lamma Power Station)

• "United Nations Sustainable Development Goals – Green Office Awards Labelling Scheme" and Eco-Healthy Workplace

- Green Office Label and Eco-Healthy Workplace Label

• Commendation Scheme on Source Separation of Commercial and Industrial Waste 2017/18

- Certificate of Appreciation (Electric Tower)

• ISO 50001-2011 Energy Management System Certificate

- Generation of Electricity at Lamma Power Station

15 Awards

Quality / Health / Safety

- **The 11th Hong Kong Outstanding Occupational Safety & Health Employees Award**
 - Bronze Award (Management Corporation/ and Organisation Category)
- **25th Considerate Contractors Site Award Scheme**
 - Non-Public Works – New Works – Group A: Certificate of Appreciation (Merit Award)
 - Certificate of Supervisory Company
- **RMAA Constructions Safety Animation Video Competition**
 - 1st Runner-up in Open Section
 - Merit Award in Open Section
- **The Royal Society for the Prevention of Accidents – RoSPA Health and Safety Award 2019**
 - Gold Award
- **Safety Video Competition of the Construction Safety Week 2019**
 - Bronze Award
 - Merit Award
- **Safety Quiz 2019**
 - Enterprise Category
 - Cup Champion
 - Cup 1st Runner-up
 - Plate Champion
 - Plate 1st Runner-up



- **Good Housekeeping Competition 2019**
 - Good Housekeeping Gold Award (Other Industries Category)
- **18th Hong Kong Occupational Safety and Health Award**
 - Bronze Award in "Occupational Safety and Health Enhancement Program Award (Other Industries)"
- **Outstanding Registered Electrical Worker Awards Scheme cum Outstanding Registered Electrical Contractors Competition 2019**
 - Outstanding Registered Electrical Contractors Category: Merit Award

86 Awards

Staff

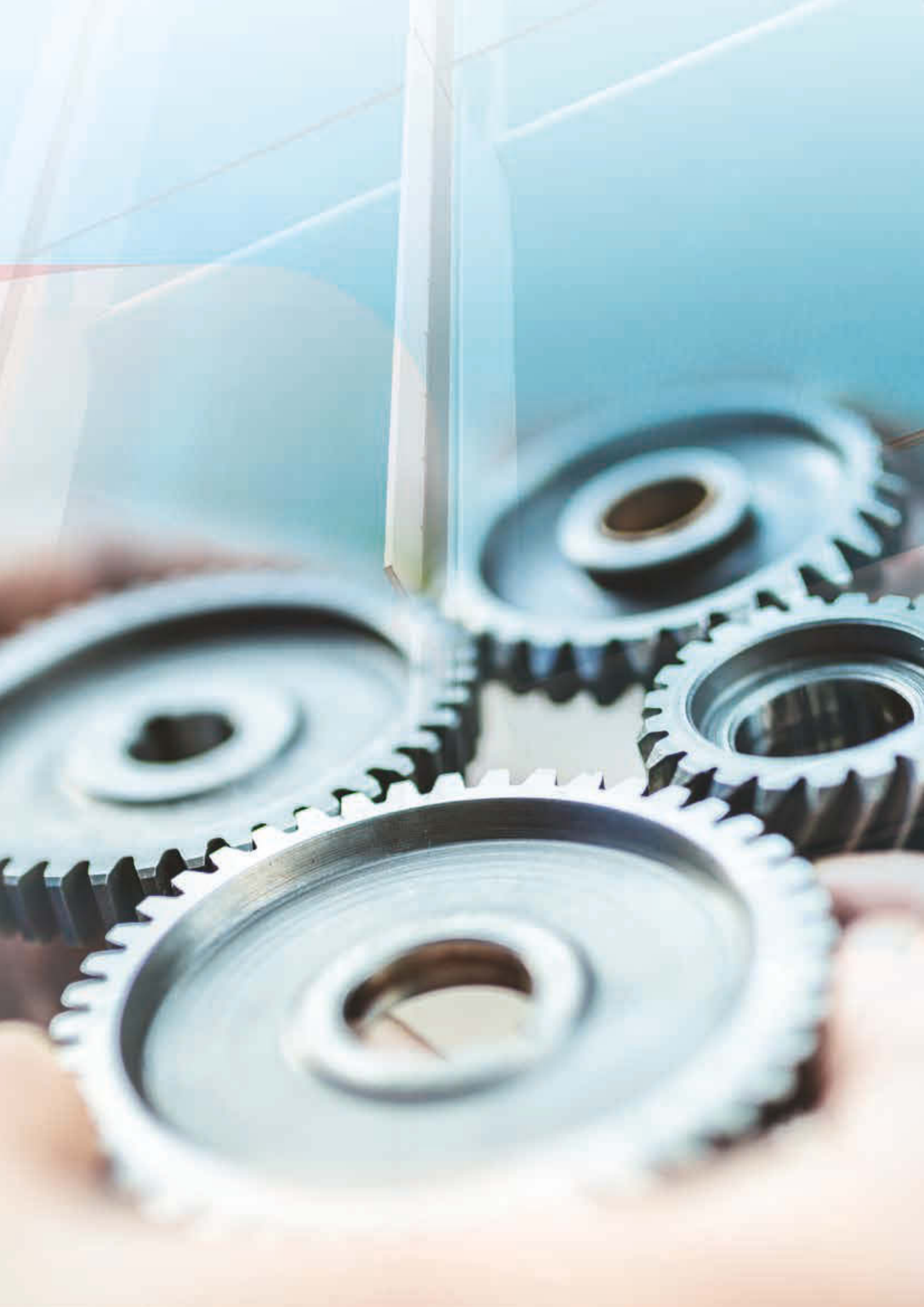


- **2018 Sir Edward Youde Memorial Fund Outstanding Apprentice Award**
 - Outstanding Apprentice Award
- **HKIE Trainee of the Year Award 2019**
 - 3rd Prize
- **The HKIE Professional Volunteer Service Accreditation Programme 2017/2018**
 - 5 Grand Awards
 - 4 Gold Awards
 - 4 Silver Awards
- **2018 Volunteer Service Appreciation Certificate**
 - 3 Gold Certificates
 - 9 Silver Certificates
 - 54 Bronze Certificates
- **Qualifications Framework Award Scheme for Learning Experiences**
 - Electrical and Mechanical Services Awardee
- **The Green Run 2019**
 - 3K Green Corporate Team Race – Champion
- **The 31st Inter-Hong Lawn Bowls Tournament 2019**
 - Champion
- **ATAL Badminton Tournament 2019**
 - 1st Runner-up
- **The 34th Inter-Hong Mini-Soccer Tournament 2019**
 - 2nd Runner-up

CORPORATE GOVERNANCE

Transparency and adherence to
our core values





BOARDS OF DIRECTORS AND MANAGEMENT TEAM

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning *Chairman*

Aged 68. Appointed to the Boards of the Trustee-Manager and the Company, and as the Chairman of the Boards since December 2013. He is also the Chairman of HK Electric, a wholly-owned subsidiary of the Company. Mr. Fok is the Chairman of Power Assets. Mr. Fok is an Executive Director and Group Co-Managing Director of CK Hutchison and the Deputy Chairman of CKI. Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited and Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust"), and the Co-Chairman of Husky Energy Inc. ("Husky Energy"). All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. Mr. Fok acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

WAN Chi Tin *Chief Executive Officer*

Aged 69. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013 and as Chief Executive Officer of the Company since December 2013. Mr. Wan is also Managing Director of HK Electric and a Director of all of the subsidiaries of the Company. He has worked for the Power Assets Group and the Group since 1978, holding various positions including Group Managing Director and Director of Engineering (Planning & Development) of Power Assets, a listed company, and Chief Executive Officer of Powercor Australia Limited

and CitiPower Pty., associate companies of the Power Assets Group in Australia. Mr. Wan acts as an Executive Director and a Director of the substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely Power Assets and Quickview Limited respectively. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of The Hong Kong Institution of Engineers. Mr. Wan is a member of the Audit Committee of The University of Hong Kong. He was previously Vice Chairman of the Engineers Registration Board of Hong Kong.

CHAN Loi Shun

Aged 57. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013. Mr. Chan is also a Director of all the subsidiaries of the Company including HK Electric. He is an Executive Director and Chief Financial Officer of CKI and an Executive Director of Power Assets. Mr. Chan joined Hutchison Whampoa Limited ("HWL") in January 1992 and has been with the CK Group since May 1994. All the companies mentioned above, except the Trustee-Manager, HK Electric and HWL, are listed companies. Mr. Chan acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely CKI, Power Assets and Quickview Limited. Mr. Chan is a fellow of the HKICPA and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

CHENG Cho Ying, Francis

Aged 63. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Cheng is also a Director of HK Electric and serves as its Operations Director. Mr. Cheng has worked for the Group since 1979. He holds a Bachelor's degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a Fellow of The Hong Kong Institution of Engineers.

CHEN Daobiao

Aged 51. Appointed to the Boards of the Trustee-Manager and the Company in May 2018. Mr. Chen is also a Director and the Co-General Manager (Transmission & Distribution) of HK Electric. He is the Vice President of State Grid International Development Co., Limited and a director of State Grid International Development Limited. State Grid International Development Co., Limited and State Grid International Development Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. He

previously served as Senior Vice President of State Grid Shanghai Electric Power Company, Deputy Director General of the Infrastructure Department of State Grid Corporation of China ("State Grid"), Senior Vice President of Economic Information Bureau of Global Energy Interconnection Development and Cooperation Organisation in the People's Republic of China, and Vice President of CPFL Energia, a listed company in Brazil. Mr. Chen holds a Bachelor Degree in Power System and Automation from Huazhong University of Science and Technology and a Master Degree in Business Administration from Royal Melbourne Institute of Technology.



▲ From left to right: CHEN Daobiao; CHAN Loi Shun; WAN Chi Tin; CHENG Cho Ying, Francis

BOARDS OF DIRECTORS AND MANAGEMENT TEAM

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor

Deputy Chairman of the Company Board

Aged 55. Appointed to the Boards of the Trustee-Manager and the Company, and as Deputy Chairman of the Company Board in November 2014. Mr. Li is also a Director of HK Electric and a Non-executive Director of Power Assets. He is the Chairman and Group Co-Managing Director of CK Hutchison, and the Chairman and Managing Director, and the Chairman of the Executive Committee of CK Asset Holdings Limited ("CK Asset"). Mr. Li is the Chairman of CKI and CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") and the Co-Chairman of Husky Energy. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mr. Li is also the Deputy Chairman of Li Ka Shing Foundation Limited and Li Ka Shing (Global) Foundation (formerly known as Li Ka Shing (Overseas) Foundation), the Member Deputy Chairman of Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. He serves as a member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Hong Kong Special Administrative Region, and Vice Chairman of the Hong Kong General Chamber of Commerce (the "Chamber"). Mr. Li is the Honorary Consul of Barbados in Hong Kong. He acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and a degree of Doctor of Laws, honoris causa (LL.D.).

Fahad Hamad A H AL-MOHANNADI

Aged 64. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Al-Mohannadi is the Managing Director and the General Manager of Qatar Electricity & Water Co. ("QEWCo"), which is listed on the Qatar Stock Exchange. He has worked for QEWCo since 1992 and, prior to joining QEWCo, he worked at the Qatar Ministry of Electricity and Water. Mr. Al-Mohannadi is the Chairman of Board of Directors of each of Qatar Power

Company, Ras Laffan Power Company, Nebras Power Q.S.C. and Umm Al Houl Power Co., and is a Board Director of Siraj Solar Energy. He holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 81. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Arculli is a practising solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. He was a non-official member of the Executive Council of the Hong Kong Special Administrative Region from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He has a distinguished record of public service and has served on numerous government committees and advisory bodies. Mr. Arculli is an Independent Non-executive Director of Hang Lung Properties Limited, and is a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. He was previously an Independent Non-executive Director of HKEX. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies.

DUAN Guangming

Aged 54. Appointed to the Boards of the Trustee-Manager and the Company in February 2019. Mr. Duan is also a Director of HK Electric. He is the Senior Vice President of State Grid International Development Co., Limited. Since 1994, he has worked for State Power Corporation of China, State Grid and its subsidiaries, and has previously served as Deputy Director General of Administration Office of State Grid, Director General of State Grid Representative Office in Hong Kong, Director General of State Grid Representative Office in India, and Director and General Manager of State Grid Overseas Investment Limited, responsible for international financing, overseas investments and overseas assets operation and management. State Grid and State Grid International Development Co., Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Duan holds a Master Degree in Heating, Gas Supply, Ventilating and Air Conditioning Engineering from Tongji University.

Deven Arvind KARNIK

Aged 52. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Karnik is the Head of Infrastructure at Qatar Investment Authority ("QIA"). Prior to joining QIA in 2013, Mr. Karnik worked for about 7 years in Hong Kong where he was a Managing Director at Morgan Stanley and a Managing Director at Dresdner Kleinwort. Mr. Karnik holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in England and Wales.

ZHU Guangchao

Aged 52. Appointed to the Boards of the Trustee-Manager and the Company in May 2017. Mr. Zhu is also a Director of HK Electric. He is the Vice Chief Engineer and Director General of International Cooperation Department of State Grid, a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO, Chairman of National Grid Corporation of the Philippines, and Vice Chairman of the Board of Directors of Redes Energéticas Nacionais, SGPS, S.A., a listed company and the national electric and gas grid corporation of Portugal. He previously served as Managing Director, President, Senior Vice President and Chief Executive Officer of State Grid International Development Co., Limited, Director General of International Cooperation Department of State Grid and Director of State Grid International Development Co., Limited, Deputy Director General of State Grid Representative Office in the Philippines, Chief Executive Adviser, Board Director and Deputy Chief of Project Team of National Grid Corporation of the Philippines, and Deputy Director General of Finance Department of State Grid. Mr. Zhu holds a Master Degree in Power System and Automation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 63. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Dr. Fong is also a Director of HK Electric. He was CEO of the Chamber from 2006 to 2011. Prior to joining the Chamber, he served in the civil service for over 25 years, holding various senior positions in the Government of Hong Kong. He has a long record of public service providing both operational and policy-formulation expertise. Dr. Fong is an Independent Non-executive Director of Glory Mark Hi-Tech (Holdings) Limited, TOM Group Limited and HPHMPL which is the trustee-manager of HPH Trust. All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. He was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Dr. Fong holds a Bachelor of Social Science degree in Business and Economics, a Master of Technology Management degree in Global Logistics Management, a Master of Science degree in Global Finance and a Doctor of Business Administration degree.

KWAN Kai Cheong

Aged 70. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Kwan is also a Director of HK Electric. He is President of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of Utopa Limited, a commercial property operator in the People's Republic of China. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), Panda Green Energy Group Limited (formerly known as United Photovoltaics Group Limited), Win Hanverky Holdings Limited and CK Life Sciences and a Non-executive Director of China Properties Group Limited, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited and Dynagreen Environmental Protection Group Co., Ltd., both being listed companies. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

LEE Lan Yee, Francis

Aged 79. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Lee is also a Director of HK Electric. Mr. Lee was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He had served the Power Assets Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr. Lee was responsible for all the engineering activities of the Power Assets Group, including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

BOARDS OF DIRECTORS AND MANAGEMENT TEAM

George Colin MAGNUS

Aged 84. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Magnus is also a Director of HK Electric. He was previously the Chairman of Power Assets from 1993 to 2005, a Non-executive Director from 2005 to 2012 and an Independent Non-executive Director until January 2014. He is a Non-executive Director of CK Hutchison. He is also a Non-executive Director of CKI having served previously as Deputy Chairman of the company. He was previously Deputy Chairman and then a Non-executive Director of Cheung Kong (Holdings) Limited and HWL. All of these companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong (Holdings) Limited and HWL, are listed companies. Mr. Magnus acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Magnus is also a Director of Husky Energy, a listed company. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 68. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Roberts is an Independent Non-executive Director of CK Asset and Queen's Road Capital Investment Ltd., both being listed companies. He is also an Independent Non-executive Director of Welab Bank Limited (formerly known as Welab Digital Limited) and Welab Capital Limited. Mr. Roberts joined the HWL Group in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. Mr. Roberts is a Member of the Listing Committee of the Main Board and GEM of the Stock Exchange. In the past, he has been a member of the Executive Committee of The Canadian Chamber of Commerce in Hong Kong and is currently Governor of the chamber. He has served in the past as a Governor of the Canadian International School of Hong Kong for 12 years and also on its finance committee. Mr. Roberts served as a member, including as the Deputy Chairman, of the Professional Conduct Committee of the HKICPA for nine years. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Alberta and British Columbia and also a Fellow of the HKICPA.

Ralph Raymond SHEA

Aged 86. Appointed to the Boards of the Trustee-Manager and the Company in October 2015. Mr. Shea is also a Director of HK Electric. He is an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He is a solicitor of England and Wales and of Hong Kong.

ALTERNATE DIRECTORS

WOO Mo Fong, Susan

(alias CHOW WOO Mo Fong, Susan)

Aged 66. Appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman of the Boards of the Trustee-Manager and the Company, in November 2014. She is also an Alternate Director of HK Electric. Mrs. Chow was an Executive Director of the Trustee-Manager and the Company from December 2013 to November 2014 and a Director of HK Electric from January 1996 to November 2014. Mrs. Chow is a Non-executive Director of CK Hutchison, a Director of HTAL, and an Alternate Director of CKI. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mrs. Chow acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of a company controlled by certain substantial Holders of Share Stapled Units. Mrs. Chow is a qualified solicitor and holds a Bachelor's degree in Business Administration.

Frank John SIXT

Aged 68. Appointed Alternate Director to Mr. Victor T K Li, the Deputy Chairman of the Company Board and Non-executive Director of the Trustee-Manager and the Company, in June 2015. He is also an Alternate Director of HK Electric. Mr. Sixt is an Executive Director, Group Finance Director and Deputy Managing Director of CK Hutchison, the Non-executive Chairman of TOM Group Limited and an Executive Director of CKI. He is also a Director of HTAL and Husky Energy, and an Alternate Director of HTAL. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mr. Sixt acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

MANAGEMENT TEAM OF THE COMPANY

CHOI Wai Man

Aged 60. General Manager (Customer Services), has been with the Group since October 1981. He has over 38 years of experience in electricity supply and customer services. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. He is a Chartered Engineer, and a Fellow of The Hong Kong Institution of Engineers and a member of The Institution of Engineering and Technology in the United Kingdom.

CHOW Fo Shing

Aged 50. General Manager (Generation), has been with the Group since September 1994. He has over 25 years of experience in electricity generation. He holds a Bachelor of Engineering degree in Mechanical Engineering and a Master of Science degree in Mechanical Engineering.

IP Sung Tai

Aged 61. General Manager (Transmission & Distribution), has been with the Group since October 1981. He has over 38 years of experience in electricity supply. He holds a Master of Science degree in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineering and Technology in the United Kingdom and the Institution of Engineers in Australia.

LAU Chi Kwong

Aged 63. General Manager (Projects), has been with the Group since August 1977. He has over 30 years of experience in project management. He holds an Associateship in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers and the Institution of Engineering and Technology in the United Kingdom.

WAN Wai Kin, Mullar

Aged 61. General Manager (Information Technology), has been with the Group since July 1993. He has over 37 years of local and overseas experience in software engineering, consulting and information technology management. He holds a Master of Science degree in Information Management. He is a member of the Hong Kong Computer Society and a Fellow of The British Computer Society.

WONG Kim Man

Aged 59. Chief Financial Officer, has been with the Group since September 2010. He has over 30 years of experience in financial management and accounting. He holds a Bachelor's and a Master's degree in Business Administration. He is also a member of the HKICPA and the American Institute of Certified Public Accountants.

WONG Yuk Keung, Arthur

Aged 62. General Manager (Group Commercial), has been with the Group since January 1982. He was engaged in the construction of Lamma Power Station upon joining the Power Assets Group and subsequently worked in and was promoted to the head of the various departments in the Group Commercial Division. He holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering and a Master's degree in Business Administration.

WU Kwok Kwong, Dennis

Aged 55. General Manager (Human Resources), joined the Group in June 2014. He has over 25 years of experience in human resources management and administration gained from organisations in both private and public sectors in Hong Kong. He holds a Master of Science degree in Training and is a Professional Member of the Hong Kong Institute of Human Resource Management and a Member of the Institute of Hospitality (UK).

YEE Tak Chow

Aged 65. General Manager (Corporate Development), has been with the Group since August 1976. He had worked on a number of energy infrastructure projects both in and outside Hong Kong, including stationing in Saudi Arabia and Japan for three years. Between 2005 and 2008, he worked for the Power Assets Group's investments outside Hong Kong. He holds a Master's degree in Information Technology. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineers in Australia, and the Institution of Engineering and Technology in the United Kingdom.

YEUNG Yuk Chun, Mimi

Aged 56. General Manager (Public Affairs), has been with the Group since July 2003. She has over 32 years of experience in journalism and corporate communications. She holds a Bachelor of Arts degree and a Master's degree in Public Administration.

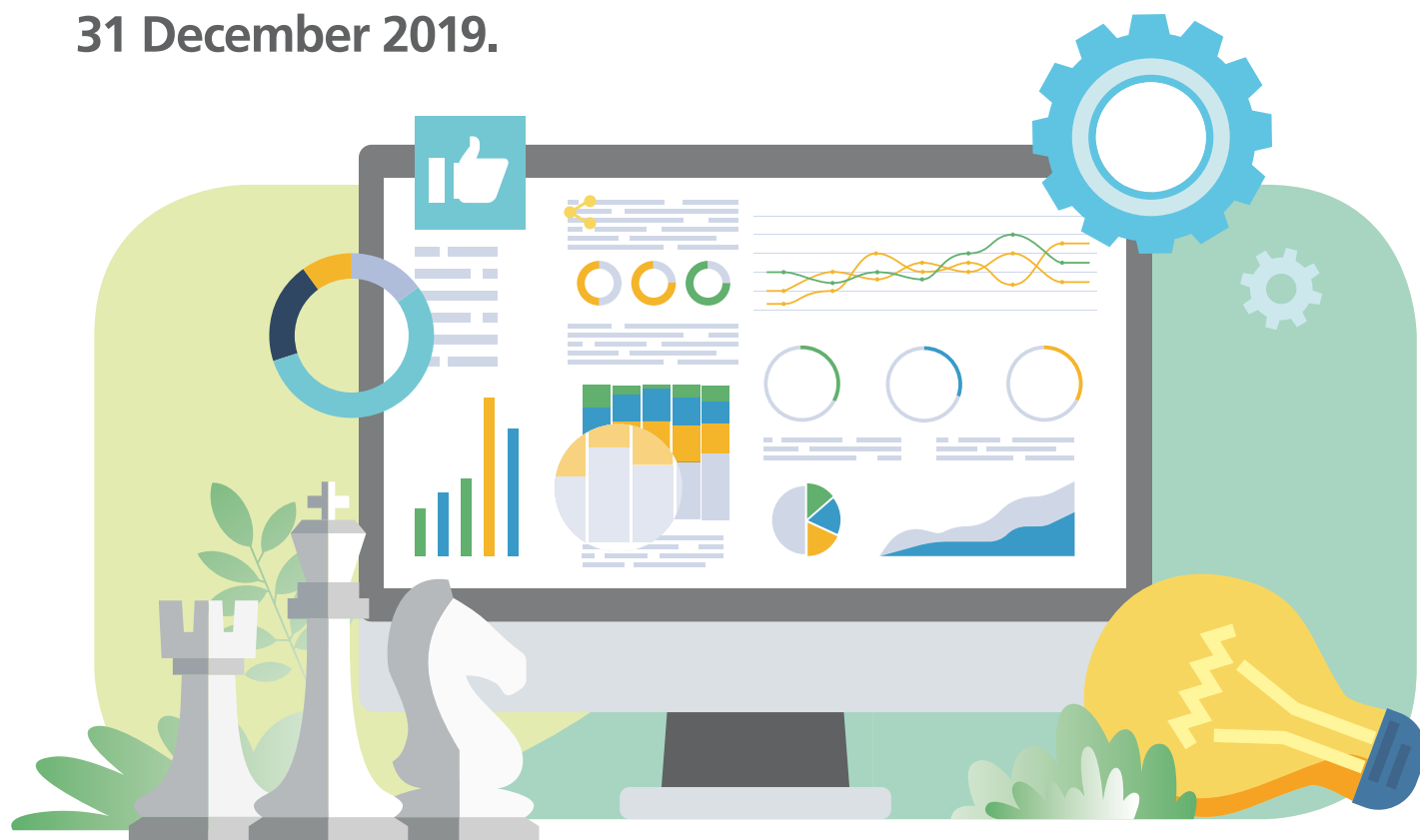
TRUSTEE-MANAGER SECRETARY AND COMPANY SECRETARY

NG Wai Cheong, Alex

Aged 50. Group Legal Counsel and Company Secretary, has been with the Group since November 2008. He is also the Group Legal Counsel and Company Secretary of Power Assets. He has over 20 years of experience in legal, regulatory and compliance fields. Mr. Ng holds a Bachelor's degree in Science and a Bachelor's degree in Laws. He was admitted as a solicitor in Hong Kong and in England and Wales.

COMBINED CORPORATE GOVERNANCE REPORT

The Boards of the Trustee-Manager and the Company present their corporate governance report on a combined basis for the year ended 31 December 2019.

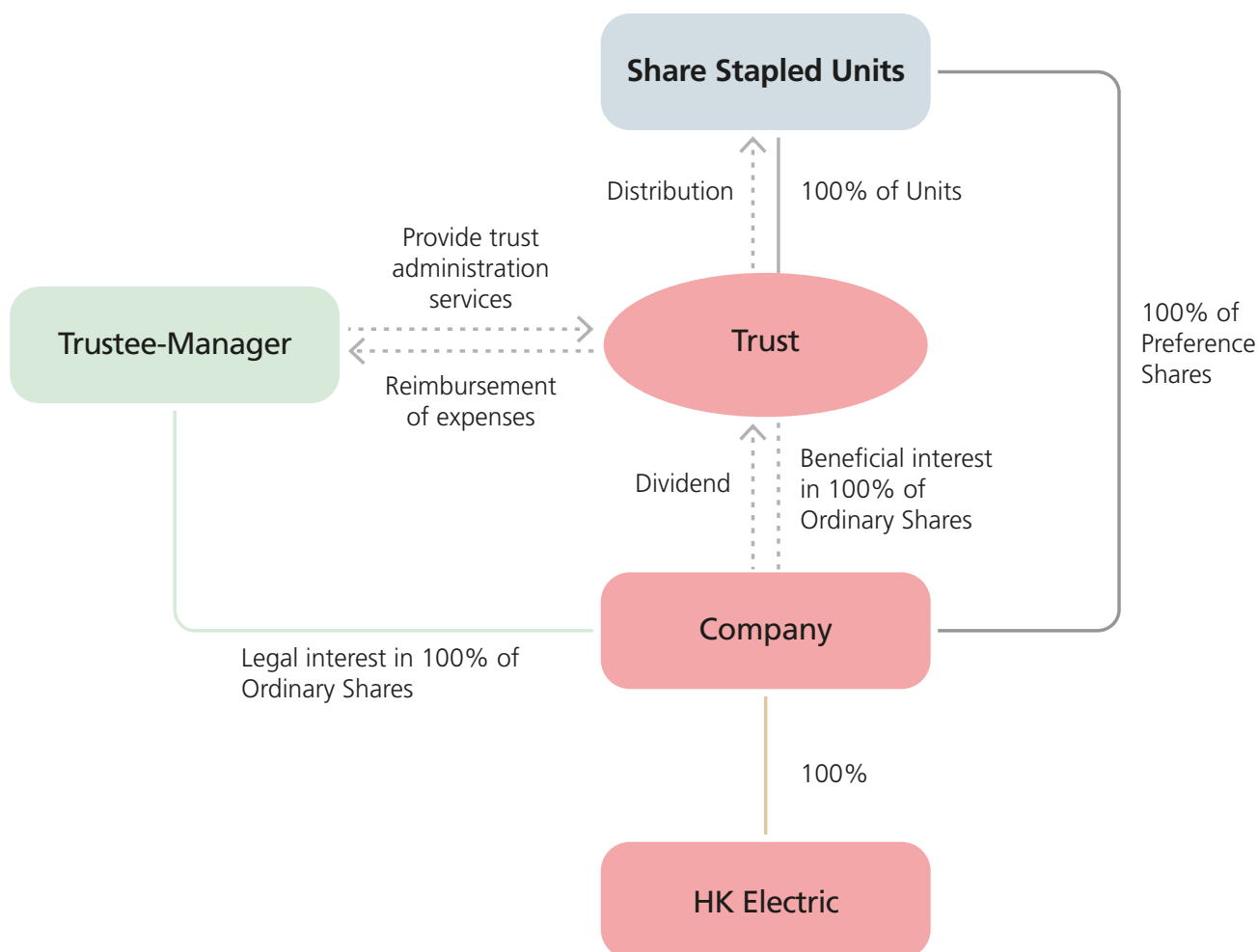


Structure of the Trust Group and the Share Stapled Units

The Trust, managed by the Trustee-Manager, was constituted under the laws of Hong Kong on 1 January 2014 by the Trust Deed. The Trustee-Manager, as the trustee-manager of the Trust, holds the legal interests in the ordinary shares of the Company whilst the beneficial interests in such ordinary shares form a component of the Share Stapled Units. Each Share Stapled Unit is jointly issued by the Trust and the Company and is a combination of: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (c) a specifically

identified preference share of the Company stapled to the unit. The chart on page 55 is a simplified version of the structure of the Trust Group and the Share Stapled Units.

The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.



Corporate Governance

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 Boards delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee. The governance structure of the Trustee-Manager and the Group was reviewed by the Trustee-Manager Audit Committee and the Company Audit Committee at the meetings held in March and July 2019, together with the compliance status of the Corporate Governance Code for the year 2018 and the first six months of 2019, and the Corporate Governance disclosure in the 2018 Corporate Governance Report and the 2019 interim report. 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 stated hereunder.

COMBINED CORPORATE GOVERNANCE REPORT

Boards of Directors

Each of the Trustee-Manager Board and the Company Board, led by the Chairman, is responsible for approval and monitoring of strategies and policies, approval of annual budgets and business plans, evaluation of the performance, and oversight of management of the Trustee-Manager and the Company respectively. The Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager shall at all times comprise the same individuals. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Boards consider that the senior management of the Trust Group comprises the Executive Directors.

The current Directors and their biographical information are set out in the “Boards of Directors and Management Team” section on pages 48 to 53 of the Annual Report. An updated list of Directors containing their biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of HKEX.

The Trustee-Manager Board and the Company Board hold meetings on a combined basis, and they meet at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means or by their alternate directors in accordance with the articles of association of the Trustee-Manager and the Company. Throughout the

year, the Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions. During the year, the Boards held four meetings, and the Chairman had two meetings with the Independent Non-executive Directors without the presence of other Directors.

Directors receive at least fourteen days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to the Directors no less than three days prior to a regular meeting. The Company Secretary assists the Chairman in seeing that Directors receive adequate information on each matter set out in the agenda and acts as co-ordinator for management in providing clarification sought by Directors. The minutes of Board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors within a reasonable time after each meeting for their comments before being formally signed by the chairman of the meeting. Copies of the final versions of Board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

During 2019 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2019 annual general meeting are as follows:

Directors	Company					Trustee-Manager			Combined 2019 Annual General Meeting
	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Meetings between Chairman and Independent Non-executive Directors	Board Meetings	Audit Committee Meetings	Meetings between Chairman and Independent Non-executive Directors	
Executive Directors									
Fok Kin Ning, Canning (Chairman)	4/4	–	1/1	1/1	2/2	4/4	–	2/2	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	1/1	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	1/1	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	1/1	–	4/4	–	–	√
Chen Daobiao	4/4	–	–	1/1	–	4/4	–	–	√
Non-executive Directors									
Victor T K Li (Deputy Chairman)	4/4	–	–	1/1	–	4/4	–	–	√
Fahad Hamad A H Al-Mohannadi	3/4	–	–	1/1	–	3/4	–	–	x
Ronald Joseph Arculli	2/4	3/3	–	0/1	–	2/4	3/3	–	√
Jiang Xiaojun ^(Note 1)	–	–	–	–	–	–	–	–	–
Duan Guangming ^(Note 2)	4/4	–	–	1/1	–	4/4	–	–	√
Deven Arvind Karnik	4/4	–	–	1/1	–	4/4	–	–	√
Zhu Guangchao	2/4	–	–	0/1	–	2/4	–	–	√
Independent Non-executive Directors									
Fong Chi Wai, Alex	4/4	–	1/1	1/1	2/2	4/4	–	2/2	√
Kwan Kai Cheong	4/4	–	–	1/1	2/2	4/4	–	2/2	x
Lee Lan Yee, Francis	4/4	3/3	–	1/1	2/2	4/4	3/3	2/2	√
George Colin Magnus	4/4	–	–	1/1	2/2	4/4	–	2/2	√
Donald Jeffrey Roberts	4/4	3/3	1/1	1/1	2/2	4/4	3/3	2/2	√
Ralph Raymond Shea	4/4	–	–	1/1	2/2	4/4	–	2/2	√

Notes:

- (1) Mr. Jiang Xiaojun resigned as a Non-executive Director of the Trustee-Manager and the Company on 26 February 2019, and no meeting was held in 2019 before his resignation.
- (2) Mr. Duan Guangming was appointed as a Non-executive Director of the Trustee-Manager and the Company on 26 February 2019.

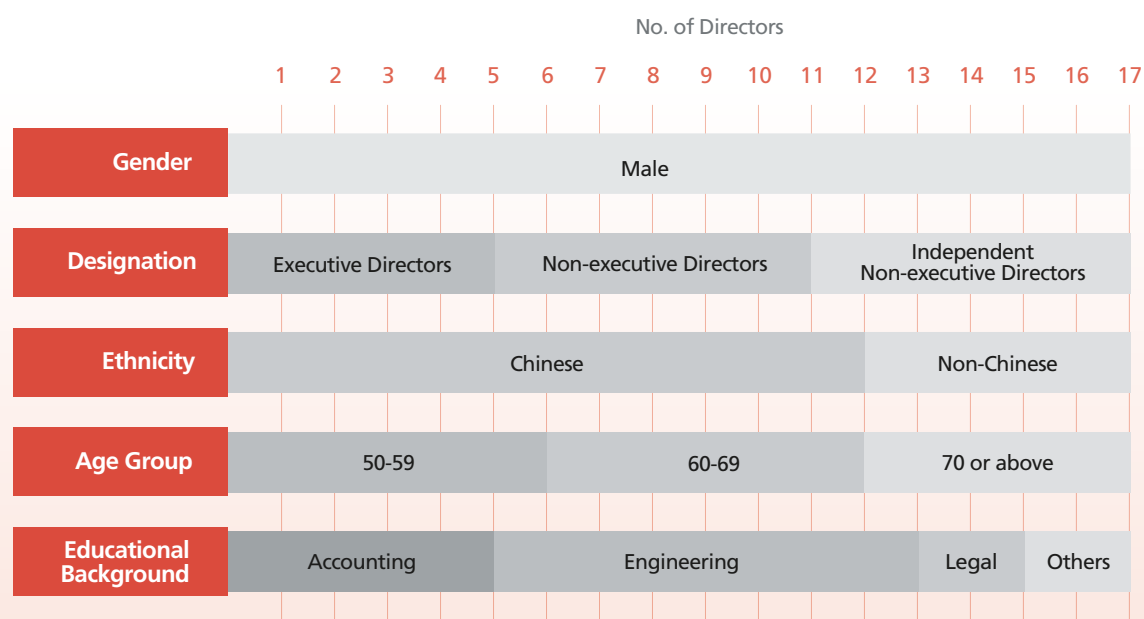
COMBINED CORPORATE GOVERNANCE REPORT

Directors at all times have full and timely access to information of the Trust Group. A financial summary outlining the Group's financial position and performance and containing the actual and budgeted results from different operations, with major variances explained, is sent to Directors each month for their information. Directors also have independent access to management team for information on the Trust Group and unrestricted access to the services of the Company Secretary, who advises the Boards on governance matters and board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the expense of the Trustee-Manager or the Company, as appropriate. Insurance coverage in respect of Directors' liability has been arranged by the Trustee-Manager and the Company.

The full Boards are ultimately responsible for reviewing the structure, size, diversity profile and skills matrix of the Boards, appointment of new Directors and succession plan for Directors in accordance with the Group's board diversity policy which sets out the approach in achieving a diversified Board. Further details of the Group's board diversity policy and Director Nomination Policy are set out in the section "Nomination Committee of the Company" below.

The diversity profile of the Boards as at 31 December 2019 is as follows:

Board Diversity



Newly appointed Directors receive briefings and a package of orientation materials on the operations and businesses of the Group, together with information relating to duties and responsibilities of directors under statutory regulations and the Listing Rules.

All Directors have been appointed on annual twelve-month basis (save for the initial period which is for a period up to 31 December in the year of appointment), subject to retirement from office by rotation and re-election at the annual general meeting once every three years pursuant to the Trust Deed and the articles of association of the Company.

Pursuant to the Trust Deed and the Company's articles of association, any director appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed a director of the Trustee-Manager. Any Director appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting. In the case of an addition, the additional Director shall hold office only until the next following annual general meeting of the Company or the next following

annual general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting.

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed, article 16.21 of the Company's articles of association and code provision A.4.2 of the Corporate Governance Code and offering themselves for re-election at the forthcoming combined annual general meeting are Mr. Ronald Joseph Arculli, Mr. Cheng Cho Ying, Francis, Dr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus and Mr. Donald Jeffrey Roberts. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to Holders of Share Stapled Units dated 3 April 2020 (the "2020 Circular"). The Company has also expressed the view in the 2020 Circular that each of the Independent Non-executive Directors who is eligible for re-election has met the independence factors set out in Rule 3.13 of the Listing Rules and is independent in accordance with the guidelines. None of these Directors has a service contract which is not determinable by the Trustee-Manager or the Company within one year without payment of compensation (other than statutory compensation).

Directors' Training and Commitment

The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

The Company also arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Trust Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions and completion of courses organised by professional bodies on the relevant topics also count towards continuous professional development training. The Directors have provided to the Trustee-Manager and the Company their records of continuous professional development training during 2019, and they have participated in training activities in the following manner:

1. Reading materials and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials and seminars on corporate governance and financial reporting
3. Reading materials and seminars on risk management, internal control and sustainable growth

	1	2	3
Executive Directors			
Fok Kin Ning, Canning	√	√	√
Wan Chi Tin	√	√	√
Chan Loi Shun	√	√	√
Chen Daobiao	√	√	√
Cheng Cho Ying, Francis	√	√	√
Non-executive Directors			
Victor T K Li	√	√	√
Fahad Hamad A H Al-Mohannadi	√	√	√
Ronald Joseph Arculli	√	√	√
Duan Guangming	√	√	√
Deven Arvind Karnik	√	√	√
Zhu Guangchao	√	√	√
Independent Non-executive Directors			
Fong Chi Wai, Alex	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Trust Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

COMBINED CORPORATE GOVERNANCE REPORT

Directors' Securities Transactions

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.

Senior managers, and other nominated managers and staff who, because of their respective positions in the Company, are likely to be in possession of inside information regarding the Trust Group and its securities are also required to comply with the Model Code.

Reminders are sent during each year to Directors, senior managers and other nominated managers and staff that they should not deal in the securities of the Trust and the Company during the "black-out period" specified in the Model Code.

The Trustee-Manager and the Company have established a policy relating to inside information and securities dealing explaining the meaning of inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism for all employees of the Group to comply with when they are in possession of confidential or unpublished inside information in relation to the Trustee-Manager and the Trust Group. Such policy is available on the intranet of the Company.

Directors' Responsibility for Financial Reporting and Disclosure

Annual and Interim Reports and Financial Statements

The Directors of the Trustee-Manager and the Company acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Trust Group, the Group and the Trustee-Manager, as appropriate. The interim and annual results of the Trust Group, the Group and the Trustee-Manager are published in a timely manner within the limits of two months and three months respectively after the end of the relevant periods.

Accounting Policies

The Directors consider that in preparing financial statements, the Trustee-Manager and the Company ensure statutory requirements are met and apply appropriate accounting policies that are consistently adopted and make judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors of each of the Trustee-Manager and the Company are responsible for ensuring the Trustee-Manager and the Group, as appropriate, keep proper accounting records which disclose at any time the respective financial position of the Trust Group, the Group and the Trustee-Manager from which the respective financial statements of the Trust Group, the Group and the Trustee-Manager could be prepared in accordance with statutory requirements and the appropriate accounting policies.

Safeguarding Assets

The Directors of the Trustee-Manager and the Company are responsible for taking all reasonable and necessary steps to safeguard the assets of the Trust, the Trustee-Manager and the Group and to prevent and detect fraud and other irregularities within the Trust, the Trustee-Manager and the Group, as appropriate.

Going Concern

The Directors of the Trustee-Manager and the Company consider that the Trustee-Manager and the Group respectively have adequate resources to continue in operational existence for the foreseeable future and are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon each of their abilities to continue as going concerns. The financial statements of the Trust Group, the Group and the Trustee-Manager have accordingly been prepared on a going concern basis.

Disclosure

The Boards are aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures and authorises their publication as and when required.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. During 2019 the Chairman of the Boards was Mr. Fok Kin Ning, Canning and the Company's Chief Executive Officer was Mr. Wan Chi Tin. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust.

The Chairman is elected by members of the Boards for a term of one year until the conclusion of each annual general meeting whereupon the Chairman is subject to re-election. Both the Chairman and the Chief Executive Officer are subject to retirement from their directorship by rotation and re-election every three years at the annual general meeting.

The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Boards to ensure that each Board acts in the best interests of the Trust and the Group, as appropriate. The Chairman approves board meeting agendas and ensures that meetings of the Boards are planned and conducted effectively and that all Directors are properly briefed on issues arising at board meetings. In addition to board meetings, the Chairman schedules meeting(s) annually with Independent Non-executive Directors without the presence of other Directors. The Chairman also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Company Board for all Group operations. The Chief Executive Officer attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with other Executive Directors and the general managers, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

Independent Non-executive Directors

The Boards must be satisfied that an Independent Non-executive Director does not have any material relationship with the Trust Group. They are guided by the criteria of independence as set out in the Listing Rules in determining the independence of Independent Non-executive Directors.

Mr. Kwan Kai Cheong, Mr. Donald Jeffrey Roberts and Mr. Ralph Raymond Shea, all Independent Non-executive Directors, have each provided an annual confirmation of his independence (which also covers his immediate family members) to the Trustee-Manager and the Company pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider Mr. Kwan, Mr. Roberts and Mr. Shea to be independent.

Dr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis and Mr. George Colin Magnus, all Independent Non-executive Directors, have each made a similar confirmation and stated that, during the two years immediately prior to his appointment on 5 December 2013, he was director of HK Electric, a wholly-owned subsidiary of the Company. In addition, Mr. Magnus has also stated that he had been a director (other than an Independent Non-executive Director) of Power Assets, a connected person of the Company, until he was re-designated as an Independent Non-executive Director of Power Assets on 28 September 2012. The Boards have considered these directorships and are satisfied with Dr. Fong's, Mr. Lee's and Mr. Magnus' independence having regard to all relevant factors including that all of them have not held any executive or management function or position in the Group since their appointment as Independent Non-executive Directors in December 2013 and that Mr. Lee and Mr. Magnus have not held any executive or management function or position in the Power Assets group since their designation as Non-executive Directors in August 2008 and November 2005 respectively.

COMBINED CORPORATE GOVERNANCE REPORT

Directors' Interests and Short Positions in Share Stapled Units, Underlying Share Stapled Units and Debentures

As at 31 December 2019, the interests or short positions of the Directors and chief executives of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Stapled Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note 1)	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000 (Note 2)	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	1,398,000 (Note 3)	0.02%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≈0%

Notes:

- (1) Such SSUs comprise:
 - (a) 2,700,000 SSUs held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Global) Foundation ("LKSGF") (formerly known as Li Ka Shing (Overseas) Foundation). By virtue of the terms of the constituent documents of LKSGF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSGF; and
 - (b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.
- (2) Such SSUs are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.
- (3) Such SSUs are held by a company which is equally owned by Mr. Donald Jeffrey Roberts and his wife.

Save as disclosed above, as at 31 December 2019, none of the Directors or chief executives of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Business

None of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business in the generation, transmission, distribution and supply of electricity in Hong Kong.

Nomination Committee of the Company

In accordance with code provision A.5.1, the Company established its Nomination Committee on 1 January 2019. The committee is chaired by Mr. Fok Kin Ning, Canning (the Chairman of the Company Board) and, while its membership comprises all Directors of the Company, it is assisted by an ad hoc sub-committee (which is chaired by the Chairman of the Company Board and its membership, comprising a majority of Independent Non-executive Directors, is compliant with the requirements under the Listing Rules for a nomination committee) when discharging its responsibilities.

The principal responsibilities of the Nomination Committee are to review the structure, size, diversity profile and skills matrix of the Company Board, to facilitate the Company Board in conduct of the selection and nomination process, to assess the independence of Independent Non-executive Directors having regard to the criteria under the Listing Rules, and to make recommendations to the Company Board on the appointment or re-appointment of Directors and succession planning for Directors in accordance with the Group's board diversity policy which sets out the approach in achieving a diversified Board. When the need to select, nominate or re-elect Directors arises, the Nomination Committee would establish the abovementioned sub-committee to consider and if appropriate, recommend the nomination of Directors to be appointed or re-elected. Members of the committee and the sub-committee may seek independent professional advice where necessary to discharge their duties. Under the board diversity policy, appointment to the Boards should be based on merit that the selected candidate will bring to the Boards with an aim to build an effective and complementary board with the skills, experience, expertise and diversity of perspectives appropriate for the Group's businesses. The Boards would also take into consideration the benefits of various aspects of diversity, including gender, age, cultural and education background, professional experience and qualifications and other factors that may be relevant from time to time. Additional considerations would be taken into account when reviewing potential candidates for Independent Non-executive Directors, which include their independence according to the requirements of the Listing Rules, and whether they are able to devote sufficient time to Boards and board committee meetings. The board diversity policy revised on 1 January 2019 is available on the Company's website. The procedures for the selection and nomination of Directors are set out in the Director Nomination Policy adopted by the Trustee-Manager and the Company on 1 January 2019, which is also published on the Company's website.

The terms of reference of the Nomination Committee of the Company are published on the Company's website and HKEX's website.

The Nomination Committee held a meeting in March 2019, during which it reviewed the structure, size and composition of the Company Board, and the independence of the Independent Non-executive Directors. The committee also considered and endorsed the ad hoc sub-committee's recommendation for the nomination of all the re-electing Directors for re-election at the 2019 annual general meeting, and recommended to the Company Board for the abovementioned nomination. During the year, the Nomination Committee and the sub-committee also participated by way of written resolutions in the consideration of and recommending the appointment of Mr. Duan Guangming as a Non-executive Director to fill the vacancy following the resignation of Mr. Jiang Xiaojun as a Non-executive Director.

The Trustee-Manager does not have a nomination committee as provided for in code provision A.5, since in accordance with clause 29.1 of the Trust Deed and article 82 of 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.

Remuneration Committee of the Company

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).

The Remuneration Committee's principal responsibilities include the review and consideration of the Company's policy for remuneration of Directors and management team, and the determination of their individual remuneration packages. It reports to the Company Board at the next board meeting after decisions and recommendations have been made. Committee members may seek independent professional advice at the expense of the Company to discharge their duties. The terms of reference of the Remuneration Committee are published on the Company's website and HKEX's website.

COMBINED CORPORATE GOVERNANCE REPORT

The Group's Human Resources Division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the committee's consideration. The remuneration of Executive Directors and management team is determined with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration is performance-based and, coupled with an incentive system, is competitive to attract and retain talented employees.

The Remuneration Committee held a meeting in December 2019, during which it assessed the performance of the full time Executive Directors and management team of the Group and considered and determined the performance-based bonus payable to them in respect of the 2019 financial year and their remuneration for the next year. The committee also considered and approved the remuneration package for each of Mr. Wan Chi Tin as Chief Executive Officer, Mr. Chan Loi Shun as Executive Director, Mr. Cheng Cho Ying, Francis as Operations Director and Mr. Chen Daobiao as Co-General Manager (Transmission & Distribution). None of the Directors and members of the management team participated in the determination of their own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2020 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2019 financial year are shown in note 12 to the financial statements on page 118 of the Annual Report. The remuneration paid to members of the management team for the 2019 financial year is disclosed by bands also in note 12 on page 119 of the Annual Report.

The Trustee-Manager does not have a remuneration committee as provided for in code provision B.1, since under the terms of their letters of appointment the Directors of the Trustee-Manager are not entitled to any remuneration.

Trustee-Manager Audit Committee and Company Audit Committee

The Trustee-Manager and the Company established their respective audit committee, and the Trust Deed requires that the memberships of both committees must be the same.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Company Secretary acts as secretary to both committees. None of the committee members is a partner or former partner of KPMG, the external auditor of the Trust, the Trustee-Manager and the Company.

The Trustee-Manager Audit Committee 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. The Company Audit Committee also oversees the Company's whistle-blowing procedure under which employees and external parties can use in confidence to raise concerns about improprieties in matters related to the Group. The terms of reference of the Audit Committees amended on 1 January 2019 are published on the Company's website and HKEX's website.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee held three meetings on a combined basis in 2019. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2018, the audit fee and auditor engagement letter for the 2018 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees

in relation to the audit of the 2018 financial statements, the Group's risk management report as of December 2018, the assessment and declaration in respect of the effectiveness of the risk management and internal control systems of the Group for the year 2018 and for the half year to 30 June 2019, the effectiveness of the Company's internal audit function, the internal audit plan for 2019, the financial statements for the six months ended 30 June 2019, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the Corporate Governance Report 2018, the corporate governance disclosure in the Interim Report 2019, the disclosure in the Sustainability Report 2018, the continuous professional development activities undertaken by Directors and senior managers during 2018 and the six months ended 30 June 2019, KPMG's 2019 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's outstanding litigation and claims as at 31 December 2018 and 30 June 2019, and the statistics on bribery activities and illegal or unethical behaviour of the Group for the year 2018, for the half year to 30 June 2019 and for the nine months period to 30 September 2019.

Representatives from KPMG were invited to attend two of the meetings of the Trustee-Manager Audit Committee and the Company Audit Committee and they discussed the 2018 audited financial statements, the 2019 audit plan and various accounting issues with the members of the Audit Committees.

Subsequent to the financial year end, the Trustee-Manager Audit Committee and the Company Audit Committee met in March 2020 to review the consolidated financial statements of the Trust and of the Company and the financial statements of the Trustee-Manager for the year ended 31 December 2019, and the Annual Report 2019 including the accounting principles and practices adopted by the Group, in conjunction with the external auditor. The Audit Committees resolved to recommend for the Boards' approval of the financial statements and also the re-appointment of KPMG as the external auditor of the Trust, the Trustee-Manager and the Company for 2020.

Company Secretary

The Company Secretary of the Trustee-Manager and the Company supports the Boards by ensuring good information flow within the Boards and that board policy and procedures are followed. The Company Secretary is responsible for advising the Boards through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates induction and professional development of Directors.

The appointment and removal of the Company Secretary is subject to approval of the Boards. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, an employee of the Group, has been appointed as the Company Secretary of the Trustee-Manager and the Company since their incorporation in September 2013, and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2019, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

Risk Management and Internal Control

Introduction

The Trustee-Manager Board and the Company Board have overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Trustee-Manager's and Company's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the Trustee-Manager Audit Committee and the Company Audit Committee to ensure appropriate and effective risk management and internal control systems are in place.

COMBINED CORPORATE GOVERNANCE REPORT

Each of the Trustee-Manager Audit Committee and the Company Audit Committee assists the Trustee-Manager Board and the Company Board respectively in meeting its responsibility for maintaining effective systems of risk management and internal control. The Audit Committees review all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Company's accounting, internal audit, and financial reporting functions. They review the process by which the Trustee-Manager and the Company evaluate their control environment and their risk assessment process, and the way in which business and control risks are managed. The Audit Committees review the effectiveness of the internal audit function and its annual work plans, and consider the reports of the Chief Executive Officer and an Executive Director on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the Audit Committees before they make their recommendation to the Trustee-Manager Board and the Company Board for approval of the annual financial statements.

At the meetings held in March and July 2019, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the year 2018 and for the half year ended 30 June 2019 respectively, and considered the systems are effective and adequate.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the Trustee-Manager's and the Company's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks at corporate and operating unit levels in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 77 to 81 of the Annual Report.

The management encourage a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Trustee-Manager and the Company have a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Trustee-Manager's and the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Executive Directors review operational and financial reports and key operating statistics of each division and hold regular meetings with division general managers to review their reports.

Budgets are prepared annually by the management of each division and are subject to review and approval firstly by the Chief Executive Officer and then by the Company Board. Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors.

The Group Finance Division has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The Treasury Department, reporting to an Executive Director, is in charge of the treasury function overseeing investment and funding activities. It regularly reports on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Boards have approved and adopted a treasury policy governing the management of financial risks (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities. The treasury policy is reviewed by the Audit Committees from time to time.

The Group Legal and Company Secretarial Department, reporting to the Chief Executive Officer, is in charge of legal and company secretarial functions, overseeing, among other things, the Trust Group's compliance of the Listing Rules and other legal and regulatory requirements.

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and internal controls in business operations. Staff members of the department are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, the Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Audit Committees. Its internal audit reports on the Group's operations are also reviewed and considered by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work performed includes financial, operations and information technology review, recurring and ad-hoc audit, fraud investigation, productivity efficiency review and laws and regulations compliance review. The Internal Audit Department follows up audit recommendations on implementation by the operating units and the progress is reported to the Audit Committees regularly.

With the assistance of Internal Audit Department, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last annual assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committees which enables them to assess control of the Company and the effectiveness of risk management, any significant failings or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Company's processes for financial reporting and Listing Rules compliance. They also review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Division general managers and department heads conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their results to the Audit Committees and the Boards.

COMBINED CORPORATE GOVERNANCE REPORT

The Chief Executive Officer and other Executive Directors also have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Group Finance Division, working with each division, is responsible for arranging appropriate insurance coverage for the Trustee-Manager and the Trust Group.

Reports from the external auditor on material non-compliance with procedures and significant internal control weaknesses, if any, are presented to the Trustee-Manager Audit Committee and the Company Audit Committee. These reports are considered and reviewed and appropriate action is to be taken if required.

There are also procedures including pre-clearance on dealing in the Trust Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

The Company entered into an agreement dated 14 January 2014 with Power Assets for sharing of support services, pursuant to which the Company shares the relevant financial and accounting, treasury and internal audit services with Power Assets to support risk management and internal control functions outlined above.

Code of Conduct

The Trustee-Manager and the Group recognise the need to maintain a culture of corporate ethics and place great emphasis on employees' ethical standards and integrity in all aspects of the Group's operations. The Group's Code of Conduct, posted on the Company's intranet for reference by all employees, aims to give guidance in dealing with ethical issues, provides mechanisms to report unethical conduct and helps to foster a culture of honesty and accountability. Employees are required to adhere to the standards set out in the Code of Conduct.

The Trustee-Manager and the Group prohibit any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Trustee-Manager's and the Group's business is prohibited. An anti-bribery and anti-corruption control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws and the Code of Conduct. There is a whistle-blowing procedure, which is set out in the Code of Conduct, to allow employees and external parties such as customers, suppliers, debtors and creditors to report possible improprieties, and actual or alleged violations, including fraud and illegal acts. Investigations are carried out on all reported cases, the results of which are reported to the Company Audit Committee and the Chief Executive Officer, and disciplinary and remedial actions are taken as appropriate. During 2019, there were six reported cases, one involving the breach of the Code of Conduct and none involving bribery or corruption.

It is the responsibility of each Director and employee to avoid situations that may lead to or involve a conflict of interest. They should make full disclosure in case any of their dealings may have a conflict of interest with the activities of the Trustee-Manager and the Group. It is the responsibility of all Directors and employees who have access to and in control of the Trustee-Manager's and the Group's information to provide adequate safeguard to prevent any abuse or misuse of that information. The use of inside information to secure personal advantage is strictly prohibited.

The Trustee-Manager and the Group promote fair and open competition, and procurement of supplies and services are conducted in a manner of high ethical standards. There are procurement and tendering procedures in place to ensure impartial selection of suppliers and contractors, and that the hire of services and purchase of goods are based solely upon price, quality, suitability and need.

Sustainability Reporting

The Trustee-Manager and the Group are firmly committed to sustainable development and consider sustainability reporting to be one of the important platforms for stakeholder engagement. The Trust Group's Sustainability Report 2019 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2019 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting.

The Trust Group's Sustainability Report 2019 is available on the Company's website and HKEX's website.

External Auditor

Independence

KPMG, the external auditor and Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, have confirmed that they have been, for the year ended 31 December 2019, independent of the Trustee-Manager, the Trust Group and the Group in accordance with the independence requirements of the HKICPA.

Rotation of Engagement Partner

KPMG adopt a policy of rotating the engagement partner servicing their client companies in accordance with the requirements under the HKICPA's Code of Ethics for Professional Accountants.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 84 to 89 and pages 170 and 171 of the Annual Report.

Remuneration

An analysis of the fees of KPMG is shown in note 10 to the consolidated financial statements of the Trust and the Company on page 116 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 178 of the Annual Report.

Re-appointment

A resolution for re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditor since the respective dates of incorporation of the Trustee-Manager and the Company and the date of constitution of the Trust.

Distribution Policy

The Boards have adopted a distribution policy on 1 January 2019 which outlines the principles of payment on distribution. The distribution policy states that the Boards have a single-minded focus on delivering stable distribution to Holders of Share Stapled Units in accordance with the stated intention contained in the Trust Deed and the amended and restated articles of association of the Company. The level of such distribution from time to time will depend on prevailing business conditions and the Company's capital requirements and earning performance.

Holders of Share Stapled Units

The Trustee-Manager and the Company have established a range of communication channels between themselves and Holders of Share Stapled Units and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, news releases, the Company's website at www.hkei.hk and meetings with investors and analysts. All Holders of Share Stapled Units have the opportunity to put questions to the Boards at general meetings, and at other times by e-mailing or writing to the Company. The Boards have adopted a communication policy which provides a framework to promote effective communication with Holders of Share Stapled Units. The policy is available on the website of the Company.

COMBINED CORPORATE GOVERNANCE REPORT

Holders of Share Stapled Units may at any time notify the Company by mail or email of any change in their choice of language (English or Chinese or both) or means of receiving (printed copies or through the Company's website) corporate communications from the Trustee-Manager and the Company.

The Trustee-Manager and the Company handle registration of Share Stapled Units and related matters for Holders of Share Stapled Units through Computershare Hong Kong Investor Services Limited, the share stapled units registrar, whose contact details are set out on page 185 of the Annual Report.

Pursuant to the Company's articles of association, any two or more shareholders of the Company (or a shareholder of the Company if such shareholder is a recognised clearing house or its nominees) may requisition for the convening of an extraordinary general meeting, provided that such requisitionists hold as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The requisition stating the objects of the meeting should be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong. Pursuant to the Trust Deed, the Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the Trust holding not less than 5% of the units (as a component of the Share Stapled Units) of the Trust for the time being in issue and outstanding) at any time convene an extraordinary general meeting of registered holders of units at such time or place in Hong Kong. The registered holders of units of the Trust and shareholders of the Company can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Trust Deed and the articles of association of the Company when making any requisitions or proposals

for transaction at the general meetings of the Trust and the Company. Pursuant to article 16.5 of the Company's articles of association, a shareholder of the Company may propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, the procedures for which are posted on the Company's website.

2019 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2019 annual general meeting was held at Harbour Grand Kowloon on 15 May 2019.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to Holders of Share Stapled Units on 4 April 2019 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committees, the Remuneration Committee and the Nomination Committee respectively were available at the meeting to answer questions from the Holders of Share Stapled Units. Representatives from KPMG, the external auditor, also attended the meeting and were available to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to Holders of Share Stapled Units during the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by Holders of Share Stapled Units at the meeting and the percentage of votes cast in favour of each of them is set out below:

Ordinary Resolutions

- Audited Financial Statements of the Trust and the Company and of the Trustee-Manager, the Combined Report of the Directors, and the Independent Auditor's Reports for the year ended 31 December 2018 (99.9943%);
- Election of Mr. Fok Kin Ning, Canning (98.4639%), Mr. Wan Chi Tin (99.5017%), Mr. Fahad Hamad A H Al-Mohannadi (98.9379%), Mr. Chen Daobiao (96.9540%), Mr. Duan Guangming (99.3296%), Mr. Deven Arvind Karnik (98.9380%) and Mr. Ralph Raymond Shea (99.9330%) as Directors;
- Re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company and authorisation of Directors of the Trustee-Manager and the Company to fix auditor's remuneration (99.0903%); and
- General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (93.2590%).

The results of the poll, which included the number of Share Stapled Units voted for and against each resolution, were posted on the Company's and HKEX's websites on the same day of the meeting.

Company's Website

The Company maintains a website at www.hkei.hk. It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published information, such information including financial results, notices of meetings, announcements required under the Listing Rules, circulars to Holders of Share Stapled Units, sustainability publication, press releases and other necessary announcements are uploaded onto the Company's website.

Trust Deed and Memorandum and Articles of Association

No changes were made to the Trust Deed and the memorandum and articles of association of each of the Trustee-Manager and the Company during the year ended 31 December 2019.

The current versions of the Trust Deed, and the memorandum and articles of association of each of the Trustee-Manager and the Company are available on the Company's website and HKEX's website.

Key Dates

Announcement of 2019 interim results	30 July 2019
Payment of 2019 interim distribution (HK15.94 cents per Share Stapled Unit)	23 August 2019
Announcement of annual results for the year ended 31 December 2019	17 March 2020
Record date for 2019 final distribution	1 April 2020
Payment of 2019 final distribution (HK16.09 cents per Share Stapled Unit)	14 April 2020
Closure of registers (annual general meeting)	8 May 2020 to 13 May 2020 (both days inclusive)
2020 annual general meeting	13 May 2020

COMBINED CORPORATE GOVERNANCE REPORT

Interests and Short Positions of Holders of Share Stapled Units

As at 31 December 2019, Holders of Share Stapled Units (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

Substantial Holders of Share Stapled Units
Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held	Approximate % of Issued SSUs
Power Assets Holdings Limited	Interest of controlled corporation	2,948,966,418 (Note 1)	33.37%
Hyford Limited	Interest of controlled corporations	2,948,966,418 (Notes 1 and 2)	33.37%
Cheung Kong Infrastructure (BVI) Limited	Interest of controlled corporations	2,948,966,418 (Note 2)	33.37%
CK Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 2)	33.37%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
CK Hutchison Global Investments Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
CK Hutchison Holdings Limited	Interest of controlled corporations	2,948,966,418 (Note 3)	33.37%
State Grid Corporation of China	Interest of controlled corporations	1,855,602,000 (Note 4)	21.00%
State Grid International Development Co., Limited	Interest of controlled corporation	1,855,602,000 (Note 4)	21.00%
State Grid International Development Limited	Beneficial owner	1,855,602,000 (Note 4)	21.00%
Qatar Investment Authority	Interest of controlled corporation	1,758,403,800	19.90%

Notes:

- (1) Power Assets is deemed to be interested in 2,948,966,418 SSUs which are beneficially owned by its direct wholly-owned subsidiary, Quickview Limited. Hyford Limited is deemed to be interested in 2,948,966,418 SSUs which interests are duplicated in the 2,948,966,418 SSUs in which Power Assets is interested, as Hyford Limited is entitled to exercise or control the exercise of more than one-third of the issued shares of Power Assets through its direct and indirect wholly-owned subsidiaries.
- (2) CKI is deemed to be interested in the 2,948,966,418 SSUs as referred to in Notes (1) above as it holds more than one-third of the issued share capital of Cheung Kong Infrastructure (BVI) Limited, which holds more than one-third of the issued share capital of Hyford Limited. Its interests are duplicated in the interest of CK Hutchison in HKI described in Note (3) below.
- (3) CK Hutchison is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (2) above as it holds more than one-third of the issued voting shares of CK Hutchison Global Investments Limited ("CKHGI"). Certain subsidiaries of CKHGI hold more than one-third of the issued voting shares of Hutchison Infrastructure Holdings Limited which in turn holds more than one-third of the issued share capital of CKI.
- (4) State Grid International Development Limited is a direct wholly-owned subsidiary of State Grid International Development Co., Limited and an indirect wholly-owned subsidiary of State Grid Corporation of China ("State Grid"), and the interests of State Grid International Development Limited and State Grid International Development Co., Limited of 1,855,602,000 SSUs each are duplicated in the 1,855,602,000 SSUs held by State Grid.

Save as disclosed above, as at 31 December 2019, there was no other person (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

Public Float

According to information that is available to the Trustee-Manager and the Company and within the knowledge of the Directors, the percentage of the Share Stapled Units which are in the hands of the public exceeds 25% of the total number of issued Share Stapled Units.

Disclosure under the Trust Deed

Pursuant to the Trust Deed, the Trustee-Manager Board confirms that:

- (i) Any charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2019 are in accordance with the Trust Deed;
- (ii) The connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from independent third parties, with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Holders of Share Stapled Units as a whole; and
- (iii) It is not aware of any violation of duties of the Trustee-Manager which would have a material adverse effect on the business of the Trust or on the interests of all Holders of Share Stapled Units as a whole.

Conflict of Interests

The Trustee-Manager and the Company have implemented the following measures to deal with potential conflict of interest issue between (1) the Trust; and (2) any unitholder holding 30% or more of the units in issue, or any Director or shareholder of the Trustee-Manager holding 30% or more of the issued shares in the Trustee-Manager:

- (i) If a Director has a conflict of interest in a matter to be considered by the Trustee-Manager Board or the Company Board which the relevant board has determined to be material, the matter will be dealt with

by a physical board meeting instead of a circulating written resolution and independent non-executive directors who, and whose associates, have no material interest in the transaction must be present at that board meeting;

- (ii) Pursuant to clause 2.6 of the Trust Deed and article 90 of the articles of association of the Trustee-Manager, a Director of the Trustee-Manager must give priority to the interest of all the registered holders of units as a whole over the interest of the Company in the event of a conflict between the interest of all the registered holders of units as a whole and the interest of the Company; and
- (iii) The Trustee-Manager Audit Committee and the Company Audit Committee comprising majority of Independent Non-executive Directors regularly review the internal control systems and internal audit reports of the Trustee-Manager and the Company.

The Company and Power Assets entered into a non-competition deed on 14 January 2014 (the “Non-Competition Deed”) pursuant to which Power Assets agreed to the Company that save for the exceptions provided therein, Power Assets would not, and it would procure that none of its members would carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Power Assets has provided the Company with a written confirmation in respect of compliance by the Power Assets group with the terms of the Non-Competition Deed during the year ended 31 December 2019 and its consent to the inclusion of such confirmation in the Annual Report. A committee comprising all Independent Non-executive Directors has been formed with the responsibility to overseeing compliance by the Power Assets group with the Non-Competition Deed, and the committee has confirmed its view that Power Assets complied with the terms of the Deed during the year under review.

COMBINED REPORT OF THE DIRECTORS

The Boards have pleasure in submitting the annual report together with the audited consolidated financial statements of the Trust and of the Company for the year ended 31 December 2019 (the "consolidated financial statements of the Trust and of the Company").

The Trustee-Manager Board also presents the audited financial statements of the Trustee-Manager for the year ended 31 December 2019.

Principal activities

The Trust is a fixed single investment trust, with its activities being limited to investing in securities and other interests in the Company.

The principal activity of the Company is investment holding, whilst the principal activities of the Group are the generation and supply of electricity in Hong Kong Island and Lamma Island. Particulars of the Company's subsidiaries are set out in note 18 to the consolidated financial statements of the Trust and of the Company.

The Trustee-Manager, an indirect wholly-owned subsidiary of Power Assets, has a specific and limited role to administer the Trust, and is not actively engaged in running the business managed by the Trust Group.

Business review

A review of the business of Trust Group (of which the Group forms part) during the year and an indication of likely future developments in the Trust Group's business are provided in the Chairman's Statement on pages 6 to 8, CEO's Report on pages 14 to 39, Financial Review on pages 40 to 42 and Performance Highlights on pages 2 and 3.

The principal risks and uncertainties facing the Trust Group and how the Trust Group manages these risks and uncertainties are described in Risk Management and Risk Factors on pages 77 to 81.

The Trust Group's relationships with its key stakeholders, environmental policies and performance is discussed in the CEO's Report on pages 14 to 39, whilst its compliance with the relevant laws and regulations that have a significant impact on the Trust Group are included in Risk Factors on pages 79 to 81 and Combined Corporate Governance Report on pages 54 to 73.

These review and discussion form part of this Combined Report of the Directors.

Results

The results for the year ended 31 December 2019 and the financial position as at that date of the Trust Group and the Group are set out in the consolidated financial statements of the Trust and of the Company on pages 90 to 169.

The results for the year ended 31 December 2019 and the financial position as at that date of the Trustee-Manager are set out in the financial statements of the Trustee-Manager on pages 172 to 179.

Distributions and dividends

Distributable income

Distributable income and distributable income per Share Stapled Unit are set out in note 14 to the consolidated financial statements of the Trust and of the Company.

Distribution per Share Stapled Unit

The Trustee-Manager Board has declared a final distribution by the Trust of HK16.09 cents (2018: HK20.12 cents) per Share Stapled Unit for the year ended 31 December 2019, payable on 14 April 2020 to Holders of Share Stapled Units 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 Share Stapled Unit, brings the total distribution to HK32.03 cents per Share Stapled Unit for the year ended 31 December 2019 (2018: HK40.04 cents).

In order to enable the Trust to pay the interim distribution and the final distribution, the Company Board declared the payments of a first interim dividend and a second interim dividend, in respect of each of the Company's ordinary shares held by the Trustee-Manager, of HK15.94 cents (2018: HK19.92 cents) and HK16.09 cents (2018: HK20.12 cents) respectively for the year ended 31 December 2019.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2019.

Share capital and Share Stapled Units

Share capital

Details of the share capital of the Company are set out in note 30(b) to the consolidated financial statements of the Trust and of the Company. There was no movement during the year.

Details of the share capital of the Trustee-Manager are set out in note 8 to the financial statements of the Trustee-Manager. There was no movement during the year.

Share Stapled Units

There was no movement in the number of issued Share Stapled Units, or individually units in the Trust, or ordinary shares, or preference shares of the Company, during the year.

Donations

Charitable and other donations made by the Trust Group during the year amounted to approximately HK\$1 million (2018: approximately HK\$2 million).

Five-year financial summary

A five-year summary of the results and of the assets and liabilities of the Trust Group and the Group is set out on page 180.

Major customers and suppliers

Sales to the five largest customers combined was less than 30% of the Trust Group's total revenue for the years ended 31 December 2019 and 2018.

Purchases from the largest supplier of revenue items for the year represented 25% (2018: 26.7%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 76.1% (2018: 72.2%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2019.

At no time during the year have the Directors, their close associates or any Holders of Share Stapled Units (which to the knowledge of the Boards own more than 5% of the number of issued Share Stapled Units) had any interest in the above major customers and suppliers.

Directors

The Directors of the Trustee-Manager and the Company in office during the year ended 31 December 2019 and up to the date of this report were Mr. Fok Kin Ning, Canning, Mr. Li Tzar Kuoi, Victor, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Ronald Joseph Arculli, Mr. Chan Loi Shun, Mr. Chen Daobiao, Mr. Cheng Cho Ying, Francis, Mr. Duan Guangming (appointed on 26 February 2019), Dr. Fong Chi Wai, Alex, Mr. Jiang Xiaojun (resigned on 26 February 2019), Mr. Deven Arvind Karnik, Mr. Kwan Kai Cheong, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus, Mr. Donald Jeffrey Roberts, Mr. Ralph Raymond Shea and Mr. Zhu Guangchao.

Mr. Jiang Xiaojun, resigned as a Director of the Trustee-Manager and the Company during the year due to his other business commitments, has no disagreement with the Boards and does not have any matters in relation to his resignation that should be brought to the attention of the Holders of Share Stapled Units.

During the same period, Ms. Woo Mo Fong, Susan (alias Chow Woo Mo Fong, Susan) served as the Alternate Director to Mr. Fok Kin Ning, Canning, and Mr. Frank John Sixt served as the Alternate Director to Mr. Li Tzar Kuoi, Victor.

Permitted indemnity

Pursuant to the Trust Deed the Directors of the Trustee-Manager shall be entitled to be indemnified out of the Trust property or any part thereof against any actions, costs, claims, damages, expenses, penalties or demands to which they may be put as Directors of the Trustee-Manager of the Trust, save where occasioned by the fraud, wilful default or negligence of the Directors.

The articles of association of each of the Company and the Trustee-Manager provides that every Director shall be entitled to be indemnified out of the assets of the Company or the Trustee-Manager (excluding, for the avoidance of doubt, the Trust property) respectively against any losses or liability incurred or sustained by him as a Director.

A Directors Liability Insurance is currently in place, and was in place during the year to protect the directors of the Trustee-Manager, the Company and their subsidiaries against potential costs and liabilities arising from claims brought against them.

COMBINED REPORT OF THE DIRECTORS

Directors' material interest in significant transaction, arrangement and contract

No transaction, arrangement and contract of significance in relation to the Trust Group's business to which the Trustee-Manager, the Company or their parent companies, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had, directly or indirectly, a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Trust Group were entered into or existed during the year.

Arrangement to purchase Share Stapled Units, shares or debentures

At no time during the year was the Trustee-Manager or the Company or any of their parent companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units, or shares in, or debentures of, the Trustee-Manager, the Company or any other body corporate.

Equity-linked agreements

No equity-linked agreements were entered into by the Trust Group or the Trustee-Manager during the year or subsisted at the end of the year.

Purchase, sale or redemption of Share Stapled Units

Pursuant to the Trust Deed, the Holders of Share Stapled Units have no right to demand for repurchase or redemption of their Share Stapled Units. Unless and until expressly permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time, the Trustee-Manager shall not repurchase or redeem any Share Stapled Units on behalf of the Trust.

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the year ended 31 December 2019.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's amended and restated articles of association and the laws of the Cayman Islands which would oblige the Company to offer new Share Stapled Units on a pro-rata basis to existing Holders of Share Stapled Units.

On behalf of the Boards of
HK Electric Investments Manager Limited
and
HK Electric Investments Limited

Fok Kin Ning, Canning

Chairman

Hong Kong, 17 March 2020

RISK MANAGEMENT

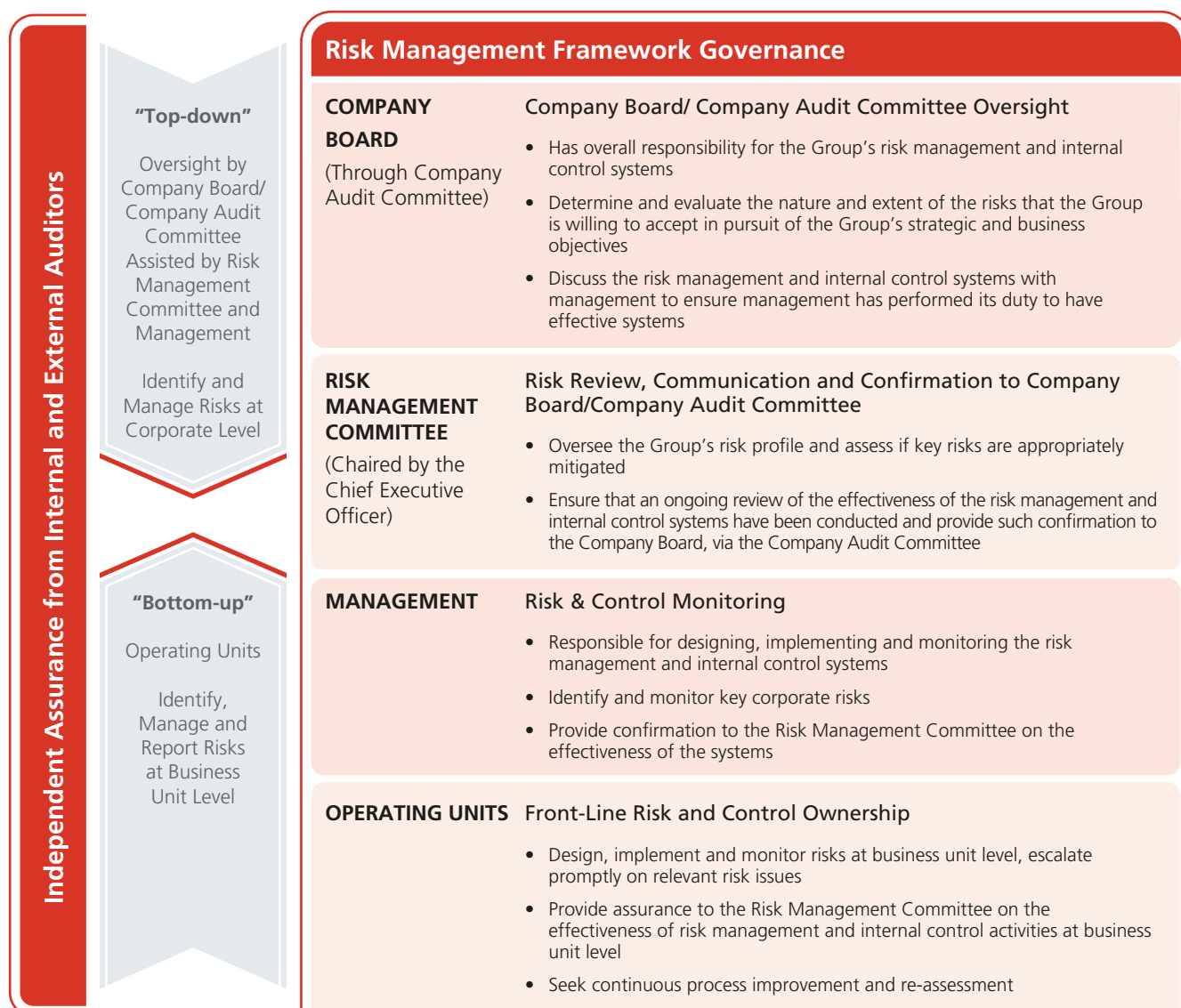
Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives.

Risk management framework

The Group has in place an Enterprise Risk Management (ERM) framework to effectively identify, assess, mitigate and monitor key business, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organisation, with on-going monitoring and review in place.

Governance and oversight

The Group is committed to fostering a risk aware and control conscious environment. Responsibility for risk management resides at all levels within the organisation. The Company Board, through the Company Audit Committee, oversees the overall management of risks. The Risk Management Committee, supported by Internal Audit, assists the Company Board and Company Audit Committee to review and monitor key risks of the Group. Management is responsible for identifying and assessing risks of strategic nature. Operating units are responsible for the identification and management of risks in their activities. The top-down and bottom-up approaches complement each other and enable us to identify and manage the Group's key risks in an effective manner, including material emerging risks at corporate and business unit levels.



RISK MANAGEMENT

Risk management process

The risk management process is integrated into our day-to-day activities and is an ongoing process involving all parts of the Group from the Company Board down to individual employees.

The risk identification process takes into account internal and external factors. These include economic, political, social, technological, environmental and new or updated Group strategy and regulations, as well as our stakeholders' expectations in these aspects. Risks are grouped into different categories to facilitate analysis. Each risk identified is analysed on the basis of likelihood and impact in accordance with the risk appetite set by the Company Board.

Action plans are in place to manage risks. The risk assessment process also includes a review of the control mechanisms for each risk and a rating of the effectiveness of each control.

The Group compiles a risk register which is updated and monitored on an ongoing basis, taking into account emerging risks which may have a material impact on the Group.

A risk management report that highlights key corporate and business level risks and action plans is reviewed by the Risk Management Committee half-yearly. A register of top corporate risks is presented to the Company Audit Committee for reporting to the Company Board. Significant changes in key risks on a day-to-day basis are handled as they arise and reported to management.

Fundamental to achieving our business goals is how we can effectively manage existing and emerging risks in different economic, social and political environments. A description of the Group's risk factors is shown on pages 79 to 81 of this Annual Report. The Group works to continually improve its risk management framework in order to keep pace with the changing business environment.



RISK FACTORS

Risks and uncertainties can affect the Group's business, financial condition, operating results or growth prospects leading to a divergence from expected or historical results. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with its stakeholders with the aim of understanding and addressing their concerns.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

Global and Hong Kong economic environment

Macroeconomic growth remains sluggish at a global level. Escalating trade protectionism, heightened uncertainty over economic policy, rising geopolitical tensions, and volatility in financial market movements continue to add uncertainties to the world economy and global financial market. Growth in the Hong Kong economy has been affected by the social unrest and the US-China trade war which has had a dampening effect on Hong Kong's exports.

The prevailing global uncertainty, outbreak of novel coronavirus and social unrest in Hong Kong have dampened local economic activities and adversely affected the business of customers or potential customers which may lead to a lower demand for electricity and related services in Hong Kong. This may adversely affect the Group's financial position, potential income, asset value and liabilities.

To address uncertainty in the global and Hong Kong economies, the Group pursues prudent and pragmatic strategies in financial management and capital investment. The Group also strives for efficiency and cost effectiveness in all aspects of its operations to enhance its financial performance.

Health and safety

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

Major health and safety incidents resulting in fatalities, injuries or ill health to members of the public or employees or damage to the Group's properties could have significant consequences. These may include widespread distress and harm or significant disruption to the Group's operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

The Group has in place a Health and Safety Management System to manage its exposure and protect its employees, customers, contractors, visitors and the public by conducting its business in a safe and socially responsible manner. Sustainable improvements are made to strengthen the organisation's culture and commitment to health and safety.

During the outbreak of novel coronavirus, the Group elevates the response level of its Influenza Pandemic Contingency Plan to emergency level and steps up the preventive and control measures with an aim to reduce the risk of infection of employees.

Environmental compliance

In 2008, the Government stipulated emission allowances for the power sector up to 2010 and beyond through the Technical Memorandum for Allocation of Emission Allowances in respect of Specified Licences under the Air Pollution Control Ordinance (APCO). Seven subsequent Technical Memoranda issued in 2010, 2012, 2014, 2015, 2016, 2017 and 2019 have further tightened the emission allowances starting from 2015, 2017, 2019, 2020, 2021, 2022 and 2024 respectively.

Although compliance with emission allowance requirements is no longer linked to the rate of return under the new Scheme of Control Agreement (SCA) effective 1 January 2019, failure to comply with these requirements could still result in legal action against the Group under the APCO.

The Group has in place an Environmental Management System with a monitoring and reporting mechanism run by a dedicated team to ensure compliance with relevant environmental regulations, address public concerns and closely monitor and control the emission of pollutants from the power plant.

RISK FACTORS

Reliability of supply

The Group can be exposed to risks in relation to supply interruptions. Extensive damage in generation or network facilities caused by severe earthquake, storm, flood, landslide, extreme weather phenomenon due to climate change, fire, sabotage, terrorist attack, damages, failure of critical information and control systems that support the power system or any other unplanned event could lead to a prolonged and extensive power outage.

The loss of cash flow resulting from supply interruption, and the cost of recovery from damage to network and generation assets could be considerable. Such an incident could damage customer goodwill and lead to claims and litigation. Substantial increases in the number or duration of supply interruptions could result in increases in the costs associated with the operation of the Group's supply networks, which could have an adverse effect on the business, financial condition and efficiency of operations as well as the reputation of the Group.

The Group conducts thorough risk assessments including the emerging risk of climate change, physical security and cybersecurity, adopts resilient designs, performs reliability centered maintenance and upgrades of its power supply equipment, undertakes reliability reviews, provides comprehensive training to operational staff and deploys sophisticated information technology control and asset management systems. It also conducts drills on contingency plans on a regular basis to ensure supply reliability is maintained to a high standard.

The Group has a series of health and safety measures in place across its entire operation and implements contingency plans to ensure the potential impact of the novel coronavirus outbreak on its services can be minimised.

Cyber security

The Group's critical utility and information assets are exposed to attack, damage or unauthorised access in the cyber world. The fact that cyber-attacks occur with greater frequency and intensity around the world has increased the risk posed by cybercrime to the Group. Failure to protect the Group's critical utility and information assets from targeted or non-targeted cyber-attacks can result in reputational damage, financial loss and disruptions in operations.

The Group has taken a risk-based and integrated approach to combating cyber security risks. A robust Cyber Security Management Framework has been established with the implementation of an Information Security Management System that enables the Group to proactively identify, prevent, detect, respond to and recover from cybersecurity attacks. Resources and development efforts are focused on the three pillars of cybersecurity management, namely people, process and technology, to ensure the confidentiality, integrity and availability of corporate information assets and critical infrastructure.

Electricity market

The operations of the Group's electricity business in Hong Kong are subject to the SCA with the Government, which provides for a permitted level of earnings based principally on average net fixed assets for electricity-related operations.

The current SCA commenced on 1 January 2019, with a term of 15 years from 2019 to 2033. While the SCA is providing the necessary stability in the areas of financial and service regulation, the Government's strategies and policies on air quality, electricity sector decarbonisation for climate change mitigation, and electricity market competition are among the factors affecting the Group's results and growth in the medium to long term.

The Group has established a mechanism to review these factors on a regular basis and continuously engages in discussions with the Environment Bureau as well as various stakeholders on electricity market and regulatory issues.

Fuel supply

Our generating units in Lamma Power Station mainly rely on coal and natural gas as fuel sources. Any interruption or shortage in the supply of coal or natural gas, or substandard fuel quality may result in significant disruption to the operations of our generating units. This could have an adverse effect on the reliability of supply, business, financial condition as well as the reputation of the Group. Fuel price volatility also poses a financial risk to the Group.

The Group has a fuel supply strategy and fuel quality control system in place to maintain reliable fuel supply and sufficient stock of appropriate quality to meet its generation requirements. In addition, good progress has been made in the joint-venture development of an offshore Liquefied Natural Gas Terminal to secure gas supplies.

Interest rates and currency markets

The Group is exposed to interest rate risk primarily on its interest-bearing liabilities. The US Federal Reserve has cut interest rates three times in 2019 and Hong Kong has followed suit to lower its interest rates. The Group is exposed to currency risk that mainly arises from the import of fuel and capital equipment. Volatility in interest rates and currency markets may adversely affect the Group's financial conditions and results of operations.

The Group's treasury policy guides the measures it undertakes to manage these exposures. Details of the Group's current practices to manage interest rate and currency risks are in the Financial Review on pages 40 to 42.

Laws and regulations

The Group's main operating company, HK Electric, engages in the generation, transmission, distribution and supply of electricity in Hong Kong, and is subject to strict compliance with Hong Kong laws and regulations relating to, amongst other things, development, construction, licensing and operation of our power facilities. Furthermore, it must comply with the conditions contained in its operational and construction licenses and permits. Failure to do so could expose the Group to prosecution and litigation and result in fines, sanctions, criminal penalties and/or the suspension, revocation or non-renewal of licenses or permits. Moreover, changes in laws and regulations may cause it to incur additional capital expenses or other obligations or liabilities in order to comply with such changes, or may possibly have material and adverse impact on its business, financial condition and operating results.

The Compliance Committee, chaired by the Chief Executive Officer, is responsible for overseeing the Group's compliance functions. A Compliance Framework is in place to manage its compliance obligations under a consistent and structured approach across the Group. As part of the Framework, a Regulatory Compliance and Monitoring Programme with designated responsible parties has been implemented to proactively monitor the Group's compliance obligations and status as well as any changes in laws and regulations and their implications.



FINANCIAL STATEMENTS

Delivering stable financial performance







INDEPENDENT AUDITOR'S REPORT

TO THE HOLDERS OF SHARE STAPLED UNITS OF HK ELECTRIC INVESTMENTS AND HK ELECTRIC INVESTMENTS LIMITED

(HK Electric Investments is a trust constituted under the laws of Hong Kong; HK Electric Investments Limited is incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HK Electric Investments (the "Trust"), HK Electric Investments Limited (the "Company") and its subsidiaries (together the "Trust Group") and of the Company and its subsidiaries (the "Group") set out on pages 90 to 169 (together referred to as the "consolidated financial statements of the Trust and of the Company"). As explained in note 2 to the consolidated financial statements of the Trust and of the Company, the consolidated financial statements of the Trust and of the Company together comprise the consolidated statement of financial position of the Trust Group and of the Group as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Trust Group and of the Group for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Trust and of the Company give a true and fair view of the consolidated financial position of the Trust Group and of the Group as at 31 December 2019 and of the Trust Group's and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Trust Group and of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements of the Trust and of the Company in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the Trust and of the Company of the current period. These matters were addressed in the context of our audit of the consolidated financial statements of the Trust and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Existence and accuracy of property, plant and equipment

Refer to note 16 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(f), (g) and (h)(ii).

The key audit matter

A wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited (“HK Electric”), is engaged in the generation, transmission and distribution of electricity in Hong Kong (the “Hong Kong electricity business”), which requires substantial capital investment in property, plant and equipment.

The Scheme of Control Agreement entered into by HK Electric and the Government of the HKSAR provides for HK Electric to earn a permitted return calculated based on 8% of average net fixed assets. The Development Plan under the Scheme of Control Agreement governs HK Electric’s capital expenditure on the Hong Kong electricity business over the Scheme of Control Agreement period.

HK Electric’s property, plant and equipment is specialised in nature and certain items are self-constructed. The cost of self-constructed property, plant and equipment comprises, inter alia, the costs of materials and direct labour, overheads capitalised and borrowing costs. The Directors have implemented internal controls over the capitalisation of costs in property, plant and equipment.

We identified assessing the existence and accuracy of property, plant and equipment as a key audit matter because property, plant and equipment is the most significant asset of the Trust Group and the Group and is critical to the operations of Hong Kong electricity business and because, due to the terms and conditions of the Scheme of Control Agreement, property, plant and equipment is a key focus of management and the users of the consolidated financial statements of the Trust and of the Company.

How the matter was addressed in our audit

Our audit procedures to assess the existence and accuracy of property, plant and equipment included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the existence and accuracy of property, plant and equipment;
 - assessing the Trust Group’s and the Group’s capitalisation policy for expenditure relating to property, plant and equipment with reference to the requirements of the prevailing accounting standards;
 - selecting a sample items of property, plant and equipment acquired and capitalised during the year ended 31 December 2019 and inspecting relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards and to evaluate the date on which costs were capitalised;
 - assessing whether the additions to property, plant and equipment for the year ended 31 December 2019 were consistent with the Development Plan agreed between HK Electric and the Government of the HKSAR which governs the level of capital expenditure over a period of time;
 - forming an expectation of the value of costs capitalised for the current year based on the prior year’s capitalisation ratio and the level of capital work undertaken during the current year, comparing our expectation with the actual costs capitalised for the current year and discussing with management the nature of and reasons for any significant variances; and
 - physically inspecting a sample of additions to property, plant and equipment during the current year.
-

INDEPENDENT AUDITOR'S REPORT

Assessment of potential impairment of goodwill relating to the Hong Kong electricity business

Refer to note 17 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(e) and (h)(ii).

The key audit matter

The Company acquired the Hong Kong electricity business operated by HK Electric from Power Assets Holdings Limited in 2014. The goodwill arising on this acquisition amounted to HK\$33.6 billion.

Management assessed goodwill for potential impairment as at 30 November 2019 by comparing the carrying amount of the cash-generating unit to which goodwill has been allocated with the recoverable amount determined by assessing the value-in-use ("VIU") by preparing a discounted cash flow forecast. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate.

We identified the assessment of potential impairment of goodwill relating to the Hong Kong electricity business as a key audit matter because the carrying value of the goodwill is material to the consolidated financial statements of the Trust and of the Company and also because management's assessment of the value of the future cash flows expected to be derived from the Hong Kong electricity business involves certain critical judgements in respect of the assumptions made which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill relating to the Hong Kong electricity business included the following:

- evaluating management's cash flow forecast by comparing the assumptions adopted by management with our understanding of the Hong Kong electricity business and by comparing key assumptions and estimates with relevant underlying documentation, which included comparing future revenue growth and operating profit with the Development Plan agreed between HK Electric with the Government of the HKSAR and comparing components of the discount rate with market data;
- evaluating management's rationale for adopting cash flow projections over a period greater than five years with reference to the guidance in the prevailing accounting standards;
- engaging our internal valuation specialists to assess whether the discount rate applied in the cash flow forecast was within the range adopted by other companies in the same industry;
- performing sensitivity analyses on the discount rate and terminal growth rate applied and the assumptions for revenue adopted by management in the cash flow forecast to assess the impact of changes in these key assumption on the conclusion reached in management's impairment assessment and considering whether there were any indicators of management bias in the assumption adopted; and
- comparing the actual results for the current year with management's forecasts for the previous year in order to assess the historical accuracy of the management's forecasting process.

Fuel Clause Recovery Account

Refer to note 24 to the consolidated financial statements of the Trust and of the Company and the accounting policy 3(r)(ii).

The key audit matter

Under the Scheme of Control Agreement, any difference between the standard cost of fuel, as agreed with the Government of the HKSAR, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account as Fuel Cost Account Adjustments.

Fuel Clause Charges (or Rebates) are charged (or given) to electricity customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance of the Fuel Clause Recovery Account at the end of the reporting period represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates.

Starting from 2019, HK Electric introduced a more frequent Fuel Clause Charge Adjustment Mechanism. The adjustment of Fuel Clause Charge was changed from annually to monthly, which was based on the previous three-month average actual cost of fuels.

We identified the Fuel Clause Recovery Account as a key audit matter because it is a specific item in the Scheme of Control Agreement and is a key factor in the calculation of Fuel Clause Charges (or Rebates) which affect the Net Tariff payable by electricity customers and because the balance of the Fuel Clause Recovery Account is material as at 31 December 2019.

How the matter was addressed in our audit

Our audit procedures to assess the balance of the Fuel Clause Recovery Account included the following:

- engaging our internal Information Risk Management specialists to assess the design, implementation and operating effectiveness of the information technology automated controls that govern the interface between the Trust Group's and the Group's meter reading system which records units of electricity sold and the Trust Group's and the Group's accounting system;
- forming an expectation of the amount of Fuel Clause Charges to electricity customers based on the units of electricity sold during the reporting period and comparing our expectation with the actual Fuel Clause Charges recorded by the Trust Group and the Group;
- evaluating the actual cost of fuel for the year ended 31 December 2019 by inspecting supplier invoices, on a sample basis;
- evaluating the accrued charges for unbilled fuel costs at 31 December 2019 by inspecting, on a sample basis, the amounts settled subsequent to 31 December 2019 and relevant underlying documentation;
- understanding and evaluating the design and implementation of key internal controls relating to the Group's new Fuel Clause Charge Adjustment Mechanism; and
- recalculating of the balance of the Fuel Clause Recovery Account as at 31 December 2019 taking into account the balance brought forward at the start of the financial year, Fuel Clause Charges, Fuel Costs Account Adjustments and interest.

Information other than the consolidated financial statements and auditor's report thereon

The Directors of HK Electric Investments Manager Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the Trust) and the Directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements of the Trust and of the Company and our auditor's report thereon.

INDEPENDENT AUDITOR'S REPORT

Our opinion on the consolidated financial statements of the Trust and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements of the Trust and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements of the Trust and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors of the Trustee-Manager and the Directors of the Company are responsible for the preparation of the consolidated financial statements of the Trust and of the Company that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements of the Trust and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Trust and of the Company, the Directors are responsible for assessing the Trust Group's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Trust Group and the Group or to cease operations or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committees of the Trustee-Manager and of the Company in discharging their responsibilities for overseeing the Trust Group's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Trust and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements of the Trust and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Group's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust Group's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements of the Trust and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust Group and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements of the Trust and of the Company, including the disclosures, and whether the consolidated financial statements of the Trust and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust Group and the Group to express an opinion on the consolidated financial statements of the Trust and of the Company. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committees of the Trustee-Manager and of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committees of the Trustee-Manager and of the Company with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committees of the Trustee-Manager and of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the Trust and of the Company of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG

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

17 March 2020

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	8	(1,078)	(1,096)
Operating profit		4,213	5,086
Finance costs	9	(1,004)	(967)
Profit before taxation	10	3,209	4,119
Income tax:	11		
Current		(547)	(458)
Deferred		(67)	(301)
		(614)	(759)
Profit after taxation		2,595	3,360
Scheme of Control transfers	13(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	15	26.33 cents	34.53 cents

The notes on pages 95 to 169 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the year are set out in note 14.

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

The notes on pages 95 to 169 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST AND OF THE COMPANY

At 31 December 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
	16	72,416	71,059
Goodwill	17	33,623	33,623
Interest in a joint venture	19	42	–
Derivative financial instruments	26	649	568
Employee retirement benefit scheme assets	27(a)	809	593
		107,539	105,843
Current assets			
Inventories	20	819	989
Trade and other receivables	21	1,060	1,028
Bank deposits and cash	22(a)	299	34
		2,178	2,051
Current liabilities			
Trade and other payables and contract liabilities	23	(2,980)	(2,447)
Fuel Clause Recovery Account	24	(647)	(855)
Current portion of bank loans and other interest-bearing borrowings	25	(6,010)	(440)
Bank overdrafts – unsecured		(33)	–
Current tax payable	29(a)	(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	25	(37,002)	(41,525)
Derivative financial instruments	26	(14)	(411)
Customers' deposits		(2,241)	(2,195)
Deferred tax liabilities	29(b)	(9,540)	(9,353)
Employee retirement benefit scheme liabilities	27(a)	(368)	(393)
Other non-current liabilities	28	(955)	(747)
		(50,120)	(54,624)
Scheme of Control Fund and Reserve	13(c)	(878)	(648)
Net assets		48,472	48,743
Capital and reserves			
Share capital	30(b)	8	8
Reserves		48,464	48,735
Total equity		48,472	48,743

Approved and authorised for issue by the Boards on 17 March 2020.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 95 to 169 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of the Company					Proposed/ declared distribution/ dividend (note 14)	Total
	Share capital (note 30(b))	Share premium (note 30(c))	Hedging reserve (note 30(d)(i))	Revenue reserve (note 30(d)(ii))			
\$ million							
Balance at 1 January 2018	8	47,472	314	150	1,778		49,722
Changes in equity for 2018:							
Profit for the year	–	–	–	3,051	–		3,051
Other comprehensive income	–	–	(366)	(124)	–		(490)
Total comprehensive income	–	–	(366)	2,927	–		2,561
Amounts transferred to the initial carrying amount of hedged items, net of tax	–	–	(2)	–	–		(2)
Final distribution/second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,778)		(1,778)
Interim distribution/first interim dividend paid (see note 14(b))	–	–	–	(1,760)	–		(1,760)
Proposed final distribution/second interim dividend (see note 14(b))	–	–	–	(1,778)	1,778		–
Balance at 31 December 2018 and 1 January 2019	8	47,472	(54)	(461)	1,778		48,743
Changes in equity for 2019:							
Profit for the year	–	–	–	2,327	–		2,327
Other comprehensive income	–	–	376	210	–		586
Total comprehensive income	–	–	376	2,537	–		2,913
Amounts transferred to the initial carrying amount of hedged items, net of tax	–	–	2	–	–		2
Final distribution/second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,778)		(1,778)
Interim distribution/first interim dividend paid (see note 14(b))	–	–	–	(1,408)	–		(1,408)
Proposed final distribution/second interim dividend (see note 14(b))	–	–	–	(1,422)	1,422		–
Balance at 31 December 2019	8	47,472	324	(754)	1,422		48,472

The notes on pages 95 to 169 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Note	2019 \$ million	2018 \$ million
Operating activities			
Cash generated from operations	22(b)	7,371	6,291
Interest paid		(829)	(760)
Interest received		6	19
Hong Kong Profits Tax paid		(107)	(535)
Net cash generated from operating activities		6,441	5,015
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		(3,543)	(3,397)
Capitalised interest paid		(199)	(142)
New loan to a joint venture		(42)	–
Decrease in bank deposits with more than three months to maturity when placed		–	875
Net cash used in investing activities		(3,784)	(2,664)
Financing activities			
Proceeds from bank loans	22(c)	2,048	365
Repayment of bank loans	22(c)	(1,500)	–
Issuance of medium term notes	22(c)	500	–
Redemption of medium term notes	22(c)	(330)	–
Payment of lease liabilities	22(c)	(2)	–
New customers' deposits	22(c)	315	311
Repayment of customers' deposits	22(c)	(269)	(246)
Distributions/dividends paid		(3,186)	(3,538)
Net cash used in financing activities		(2,424)	(3,108)
Net increase/(decrease) in cash and cash equivalents		233	(757)
Cash and cash equivalents at 1 January		34	784
Effect of foreign exchange rate changes		(1)	7
Cash and cash equivalents at 31 December	22(a)	266	34

The notes on pages 95 to 169 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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

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

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 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”.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Groups are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Groups. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Groups for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Subsidiaries

Subsidiaries are entities over which the Groups have control. The Groups control an entity when the Groups are exposed, or have the rights, to variable returns from their involvement with the entity and have the ability to affect those returns through their power over the entity. When assessing whether the Groups have power, only substantive rights (held by the Groups or other parties) are considered.

Investments in subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 3(h)(ii)).

(d) Joint venture

A joint venture is an arrangement whereby the Groups or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Groups' share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Groups' equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the Groups' share of the investee's net assets and any impairment loss relating to the investment (see note 3 (h)(ii)). Any acquisition-date excess over cost, the Groups' share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Groups' share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Groups' share of losses exceeds their interest in the joint venture, the Groups' interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Groups have incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Groups' interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Groups' net investment in the joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see note 3(h)(i)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(d) Joint venture (continued)

Unrealised profits and losses resulting from transactions between the Groups and their joint venture are eliminated to the extent of the Groups' interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, when the Groups cease to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(e) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 3(h)(ii)).

(f) Property, plant and equipment, interests in leasehold land and depreciation and amortisation

- (i) Property, plant and equipment including right-of-use assets arising from leases over leasehold properties where the Groups are not registered owner of the property interest, other than assets under construction, are stated at cost less accumulated depreciation (see note 3(f)(viii)) and impairment losses (see note 3(h)(ii)).
- (ii) Assets under construction are stated at cost less impairment losses (see note 3(h)(ii)), and are not depreciated. Assets under construction are transferred to appropriate class of property, plant and equipment when completed and ready for use.
- (iii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 3(v)).

- (iv) Subsequent expenditure to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the item's carrying amount or recognised as a separate item as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Groups and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.
- (vi) Leasehold land held for own use is stated at cost less accumulated amortisation (see note 3(f)(vii)) and impairment losses (see note 3(h)(ii)).
- (vii) The cost of acquiring interests in leasehold land is amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term.
- (viii) Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio systems	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5
Properties lease for own use	Shorter of the unexpired term of lease and the properties' estimated useful life

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

Where parts of an item of property, plant and equipment have different useful lives, the cost of the property, plant and equipment is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(g) Leased assets

At inception of a contract, the Groups assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

(i) Policy applicable from 1 January 2019

At the lease commencement date, the Groups recognise a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Groups enter into a lease in respect of a low-value asset, the Groups decide whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 3(f) and (h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Groups' estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Groups will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Policy applicable prior to 1 January 2019

In the comparative period, where the Groups had the use of assets held under operating leases, payments made under the leases were charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis was more representative of the pattern of benefits to be derived from the leased asset.

Where the Groups acquired the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present values of the minimum lease payments of such assets were recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, were recorded as obligations under finance leases. Depreciation was provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it was likely the Groups would obtain ownership of the asset, the life of the asset, as set out in note 3(f)(viii). Impairment losses were accounted for in accordance with the accounting policy as set out in note 3(h)(ii). Finance charges implicit in the lease payments were charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals were charged to profit or loss in the accounting period in which they were incurred.

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Groups recognise a loss allowance for ECLs on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables). Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Groups in accordance with the contract and the cash flows that the Groups expect to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- trade and other receivables and fixed rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Groups are exposed to credit risk.

In measuring ECLs, the Groups take into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Groups' historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Groups recognise a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Groups compare the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Groups consider that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Groups in full, without recourse by the Groups to actions such as realising security (if any is held); or (ii) the receivables are 90 days past due and the debtor does not respond to the Groups' collection activities as historical experience indicates that receivables that meet those criteria are generally not recoverable. The Groups consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Groups.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Groups recognise an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 3(r)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Groups assess whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Groups determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(h) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets and interests in leasehold land;
- goodwill; and
- investments in subsidiaries and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Groups are required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Groups apply the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 3(h)(i) and 3(h)(ii)).

Impairment loss recognised in an interim period in respect of goodwill is not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(i) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(j) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

The Groups' net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the end of the reporting period on Hong Kong Special Administrative Region Government Exchange Fund Notes that have maturity dates approximating the terms of the Groups' obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Where the calculation of the Groups' net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from or reductions in future contributions to the defined benefit retirement scheme.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the revenue reserve and will not be reclassified to profit or loss.

The Groups determine the net interest expense or income for the period on the net defined benefit liability or asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset, taking into account any changes in the net defined liabilities or assets during the year as a result of contributions and benefit payments.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(j) Retirement scheme obligations (continued)

(ii) Contributions to defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Coal, stores, fuel oil and natural gas are valued at cost measured on a weighted average basis.

Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost of inventories recognised as an expense includes the write-off and all losses of inventories.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(l) Trade and other receivables

A receivable is recognised when the Groups have an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(h)(i)).

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 3(q)(i)), interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Groups' accounting policy for borrowing costs (see note 3(v)).

For fixed interest borrowings that are designated as hedged items in fair value hedges, subsequent to initial recognition, the interest-bearing borrowings are stated at fair value with the fair value changes that are attributable to the hedged risk recognised in profit or loss (see note 3(q)(i)).

A call option embedded in a host debt instrument is closely related to and not separated from the host debt instrument if the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Groups recognise the related revenue (see note 3(r)). A contract liability would also be recognised if the Groups have an unconditional right to receive non-refundable consideration before the Groups recognise the related revenue. In such cases, a corresponding receivable would also be recognised (see note 3(l)).

(p) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 3(q)).

(q) Hedging

The Groups designate certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges), or as hedging instruments to hedge changes in the fair value of a recognised asset or liability (fair value hedges).

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(q) Hedging (continued)

(ii) Cash flow hedges (continued)

Forward element of forward foreign currency contracts and foreign currency basis spread of financial instruments may be separated and excluded from the designated hedging instruments. If the Groups exclude the forward element of a forward foreign exchange contract or the foreign currency basis spread of a financial instrument (the "excluded elements") from the designation of a hedging instrument, then the excluded elements may be separately accounted for as a cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity to the extent that it relates to the hedged items.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset such as inventory, the associated gain or loss is reclassified from equity and included in the initial cost of the non-financial asset.

For all other hedged forecast transactions, the amount accumulated in the hedging reserves is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(r) Revenue recognition

(i) Regulation of earnings under the Scheme of Control Agreement

The earnings of the Groups' major subsidiary, HK Electric, are regulated by the HKSAR Government (the "Government") under a Scheme of Control Agreement ("SoCA") which provides for a permitted level of earnings based principally on a return on HK Electric's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The SoCA also provides for performance based incentives and penalties which encourage customer service quality, energy efficiency, demand response reduction and renewable energy development. The Net Return of HK Electric under the SoCA is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. HK Electric is required to submit detailed Development Plans for approval by the Government which project the key determinants of the Net Return to which HK Electric will be entitled over the Development Plan period.

The Government has approved the 2019-2023 Development Plan covering the period from 1 January 2019 to 31 December 2023. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) Fuel Clause Recovery Account

Under the SoCA, any difference between the standard cost of fuel, as agreed with the Government, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account ("Fuel Cost Account Adjustments").

Fuel Clause Charges (or Rebates) are charged (or given) to customers by adding to (or deducting from) the Basic Tariff to produce a Net Tariff payable by customers and are credited (or debited) to the Fuel Clause Recovery Account.

The balance on the Fuel Clause Recovery Account at the end of a financial year represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates. Any debit balance is carried forward as a deferred receivable to be recovered from Fuel Clause Charges and/or Fuel Cost Account Adjustments and any credit balance is carried forward as a deferred payable to be cleared by Fuel Clause Rebates and/or Fuel Cost Account Adjustments.

(iii) Income recognition

Income is classified by the Groups as revenue when it arises from the sale of electricity, the provision of services or the use by others of the Groups' assets under leases in the ordinary course of the Groups' business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Groups are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Groups' revenue and other income recognition policies are as follows:

- (1) Electricity income is recognised based on the actual and accrued units of electricity consumed by customers during the year at the Basic Tariff, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.
- (2) Electricity-related income is recognised when the related services are rendered.
- (3) Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(h)(i)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period.

Exchange gains and losses in respect of assets under construction are, up to the date of commissioning, incorporated in the cost of the assets. All other exchange differences are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Groups initially recognised such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Groups' cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 3(h)(i).

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Provisions and contingent liabilities

Provisions are recognised when the Groups or the Company have a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(x) Related parties

- (i) A person, or a close member of that person's family, is related to the Groups if that person:
 - (1) has control or joint control over the Groups;
 - (2) has significant influence over the Groups; or
 - (3) is a member of the key management personnel of the Groups.
- (ii) An entity is related to the Groups if any of the following conditions applies:
 - (1) The entity and the Groups are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (2) One entity is a joint venture or an associate of the other entity (or a joint venture or an associate of a member of a group of which the other entity is a member).
 - (3) Both entities are joint ventures of the same third party.
 - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Groups or an entity related to the Groups.
 - (6) The entity is controlled or jointly controlled by a person identified in note 3(x)(i).
 - (7) A person identified in note 3(x)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (8) The entity, or any member of a group of which it is a part, provides a key management personnel services to the Groups.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Groups for the purposes of resource allocation and performance assessment.

4. Changes in accounting policies

The HKICPA has issued a 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:

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

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Changes in accounting policies (continued)

(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. For an explanation of how the Groups apply lessee accounting, see note 3(g).

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
	10,739	11,612

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
	37	54

8. Other operating costs

	2019 \$ million	2018 \$ million
Administrative expenses, government rent and rates	343	360
Staff costs in relation to corporate and administrative supports	218	201
Provisions for asset decommissioning obligation	207	244
Portion of depreciation and amortisation of leasehold land included in other operating costs	182	182
Net loss on disposal and written off of property, plant and equipment	128	109
	1,078	1,096

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

(Expressed in Hong Kong dollars unless otherwise indicated)

9. Finance costs

	2019 \$ million	2018 \$ million
Interest on borrowings and other finance costs	1,283	1,177
Less: interest expense and other finance costs capitalised to assets		
under construction	(261)	(191)
interest expense transferred to fuel costs	(18)	(19)
Total interest expense arising from financial liabilities not at fair value through profit or loss and other finance costs	1,004	967

Interest expense has been capitalised at an average rate of approximately 3.1% (2018: 3.0%) per annum for assets under construction.

10. 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

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

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

	2019 \$ million	2018 \$ million
Current tax		
Provision for Hong Kong Profits Tax for the year	547	458
Deferred tax (see note 29(b))		
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.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019 \$ million	2018 \$ million
Profit before taxation	3,209	4,119
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate (see note below)	529	680
Tax effect of non-deductible expenses	88	84
Tax effect of non-taxable income	(3)	(4)
Tax effect of recognition of previously unrecognised temporary differences	–	(1)
Actual tax expense	614	759

For the year ended 31 December 2019, the notional tax is calculated at 16.5% (2018: 16.5%), except for one subsidiary of the Groups which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, tax on the first \$2 million of profits is calculated at 8.25% and tax on the remaining profits is calculated at 16.5%. The notional tax of this subsidiary is calculated at the same basis as 2018.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

12. Directors' emoluments and senior management remuneration

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the Directors of the Company are as follows:

Name of Directors	Fees \$ million	Basic salaries, allowances and other benefits ⁽¹⁰⁾ \$ million	Retirement scheme contributions \$ million	Bonuses \$ million	2019 Total emoluments \$ million	2018 Total emoluments \$ million
Executive Directors						
Fok Kin Ning, Canning ⁽²⁾						
Chairman	0.12	0.64	–	–	0.76	0.73
Wan Chi Tin						
Chief Executive Officer	0.07	8.44	–	9.30	17.81	17.94
Chan Loi Shun	0.07	3.18	–	–	3.25	3.01
Chen Daobiao ⁽⁶⁾	0.07	2.78	0.02	0.58	3.45	1.70
Cheng Cho Ying, Francis	0.07	3.99	0.02	1.94	6.02	5.78
Shan Shewu ⁽⁷⁾	–	–	–	–	–	1.36
Non-executive Directors						
Victor T K Li						
Deputy Chairman to the Company Board	0.07	0.29	–	–	0.36	0.34
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	0.07	0.07
Ronald Joseph Arculli ⁽¹⁾	0.14	0.04	–	–	0.18	0.18
Duan Guangming ⁽⁸⁾	0.06	–	–	–	0.06	–
Jiang Xiaojun ⁽⁹⁾	0.01	–	–	–	0.01	0.07
Deven Arvind Karnik	0.07	–	–	–	0.07	0.07
Zhu Guangchao	0.07	–	–	–	0.07	0.07
Independent Non-executive Directors						
Fong Chi Wai, Alex ⁽²⁾	0.09	0.01	–	–	0.10	0.10
Kwan Kai Cheong	0.07	0.01	–	–	0.08	0.08
Lee Lan Yee, Francis ⁽¹⁾	0.14	0.02	–	–	0.16	0.16
George Colin Magnus	0.07	0.02	–	–	0.09	0.09
Donald Jeffrey Roberts ^{(1) (2)}	0.16	0.01	–	–	0.17	0.18
Ralph Raymond Shea	0.07	0.03	–	–	0.10	0.10
Alternate Directors						
Woo Mo Fong, Susan						
(alias Chow Woo Mo Fong, Susan) ⁽⁴⁾	–	0.07	–	–	0.07	0.07
Frank John Sixt ⁽⁵⁾	–	0.02	–	–	0.02	0.02
Total for the year 2019	1.49	19.55	0.04	11.82	32.90	
Total for the year 2018	1.49	17.65	0.04	12.94		32.12

Notes:

- (1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
- (2) Member of the Remuneration Committee.
- (3) All current Executive Directors, Non-executive Directors and Independent Non-executive Directors are members of the Nomination Committee.
- (4) An Alternate Director to Mr. Fok Kin Ning, Canning.
- (5) An Alternate Director to Mr. Victor T K Li.
- (6) Appointed as Executive Director with effect from 22 May 2018.
- (7) Resigned as Executive Director with effect from 22 May 2018.
- (8) Appointed as Non-executive Director with effect from 26 February 2019.
- (9) Resigned as Non-executive Director with effect from 26 February 2019.
- (10) Other benefits include electricity allowances to Directors for residential use. For Directors who are employees of the Groups, other benefits also include insurance and medical benefits entitled by the employees of the Groups.

The five highest paid individuals of the Groups included two directors (2018: two) whose total emoluments are shown above. The remuneration of the other three individuals (2018: three) who comprise the five highest paid individuals of the Groups is set out below:

	2019 \$ million	2018 \$ million
Basic salaries, allowances and other benefits	8.97	8.46
Retirement scheme contributions	1.20	1.48
Bonuses	3.60	3.76
	13.77	13.70

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

	2019 Number	2018 Number
Nil – \$1,000,000	–	1
\$2,500,001 – \$3,000,000	3	3
\$3,000,001 – \$3,500,000	6	6
\$5,000,001 – \$5,500,000	2	2

The remuneration of Directors and senior management is as follows:

	2019 \$ million	2018 \$ million
Short-term employee benefits	70	68
Post-employment benefits	2	3
	72	71

At 31 December 2019 and 2018, there was no amount due from Directors and senior management.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

13. Scheme of Control transfers

- (a) The financial operations of HK Electric are governed by the SoCA agreed with the Government which provides for HK Electric to earn a Permitted Return (see note 3(r)(i)). Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In addition, a charge calculated by applying the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

Pursuant to 2013 mid-term review of 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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

14. Distributions/dividends

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

	2019 \$ million	2018 \$ million
Audited 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 \$ million	2018 \$ 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 \$ million	2018 \$ 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

15. 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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

16. 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.

17. Goodwill

(a) Carrying amount of goodwill

	2019 \$ million	2018 \$ million
Cost		
At 1 January and 31 December	33,623	33,623

(b) Impairment test for goodwill

HK Electric is the Groups' only cash-generating unit ("CGU") to which the goodwill has been allocated.

In the case of triggering events and at least annually, the Groups test whether the goodwill has suffered any impairment. Recoverable amount of the CGU, to which the goodwill has been allocated, was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 16-year period (2018: 16-year period). Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-lived nature of generation, transmission and distribution assets and a more appropriate reflection of future cash flows of HK Electric under the regulatory regime. The cash flow projections are discounted using a pre-tax discount rate of 5.50% (2018: 6.16%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 16-year period are extrapolated using the terminal growth rate of 1.0% (2018: 1.0%).

There was no indication of impairment arising from review on goodwill as at 30 November 2019.

If the discount rate rose to 6.66% (2018: 6.47%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value-in-use calculation would not affect management's view on impairment test result as at 30 November 2019.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

18. Investments in subsidiaries

Details of the subsidiaries at 31 December 2019 are as follows:

Name of subsidiary	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/operation	Principal activity
Century Rank Limited	US\$1	100%	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US\$1	100% ⁽¹⁾	British Virgin Islands/ Hong Kong	Investment holding
The Hongkong Electric Company, Limited	\$2,411,600,000	100% ⁽¹⁾	Hong Kong	Electricity generation and supply
Hongkong Electric Finance Limited	US\$1 HK\$6,505 million Hong Kong dollar fixed rate notes US\$1,500 million United States dollar fixed rate notes HK\$1,056 million Hong Kong dollar zero coupon notes US\$650 million United States dollar callable zero coupon notes (see note 25)	100% ⁽¹⁾	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

19. Interest in a joint venture

Details of the Groups' interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Issued share capital	Groups' effective interest	Place of incorporation/operation	Principal activity
Hong Kong LNG Terminal Limited ("HKLTL")	\$10	30%	Hong Kong	Develop, construct, operate, maintain and own a liquefied natural gas (LNG) terminal in Hong Kong and providing related services

HKLTL is jointly owned by HK Electric and Castle Peak Power Company Limited ("CAPCO"), for the development of an LNG terminal in Hong Kong. HKLTL is a joint venture of HK Electric and CAPCO as its significant operational and financial decisions require unanimous consent of both shareholders.

HKLTL, the only joint venture in which the Groups participate, is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information below represents amounts shown in HKLTL's financial statements prepared in accordance with HKFRSs and the Groups' share of results and net assets:

	2019	2018
	\$ million	\$ million
Current assets		
Bank deposits and cash	4	—
Other current assets	1	—
	5	—
Non-current assets	165	—
Current liabilities	(29)	—
Non-current liabilities		
Loans from shareholders	(141)	—
Net assets	—	—
Revenue	1	—
Profit for the year	—	—
Other comprehensive income	—	—
Total comprehensive income	—	—

	2019	2018
	\$ million	\$ million
Groups' share of net assets	—	—
Loan to joint venture (see note below)	42	—
	42	—

HK Electric entered into a Shareholder Loan Facility Agreement with HKLTL under which two tranches of loan facilities totaling \$699 million are provided by HK Electric to finance HKLTL's obtaining the land lease and construction of the jetty for the LNG terminal. Both tranches of loans are unsecured and interest-bearing with the rates benchmarked with market rates.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

20. Inventories

	2019 \$ million	2018 \$ million
Coal, fuel oil and natural gas	522	675
Stores and materials (see note below)	297	314
	819	989

Included in stores and materials is capital stock of \$153 million (2018: \$159 million) which was purchased for future maintenance of capital assets.

21. Trade and other receivables

	2019 \$ million	2018 \$ million
Trade debtors, net of loss allowance (see notes (a) and (b) below)	513	563
Other receivables (see note below)	414	402
	927	965
Derivative financial instruments (see note 26)	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.

(b) Expected credit losses of trade debtors

The Groups measure loss allowances for trade debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Groups determine the provision for ECLs by grouping together trade debtors with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic environment. For trade debtors relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

The Groups classify trade debtors by nature of customer accounts namely live accounts and final accounts. The following table provides information about the Groups' exposure to credit risk and ECLs for trade debtors:

	2019			
	ECL rate %	Gross carrying amount \$ million	Lifetime ECLs \$ million	Net carrying amount \$ million
Live accounts				
Provision on collective basis	2	502	(11)	491
Final accounts				
Provision on individual basis	8	12	(1)	11
Other trade debtors				
Provision on collective basis	0	11	–	11
		525	(12)	513

	2018			
	ECL rate %	Gross carrying amount \$ million	Lifetime ECLs \$ million	Net carrying amount \$ million
Live accounts				
Provision on collective basis	0	548	–	548
Final accounts				
Provision on individual basis	6	12	(1)	11
Other trade debtors				
Provision on collective basis	0	4	–	4
		564	(1)	563

HK Electric obtained collateral in the form of security deposits or bank guarantees from customers (see note 31(a)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Trade and other receivables (continued)

(b) Expected credit losses of trade debtors (continued)

Movement in the loss allowance account in respect of trade debtors during the year is as follows:

	2019 \$ million	2018 \$ million
At 1 January	1	1
Impairment losses recognised during the year	12	1
Amounts written off during the year	(1)	(1)
At 31 December	12	1

22. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2019 \$ million	2018 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	263	–
Cash at bank and in hand	36	34
Bank overdrafts – unsecured	(33)	–
Cash and cash equivalents in the consolidated cash flow statement	266	34
Bank overdrafts – unsecured	33	–
Bank deposits and cash in the consolidated statement of financial position	299	34

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

	Note	2019 \$ million	2018 \$ million
Profit before taxation		3,209	4,119
Adjustments for:			
Interest income	7	(7)	(14)
Finance costs	9	1,004	967
Interest expense transferred to fuel costs	9	18	19
Depreciation	10	2,792	2,834
Amortisation of leasehold land	10	196	194
Net loss on disposal and written off of property, plant and equipment	10	128	109
Increase in provisions for asset decommissioning obligation	28(a)	207	244
Net financial instrument revaluation and exchange gains		–	(9)
Smart Power Care Fund/Smart Power Fund disbursement	13(c)	(6)	(1)
Changes in working capital:			
Decrease in inventories		164	10
Decrease in trade and other receivables		57	35
Movements in Fuel Clause Recovery Account		(208)	(1,916)
Decrease in trade and other payables and contract liabilities		(194)	(312)
Increase/decrease in net employee retirement benefit assets/liabilities		11	12
Cash generated from operations		7,371	6,291

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

(Expressed in Hong Kong dollars unless otherwise indicated)

22. Bank deposits and cash and other cash flow information (continued)

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Groups' liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Groups' consolidated cash flow statement as cash flows from financing activities.

					Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	
\$ million	Bank loans (note 25)	Medium term notes (note 25)	Customers' deposits	Lease liabilities (note 28(b))			Total
At 1 January 2019	17,755	24,210	2,195	–	(562)	235	43,833
Changes from financing cash flows:							
Proceeds from bank loans	2,048	–	–	–	–	–	2,048
Repayment of bank loans	(1,500)	–	–	–	–	–	(1,500)
Issuance of medium term notes	–	500	–	–	–	–	500
Redemption of medium term notes	–	(330)	–	–	–	–	(330)
Payment of lease liabilities	–	–	–	(2)	–	–	(2)
New customers' deposits	–	–	315	–	–	–	315
Repayment of customers' deposits	–	–	(269)	–	–	–	(269)
Total changes from financing cash flows	548	170	46	(2)	–	–	762
Changes in fair value	–	7	–	–	103	(235)	(125)
Other changes:							
Increase in lease liabilities	–	–	–	5	–	–	5
Interest on borrowings and other finance costs	30	292	–	–	–	–	322
At 31 December 2019	18,333	24,679	2,241	3	(459)	–	44,797

\$ million	Bank loans (note 25)	Medium term notes (note 25)	Customers' deposits	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2018	17,359	24,012	2,130	(808)	155	42,848
Changes from financing cash flows:						
Proceeds from bank loans	365	–	–	–	–	365
New customers' deposits	–	–	311	–	–	311
Repayment of customers' deposits	–	–	(246)	–	–	(246)
Total changes from financing cash flows	365	–	65	–	–	430
Changes in fair value	–	(88)	–	246	80	238
Other changes:						
Interest on borrowings and other finance costs	31	286	–	–	–	317
At 31 December 2018	17,755	24,210	2,195	(562)	235	43,833

23. 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 28(b))	2	–
Derivative financial instruments (see note 26)	39	6
	2,962	2,409
Contract liabilities (see note (b) below)	18	38
	2,980	2,447

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

23. Trade and other payables and contract liabilities (continued)

(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
	2,921	2,403

(b) Contract liabilities

- (i) 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.
- (ii) Movements in contract liabilities during the year is as follows:

	2019 \$ million	2018 \$ million
At 1 January	38	41
Increase in contract liabilities as a result of billing in advance for performance of electricity-related services	5	31
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(25)	(34)
At 31 December	18	38

24. 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	647	855

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

25. Bank loans and other interest-bearing borrowings

	2019 \$ million	2018 \$ million
Bank loans	18,333	17,755
Current portion	(113)	(110)
	18,220	17,645
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)
	7,192	6,667
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)	–
	11,590	17,213
Non-current portion	37,002	41,525

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Bank loans and other interest-bearing borrowings (continued)

- (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) Details of the issuer of the Hong Kong dollar and United States dollar medium term notes are set out in note 18.

- (d) Some banking facilities of the Groups are subject to the fulfilment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Groups regularly monitors its compliance with these covenants. Further details of the Groups' management of liquidity risk are set out in note 31(b). As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities had been breached.

- (e) None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

The non-current interest-bearing borrowings are repayable as follows:

	2019 \$ million	2018 \$ 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

26. Derivative financial instruments

	2019		2018	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	24	–	–	(172)
– Interest rate swaps	230	–	497	–
– Forward foreign exchange contracts	407	(51)	10	(244)
Fair value hedges:				
– Cross currency swaps	70	–	63	–
– Forward foreign exchange contracts	4	(2)	–	(1)
	735	(53)	570	(417)
Analysed as:				
Current	86	(39)	2	(6)
Non-current	649	(14)	568	(411)
	735	(53)	570	(417)

27. Employee retirement benefits

The Groups offer three retirement schemes which together cover all permanent staff.

One of the schemes (the “Pension Scheme”) provides pension benefits based on the employee’s final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members various investment funds in which they can invest. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (the “Guaranteed Return Scheme”). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 27(b)).

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Groups’ assets in separate trustee administered funds. The responsibility for the governance of the schemes – including investment and contribution decisions – lies with the independent trustees in accordance with the trust deeds of the schemes.

The Groups also participate in a master trust Mandatory Provident Fund Scheme (the “MPF Scheme”) operated by an independent service provider under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the scheme in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees’ basic salaries.

Since the introduction of the Mandatory Provident Fund System in Hong Kong in December 2000, both the Pension Scheme and the Guaranteed Return Scheme have been closed to new entrants and all new recruits are enrolled in the MPF Scheme.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes (“the Schemes”)

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer’s contributions is to fund the scheme in accordance with the actuary’s recommendations on an on-going basis. The principal actuarial assumptions used include discount rate, long term salary increase rate and future pension increase rate which are disclosed in note 27(a)(viii) together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1 January 2018. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

Both defined benefit retirement schemes expose the Groups to investment risk, interest rate risk and salary risk while the Pension Scheme also exposes the Groups to risks of longevity and inflation.

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2019 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2019 \$ million	2018 \$ million
Present value of defined benefit obligations	3,459	3,463
Fair value of assets of the Schemes	(3,900)	(3,663)
	(441)	(200)
Represented by:		
Employee retirement benefit scheme assets	(809)	(593)
Employee retirement benefit scheme liabilities	368	393
	(441)	(200)

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

- (ii) Movements in the present value of defined benefit obligations of the Schemes are as follows:

	2019	2018
	\$ million	\$ million
At 1 January	3,463	3,707
Current service cost	62	70
Interest cost	69	67
Employee contributions paid to the Schemes	14	15
Actuarial losses/(gains) due to:		
– liability experience	11	1
– change in financial assumptions	99	(75)
– change in demographic assumptions	9	41
Benefits paid	(268)	(363)
At 31 December	3,459	3,463

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

	2019	2018
	\$ million	\$ million
At 1 January	3,663	4,067
Interest income on the Schemes' assets	72	73
Return on Schemes' assets, excluding interest income	371	(181)
Employer contributions paid to the Schemes	48	52
Employee contributions paid to the Schemes	14	15
Benefits paid	(268)	(363)
At 31 December	3,900	3,663

The Groups expect to contribute \$51 million to the Schemes in 2020.

- (iv) The expenses recognised in the consolidated statement of profit or loss, prior to any capitalisation of employment costs attributable to additions of property, plant and equipment, is as follows:

	2019	2018
	\$ million	\$ million
Current service cost	62	70
Net interest income on net defined benefit asset/liability	(3)	(6)
	59	64

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Employee retirement benefits (continued)

(a) Defined benefit retirement schemes ("the Schemes") (continued)

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

	2019 \$ million	2018 \$ million
Direct costs	40	44
Other operating costs	19	20
	59	64

- (vi) The cumulative amount of actuarial gains recognised in the consolidated statement of comprehensive income is as follows:

	2019 \$ million	2018 \$ million
At 1 January	151	299
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	252	(148)
At 31 December	403	151

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

	2019 \$ million	2018 \$ million
Hong Kong equities	365	346
European equities	224	188
North American equities	576	478
Asia Pacific and other equities	173	148
Global bonds	2,468	2,432
Deposits, cash and others	94	71
	3,900	3,663

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

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

	2019	2018
Discount rate		
– The Pension Scheme	1.8%	2.2%
– The Guaranteed Return Scheme	1.8%	1.9%
Long-term salary increase rate	5.0%	5.0%
Future pension increase rate	2.5%	2.5%

(ix) Sensitivity analysis

(1) The Pension Scheme

	Increase/(decrease) in defined benefit obligations	
	2019 \$ million	2018 \$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	(57)	(54)
– decrease by 0.25%	60	57
Pension increase rate		
– increase by 0.25%	57	54
– decrease by 0.25%	(54)	(52)
Mortality rate applied to specific age		
– set forward one year	(72)	(65)
– set backward one year	74	66

(2) The Guaranteed Return Scheme

	Increase/(decrease) in defined benefit obligations	
	2019 \$ million	2018 \$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	(26)	(29)
– decrease by 0.25%	26	29
Interest to be credited		
– increase by 0.25%	26	29

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position. The analysis has been performed on the same basis as for 2018.

(x) The following table sets out the weighted average durations of the defined benefit obligations of the Schemes:

	2019	2018
The Pension Scheme	13.2 Years	13.2 Years
The Guaranteed Return Scheme	6.2 Years	6.5 Years

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Employee retirement benefits (continued)

(b) Defined contribution retirement schemes

	2019 \$ million	2018 \$ million
Expenses recognised in profit or loss	58	52

Forfeited contributions of \$1,148,000 (2018: \$1,306,000) have been received during the year.

28. Other non-current liabilities

	2019 \$ million	2018 \$ million
Provisions (see note (a) below)	954	747
Lease liabilities (see note (b) below)	1	–
	955	747

(a) Provisions

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

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	Total minimum lease payments \$ million
Within 1 year	2	2	–	–
After 1 year but within 2 years	1	1	–	–
	3	3	–	–
Less: total future interest expenses		–		–
Present value of lease liabilities		3		–

29. Income tax in the consolidated statement of financial position

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

	2019 \$ million	2018 \$ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	547	458
Provisional Profits Tax paid	–	(321)
	547	137
Balance of Profits Tax provision relating to prior year	30	–
	577	137

(b) Deferred tax liabilities

	2019 \$ million	2018 \$ million
Deferred tax liabilities	9,540	9,353

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

(Expressed in Hong Kong dollars unless otherwise indicated)

29. Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax liabilities (continued)

- (i) The components of deferred tax liabilities/assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

\$ million	Depreciation allowances in excess of the related depreciation	Fuel Clause Recovery Account	Defined benefit retirement schemes	Others	Total
At 1 January 2018	9,565	(457)	(12)	53	9,149
(Credited)/charged to profit or loss	(19)	316	5	(1)	301
Credited to other comprehensive income	–	–	(24)	(73)	(97)
At 31 December 2018 and 1 January 2019	9,546	(141)	(31)	(21)	9,353
Charged to profit or loss	27	34	5	1	67
Charged to other comprehensive income	–	–	42	78	120
At 31 December 2019	9,573	(107)	16	58	9,540

- (ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2019 and 2018.

30. Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Groups' consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

\$ million	Share capital (note 30(b))	Share premium (note 30(c))	Hedging reserve (note 30(d)(i))	Revenue reserve (note 30(d)(ii))	Proposed/ declared dividend (note 14)	Total
Balance at 1 January 2018	8	47,472	25	2,119	1,778	51,402
Changes in equity for 2018:						
Profit for the year	–	–	–	3,714	–	3,714
Other comprehensive income	–	–	4	–	–	4
Total comprehensive income	–	–	4	3,714	–	3,718
Second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,778)	(1,778)
First interim dividend paid (see note 14(b))	–	–	–	(1,760)	–	(1,760)
Proposed second interim dividend (see note 14(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2018 and 1 January 2019	8	47,472	29	2,295	1,778	51,582
Changes in equity for 2019:						
Profit for the year	–	–	–	2,972	–	2,972
Other comprehensive income	–	–	(21)	–	–	(21)
Total comprehensive income	–	–	(21)	2,972	–	2,951
Second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,778)	(1,778)
First interim dividend paid (see note 14(b))	–	–	–	(1,408)	–	(1,408)
Proposed second interim dividend (see note 14(b))	–	–	–	(1,422)	1,422	–
Balance at 31 December 2019	8	47,472	8	2,437	1,422	51,347

All of the Company's share premium and revenue reserve is available for distribution. The Company Board declared the payment of a second interim dividend of 16.09 cents (2018: 20.12 cents) per ordinary share, amounting to \$1,422 million (2018: \$1,778 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Capital, reserves and dividends (continued)

(b) Share capital

The Company

	2019	
	Number of Shares	Nominal value \$
Authorised:		
Ordinary shares of \$0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of \$0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of \$0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of \$0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

	2018	
	Number of Shares	Nominal value \$
Authorised:		
Ordinary shares of \$0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of \$0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of \$0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of \$0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

(c) Share premium

Share premium represents the excess of Share Stapled Unit issuing price over the nominal values of ordinary and preference shares, after deducting underwriting commissions and listing expenses pursuant to global offering that have been charged to equity. The application of share premium is governed by Section 34 of Cayman Companies Law and the provisions of Company's amended and restated Memorandum and Articles of Association.

(d) Nature and purpose of reserves

(i) Hedging reserve

The hedging reserve includes cash flow hedge reserve and cost of hedging reserve. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 3(q)(ii). Under HKFRS 9, *Financial Instruments*, if the Groups exclude the forward element of forward contracts and the foreign currency basis spread of financial instruments (the "excluded elements") from the designation of the hedging instruments, then the excluded elements may be separately accounted for as cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity as cost of hedging reserve to the extent that it relates to the hedged items.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(i) Hedging reserve (continued)

The following tables provide a reconciliation of the components in hedging reserve and an analysis of other comprehensive income by risk category that arises from hedge accounting:

(1) Cash flow hedge reserve

\$ million	Interest rate risk	Currency Risk	Total
Balance at 1 January 2018	136	12	148
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(9)	(19)	(28)
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	8	(2)	6
Net deferred tax credited to other comprehensive income	1	3	4
	–	(18)	(18)
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	–	1	1
Balance at 31 December 2018 and 1 January 2019 (see note 3 below)	136	(5)	131
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(4)	(1)	(5)
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	(51)	–	(51)
Net deferred tax credited to other comprehensive income	6	–	6
	(49)	(1)	(50)
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	–	(6)	(6)
Balance at 31 December 2019 (see note 3 below)	87	(12)	75

Note 1 Amounts reclassified to profit or loss are recognised in the “Finance costs” line item in the consolidated statement of profit or loss.

Note 2 Amounts transferred to the initial carrying amount of hedged items are recognised in the “Property, plant and equipment” or “Inventories” line items in the consolidated statement of financial position.

Note 3 The entire balance relates to continuing hedges.

(2) Cost of hedging reserve

\$ million	Foreign currency basis spread	Forward element	Total
Balance at 1 January 2018	109	57	166
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(17)	(316)	(333)
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	–	(54)	(54)
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	–	(30)	(30)
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	(3)	(3)
Net deferred tax credited to other comprehensive income	3	66	69
Balance at 31 December 2018 and 1 January 2019 (see note 3 below)	95	(280)	(185)
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(16)	616	600
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	–	(63)	(63)
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	–	(27)	(27)
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	8	8
Net deferred tax credited/(charged) to other comprehensive income	3	(87)	(84)
Balance at 31 December 2019 (see note 3 below)	82	167	249

Note 1 Amounts reclassified to profit or loss are recognised in the “Finance costs” line item in the consolidated statement of profit or loss.

Note 2 Amounts transferred to the initial carrying amount of hedged items are recognised in the “Property, plant and equipment” or “Inventories” line items in the consolidated statement of financial position.

Note 3 The entire balance relates to continuing hedges.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(ii) Revenue reserve

The revenue reserve comprises the accumulated profits retained by the Company and its subsidiaries and accumulated actuarial gains/losses on remeasurement of net defined benefit asset/liability of HK Electric.

(e) Capital management

The Groups' primary objectives when managing capital are:

- to safeguard the Groups' ability to continue as a going concern, so that the Groups can continue to provide returns for holders of Share Stapled Units and benefits for other stakeholders;
- to provide returns to holders of Share Stapled Units by securing access to finance at a reasonable cost;
- to support the Groups' stability and future growth; and
- to provide capital for the purpose of strengthening the Groups' risk management capability.

The Groups actively and regularly review and manage the capital structure, taking into consideration the future capital requirements of the Groups and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities.

The Groups monitor the capital structure on the basis of a net debt-to-net total capital ratio. For this purpose the Groups define net debt as interest-bearing borrowings (as shown in the consolidated statement of financial position) less bank deposits and cash. Net total capital includes net debt and equity which comprises all components of equity (as shown in the consolidated statement of financial position).

During 2019, the Groups' strategy, which was unchanged from 2018, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

The net debt-to-net total capital ratio at 31 December 2019 and 2018 was as follows:

	2019	2018
	\$ million	\$ million
Bank loans and other interest-bearing borrowings	43,012	41,965
Bank overdrafts – unsecured	33	–
Less: Bank deposits and cash	(299)	(34)
Net debt	42,746	41,931
Total equity	48,472	48,743
Net debt	42,746	41,931
Net total capital	91,218	90,674
Net debt-to-net total capital ratio	47%	46%

31. Financial risk management and fair values of financial instruments

The Groups are exposed to credit, liquidity, interest rate and currency risks in the normal course of its business. In accordance with the Groups' treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Groups do not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

The Groups' credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. The Groups have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, HK Electric obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. The collateral covered \$353 million of trade and other receivables at 31 December 2019 (2018: \$386 million). The credit policy is set out in note 21.

The Groups have defined minimum credit rating requirements and transaction limits for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Groups do not expect any counterparty to fail to meet its obligations.

The Groups have no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Groups' total revenue.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade and other receivables are set out in note 21.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk (continued)

Offsetting financial assets and financial liabilities

The Groups' derivative transactions are executed with financial institutions and governed by either International Swaps and Derivatives Association Master Agreements ("ISDA") or the general terms and conditions of these financial institutions, with a conditional right of set off under certain circumstances that would result in all outstanding transactions being terminated and net settled.

As these financial institutions currently have no legal enforceable right to set off the recognised amounts and the Groups do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously, all such financial instruments are recorded on gross basis at the end of the reporting period.

The following table presents the recognised financial instruments that are subject to enforceable master netting arrangements but are not offset at the end of the reporting period.

		2019			2018		
		Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
\$ million	Note						
Financial assets							
Cross currency swaps	31(f)(i)	94	(1)	93	63	(32)	31
Interest rate swaps	31(f)(i)	230	(28)	202	497	(294)	203
Forward foreign exchange contracts	31(f)(i)	411	(23)	388	10	(2)	8
Total		735	(52)	683	570	(328)	242
Financial liabilities							
Cross currency swaps	31(f)(i)	–	–	–	172	(119)	53
Forward foreign exchange contracts	31(f)(i)	53	(52)	1	245	(209)	36
Total		53	(52)	1	417	(328)	89

(b) Liquidity risk

The Groups operate a central cash management system in order to achieve a better control of risk and minimise the costs of funds. The Groups' policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, to ensure that the Groups maintain sufficient reserves of cash and adequate committed lines of funding to meet liquidity requirements in the short and longer term. The Groups had undrawn committed bank facilities of \$5,950 million at 31 December 2019 (2018: \$5,495 million).

The following tables show the remaining contractual maturities at the end of the reporting period of the Groups' non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Groups can be required to pay.

	2019					
	Contractual undiscounted cash outflows/(inflows)					
\$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	7,194	15,913	4,773	31,945	59,825	43,157
Bank overdrafts – unsecured	33	–	–	–	33	33
Creditors and accrued charges	2,744	–	–	–	2,744	2,744
	9,971	15,913	4,773	31,945	62,602	45,934
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	(122)	(80)	(237)	(174)	(613)	(236)
Gross settled						
Cross currency swaps and related interest accruals						(98)
– outflow	373	170	511	254	1,308	
– inflow	(417)	(168)	(505)	(252)	(1,342)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(356)
– outflow	2,486	68	240	16,750	19,544	
– inflow	(2,437)	(63)	(216)	(17,523)	(20,239)	
Other forward foreign exchange contracts:						(2)
– outflow	767	–	–	–	767	
– inflow	(769)	–	–	–	(769)	

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk (continued)

	2018					
	Contractual undiscounted cash outflows/(inflows)					
\$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	1,573	6,977	19,319	31,714	59,583	42,110
Creditors and accrued charges	2,245	–	–	–	2,245	2,245
	3,818	6,977	19,319	31,714	61,828	44,355
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	(76)	(77)	(192)	(199)	(544)	(501)
Gross settled						
Cross currency swaps and related interest accruals						106
– outflow	371	370	510	425	1,676	
– inflow	(417)	(417)	(505)	(420)	(1,759)	
Forward foreign exchange contracts held as cash flow hedging instruments:						234
– outflow	3,087	1,262	279	16,750	21,378	
– inflow	(3,088)	(1,209)	(247)	(17,523)	(22,067)	
Other forward foreign exchange contracts:						1
– outflow	62	–	–	–	62	
– inflow	(61)	–	–	–	(61)	

(c) Interest rate risk

The Groups are exposed to interest rate risk on its interest-bearing assets and liabilities. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Groups' interest rate risk arises primarily from long-term external borrowings.

(i) Hedges of interest rate risk

The Groups' policy is to maintain a balanced combination of fixed and variable rate borrowings to reduce its interest rate risk exposure. The Groups also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the Groups' treasury policy.

The Groups classify cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(q). Foreign currency basis spread of cross currency swaps are excluded from the designation of the hedging instrument and are separately accounted for as a cost of hedging, which is recognised in equity in a cost of hedging reserve.

The Groups seek to hedge the benchmark interest rate component only and apply a hedge ratio of 1:1. The existence of an economic relationship between the cross currency swaps/interest rate swaps and the fixed and variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the borrowings.

The hedge ineffectiveness in these hedging relationships can arise from:

- the effect of the counterparty and the Groups' own credit risk on the fair value of the swaps; and
- differences in repricing dates between the swaps and the borrowings.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(ii) Interest rate profile

The following table details the interest rate profile of the Groups' net interest-bearing assets and liabilities at the end of the reporting period, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

	2019		2018	
	Weighted average interest rate %	\$ million	Weighted average interest rate %	\$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	2.61	263	—	—
Bank loans and other borrowings	3.02	(30,224)	3.03	(29,250)
		(29,961)		(29,250)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	0.03	36	0.03	34
Bank loans and other borrowings	3.19	(12,788)	2.99	(12,715)
Bank overdrafts – unsecured	5.00	(33)	—	—
Customers' deposits	*	(2,241)	0.13	(2,195)
		(15,026)		(14,876)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups' profit after taxation and revenue reserve by approximately \$128 million (2018: \$130 million). Other components of consolidated equity would have increased/decreased by approximately \$522 million (2018: \$562 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2018.

(d) Currency risk

The Groups are exposed to currency risk primarily through purchases and borrowings that are denominated in a currency other than the functional currency of the Groups. The currencies giving rise to this risk are primarily United States dollars and Japanese Yen.

(i) Hedges of currency risk

The Groups' policy is to hedge 100% of their foreign currency borrowings and to hedge their estimated foreign currency exposures in respect of forecast purchases in accordance with their treasury policy. The Groups use forward foreign exchange contracts and cross currency swaps to manage currency risk and classify as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(q). The Groups designate the spot element of forward foreign exchange contracts to hedge the Groups' currency risk. The forward elements of forward exchange contracts are excluded from the designation of the hedging instrument and are separately accounted for as a cost of hedging, which is recognised in equity in a cost of hedging reserve. The Groups' policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The Groups apply a hedge ratio of 1:1 and determine the existence of an economic relationship between the forward exchange contracts and the committed and forecast transactions/foreign currency borrowings based on their currency amounts and the timing of their respective cash flows.

The hedge ineffectiveness in these hedging relationships can arise from:

- the effect of the counterparty's and the Groups' own credit risk on the fair value of the forward foreign exchange contracts; and
- changes in the timing of the hedged transactions.

The Groups' borrowings are either hedged into Hong Kong dollars by ways of forward foreign exchange contracts and cross currency swaps or denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Groups' borrowings.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(ii) Exposure to currency risk

The following table details the Groups' exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Groups.

'million (expressed in original currencies)	2019	
	USD	JPY
Bank deposits and cash	–	13
Trade and other payables and contract liabilities	(89)	(1,834)
Bank loans and other borrowings	(2,243)	–
Gross exposure arising from recognised assets and liabilities	(2,332)	(1,821)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	827	1,566
Notional amounts of cross currency swaps designated as hedging instruments	1,500	–
Net exposure arising from recognised assets and liabilities	(5)	(255)

'million (expressed in original currencies)	2018	
	USD	JPY
Bank deposits and cash	–	2
Trade and other payables and contract liabilities	(102)	(252)
Bank loans and other borrowings	(2,211)	–
Gross exposure arising from recognised assets and liabilities	(2,313)	(250)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	717	192
Notional amounts of cross currency swaps designated as hedging instruments	1,500	–
Net exposure arising from recognised assets and liabilities	(96)	(58)

(iii) Sensitivity analysis

The following table indicates that a 10 percent strengthening in the following currency against Hong Kong dollars at the end of the reporting period would have increased/(decreased) the Groups' profit after taxation (and revenue reserve) and other components of consolidated equity.

	2019		2018	
	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)
\$ million				
Japanese Yen	9	87	–	86

A 10 percent weakening in the above currency against Hong Kong dollars at the end of the reporting period would have had an equal but opposite effect on the Groups' profit after taxation (and revenue reserve) and other components of consolidated equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Groups which expose the Groups to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2018.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Hedge accounting

The following tables summarise the hedging instruments, hedged items and hedged risks of the Groups for the years ended 31 December 2019 and 2018.

(i) Cash flow hedges

Hedging instruments	2019									
	Carrying amount of hedging instruments included in						Changes in fair value used for calculating hedge ineffectiveness			
	Maturity date	Weighted average fixed swap rates/contract rates	Notional amount of hedging instruments \$ million	Derivative financial instruments under non-current assets		Derivative financial instruments under non-current liabilities		Trade and other payables and contract liabilities		Hedge ineffectiveness recognised in profit or loss \$ million
				Trade and other receivables	Trade and other receivables	non-current liabilities	non-current liabilities	Hedging instruments	Hedged items	
				\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
(1) For hedging currency risk of foreign currency borrowings and interest rate risk of variable rate borrowings										
Cross currency swaps and interest rate swaps	Ranging from 2020 to 2029	2.18%	18,772	242	12	-	-	(4)	4	-
(2) For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2020 to 2032	See note below	14,004	272	-	(14)	(37)	5	(5)	-
(3) For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	5,540	135	-	-	-	(6)	6	-

Hedging instruments	Maturity date	Weighted average fixed swap rates/contract rates	Notional amount of hedging instruments \$ million	Carrying amount of hedging instruments included in				Changes in fair value used for calculating hedge ineffectiveness		
				Derivative financial instruments under non-current assets \$ million	Trade and other receivables \$ million	Derivative financial instruments under non-current liabilities \$ million	Trade and other payables and contract liabilities \$ million	Hedging instruments \$ million	Hedged items \$ million	Hedge ineffectiveness recognised in profit or loss \$ million
(1)For hedging currency risk of foreign currency borrowings and interest rate risk of variable rate borrowings										
Cross currency swaps and interest rate swaps	Ranging from 2020 to 2027	2.17%	17,772	497	–	(172)	–	(9)	9	–
(2)For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2019 to 2032	See note below	16,077	6	2	(176)	(5)	(8)	8	–
(3)For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	5,301	2	–	(63)	–	(11)	11	–

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Hedge accounting (continued)

(ii) Fair value hedges

2019										
			Carrying amount included in					Changes in fair value used for calculating hedge ineffectiveness		
		Weighted average variable swap rates/contract rates	Notional amount	Derivative financial instruments under non-current assets	Trade and other receivables	Derivative financial instruments under non-current liabilities	Trade and other payables and contract liabilities	Hedging instruments	Hedged items	Hedge ineffectiveness recognised in profit or loss
Hedging instruments	Maturity date		\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million	\$ million
Cross currency swaps	2020	3.10%	4,272	-	70	-	-	7	(7)	-
Forward foreign exchange contracts	Ranging from 2020 to 2024	See note below	767	-	4	-	(2)	2	(2)	-

	2019		
	Carrying amount of hedged items (including accumulated fair value hedge adjustments) \$ million	Accumulated fair value hedge adjustments of hedged items \$ million	Line item in the consolidated statement of financial position in which the hedged items are included
Hedged items			
Fixed rate borrowings	(4,341)	(70)	Bank loans and other interest-bearing borrowings under current liabilities
Financial liabilities	(771)	(2)	Trade and other payables and contract liabilities

2018

Hedging instruments	Maturity date	Weighted average variable swap rates/ contract rates	Carrying amount included in					Changes in fair value used for calculating hedge ineffectiveness		
			Notional amount \$ million	Derivative financial instruments under non-current assets		Derivative financial instruments under non-current liabilities		Trade and other payables and contract liabilities \$ million	Hedging instruments \$ million	Hedged items \$ million
				non-current assets \$ million	Trade and other receivables \$ million	non-current liabilities \$ million	non-current liabilities \$ million			
Cross currency swaps	2020	2.56%	4,272	63	–	–	–	(88)	88	–
Forward foreign exchange contracts	Ranging from 2019 to 2023	See note below	62	–	–	–	(1)	(1)	1	–

2018

	Carrying amount of hedged items (including accumulated fair value hedge adjustments)	Accumulated fair value hedge adjustments of hedged items	Line item in the consolidated statement of financial position in which the hedged items are included
Hedged items	\$ million	\$ million	
Fixed rate borrowings	(4,327)	(63)	Bank loans and other interest-bearing borrowings under non-current liabilities
Financial liabilities	(62)	1	Trade and other payables and contract liabilities

Note: The following table provides information on the weighted average contract rates of outstanding forward foreign exchange contracts at the end of the reporting period:

	2019	2018
Weighted average contract rates		
USD:HKD	7.4965	7.5108
JPY:HKD	0.0759	0.0761
GBP:HKD	–	10.8818
EUR:HKD	9.2545	9.3155
JPY:USD	102.2087	108.1617

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(f) Fair value measurement

The following table presents the fair value of the Groups' financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Recurring fair value measurements

		Level 2	
	Note	2019 \$ million	2018 \$ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	31(a)	94	63
– Interest rate swaps	31(a)	230	497
– Forward foreign exchange contracts	31(a)	411	10
		735	570
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	31(a)	–	172
– Forward foreign exchange contracts	31(a)	53	245
Medium term notes subject to fair value hedges		4,341	4,327
		4,394	4,744

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

Trade and other receivables, trade and other payables and contract liabilities, and also external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2019 and 2018.

(iii) Valuation techniques and inputs in Level 2 fair value measurements

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

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

32. Commitments

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

	2019 \$ million	2018 \$ million
Contracted for:		
Capital expenditure for property, plant and equipment	5,465	4,155
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	18,412	20,717

- (b) At 31 December 2019, the Groups' share of capital commitments of a joint venture was \$29 million (2018: Nil).

At 31 December 2019, the Groups' share of the lease and other commitments of a joint venture approximated to \$1,170 million (2018: Nil).

33. Contingent liabilities

At 31 December 2019, the Groups had no guarantee or indemnity to external parties (2018: Nil).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

34. Material related party transactions

The Groups had the following material transactions with related parties during the year:

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to \$41 million (2018: \$41 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2019, the total outstanding balance receivable from Power Assets group was \$3 million (2018: \$4 million).

(b) Joint Venture

- (i) The details of Shareholder Loan Facility provided to HKLTL by the Groups and the outstanding loan balance as at 31 December 2019 are disclosed in note 19.
- (ii) Under a Joint Development Agreement entered into between HK Electric, CAPCO and HKLTL for the development of LNG terminal, HK Electric and CAPCO will perform project management and provide supports to HKLTL in the development and construction of the LNG terminal. In 2019, HKLTL reimbursed related costs of \$7 million (2018: Nil) to HK Electric.

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

The related party transactions in respect of note 34(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, the transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

35. Statement of financial position of the Company

	Note	2019 \$ million	2018 \$ million
Non-current assets			
Investments in subsidiaries		60,041	60,241
Derivative financial instruments		8	29
		60,049	60,270
Current assets			
Trade and other receivables		4	4
Bank deposits and cash		2	1
		6	5
Current liabilities			
Trade and other payables		(25)	(23)
Net current liabilities		(19)	(18)
Total assets less current liabilities		60,030	60,252
Non-current liabilities			
Bank loans		(8,683)	(8,670)
Net assets		51,347	51,582
Capital and reserves	30(a)		
Share capital		8	8
Reserves		51,339	51,574
Total equity		51,347	51,582

Approved and authorised for issue by the Boards on 17 March 2020.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

(Expressed in Hong Kong dollars unless otherwise indicated)

36. Substantial holders of Share Stapled Units of the Trust Group

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid Corporation of China and Qatar Investment Authority hold approximately 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2019 and are considered substantial holders of Share Stapled Units of the Trust Group.

37. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Groups' accounting policies have a significant impact on the Groups' financial position and operating results. Some of the accounting policies require the Groups to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 27 and 31 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Groups' accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. The Groups review annually the useful life of an asset and its residual value, if any. Interests in leasehold land are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term. Both the period and methods of amortisation are reviewed annually. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Impairment

The Groups review at the end of each reporting period to identify any indication that the Groups' property, plant and equipment and interests in leasehold land may be impaired and test annually whether goodwill has suffered any impairment in accordance with the accounting policy (see note 3(h)(ii)).

In considering the impairment losses that may be required for the property, plant and equipment, interests in leasehold land and goodwill of the Groups, their recoverable amounts need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets or CGU to which the goodwill has been allocated are discounted to their present value, which requires significant judgement. The Groups use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

See note 17 for key assumptions used in goodwill impairment test for the year ended 31 December 2019.

38. 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.

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Groups.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKAS 8, <i>Definition of material</i>	1 January 2020

The Groups are in the process of making an assessment of what the impact of these amendments and new standard is expected to be in the period of initial application. So far it has concluded that the adoption of the above is unlikely to have a significant impact on the Groups' results of operations and financial position.



INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of HK Electric Investments Manager Limited (the "Company") set out on pages 172 to 179, which comprise the statement of financial position as at 31 December 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The Directors of the Company (in its capacity as the trustee-manager of HK Electric Investments) and of HK Electric Investments Limited are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

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

17 March 2020

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	4	–	–
Income tax	5	–	–
Profit and total comprehensive income for the year		–	–

The notes on pages 176 to 179 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 \$	2018 \$
Current assets			
Amount due from immediate holding company	7	1	1
Net assets		1	1
Capital and reserves			
Share capital	8	1	1
Reserves		–	–
Total equity		1	1

Approved and authorised for issue by the Board of Directors on 17 March 2020.

Wan Chi Tin

Director

Chan Loi Shun

Director

The notes on pages 176 to 179 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	Share capital	Reserves	Total
	\$	\$	\$
Balance at 1 January 2018	1	–	1
Changes in equity for 2018:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2018 and 1 January 2019	1	–	1
Changes in equity for 2019:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2019	1	–	1

The notes on pages 176 to 179 form part of these financial statements.

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2019
(Expressed in Hong Kong dollars)

	2019 \$	2018 \$
Operating activities		
Net cash generated from operating activities	—	—
Investing activities		
Net cash used in investing activities	—	—
Financing activities		
Net cash used in financing activities	—	—
Net change in cash and cash equivalents	—	—
Cash and cash equivalents at 1 January	—	—
Cash and cash equivalents at 31 December	—	—

The notes on pages 176 to 179 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

HK Electric Investments Manager Limited (the “Company”) was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets, which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States. The address of the registered office and the principal place of business of the Company is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

The principal activity of the Company is administering HK Electric Investments (the “Trust”), in its capacity as trustee-manager of the Trust. The Trust was constituted as a trust on 1 January 2014 by a Hong Kong law governed Trust Deed entered into between the Company, as the trustee-manager of the Trust, and HK Electric Investments Limited.

The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation and presentation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Trust Deed requires the Company (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received in respect of the ordinary shares from HK Electric Investments Limited, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 14 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 122, no distributions statement is therefore presented in these financial statements.

(c) Cash flow statement

The Company did not have any cash flows during the current and prior years nor did it have any cash or cash equivalents at any point throughout the current and prior years.

(d) Related parties

- (i) A person or a close member of that person's family is related to the Company if that person:
 - (1) has control or joint control over the Company;
 - (2) has significant influence over the Company; or
 - (3) is a member of the key management personnel of the Company or the Company's parent.
- (ii) An entity is related to the Company if any of the following conditions apply:
 - (1) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (2) One entity is a joint venture or an associate of the other entity (or a joint venture or an associate of a member of a group of which the other entity is a member).
 - (3) Both entities are joint ventures of the same third party.
 - (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (5) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (6) The entity is controlled or jointly controlled by a person identified in note 2(d)(i).
 - (7) A person identified in note 2(d)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

3. 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.

4. 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.

5. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements for the current and prior years as the Company did not have any assessable profits.

6. Directors' emoluments

No fees or other emoluments were paid or payable by the Company to the Directors for the current and prior years.

7. Amount due from immediate holding company

Amount due from immediate holding company is unsecured, interest-free and repayable on demand.

8. Share capital

	2019		2018	
	Number of shares	\$	Number of shares	\$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	1	1	1	1

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

9. Capital management

The primary objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the sole member and benefits for other stakeholders. As the Company is part of a larger group, the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The Company defines "capital" as including all components of equity. The Company actively and regularly reviews and manages its capital structure to support its future capital requirements and operations. The Company has a specific and limited role to administer the Trust. All its capital requirements are fully supported by the ultimate holding company.

The Company was not subject to externally imposed capital requirements during the current and prior years.

10. Immediate and ultimate controlling parties

At 31 December 2019, the Directors consider the immediate and ultimate holding companies of the Company to be Sure Grade Limited and Power Assets which are incorporated in the British Virgin Island and Hong Kong, respectively. Power Assets produces financial statements available for public use.

11. Financial risk management

The Company was not exposed to any significant credit, liquidity, interest rate and currency risks in the normal course of its business during the current and prior years.

12. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Company did not enter into material related party transactions.

13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments and new standard is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

FIVE-YEAR FINANCIAL SUMMARY OF THE GROUPS

(Expressed in Hong Kong dollars)

Consolidated Statement of Profit or Loss

\$ million	2019	2018	2017	2016	2015
Revenue	10,739	11,612	11,693	11,420	11,210
Operating profit	4,213	5,086	5,280	5,172	5,288
Finance costs	(1,004)	(967)	(848)	(991)	(1,025)
Profit before taxation	3,209	4,119	4,432	4,181	4,263
Income tax	(614)	(759)	(794)	(757)	(750)
Profit after taxation	2,595	3,360	3,638	3,424	3,513
Scheme of Control transfers	(268)	(309)	(297)	175	78
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	2,327	3,051	3,341	3,599	3,591

Consolidated Statement of Financial Position

\$ million	2019	2018	2017	2016	2015
Property, plant and equipment and interests in leasehold land	72,416	71,059	70,502	70,713	70,993
Goodwill	33,623	33,623	33,623	33,623	33,623
Other non-current assets	1,500	1,161	1,457	1,488	900
Net current (liabilities)/assets	(8,069)	(1,828)	(1,900)	(4,983)	2,070
Total assets less current liabilities	99,470	104,015	103,682	100,841	107,586
Non-current liabilities	(50,120)	(54,624)	(53,625)	(50,897)	(58,359)
Scheme of Control Fund and Reserve	(878)	(648)	(335)	(39)	(215)
Net assets	48,472	48,743	49,722	49,905	49,012
Share Capital	8	8	8	8	8
Reserves	48,464	48,735	49,714	49,897	49,004
Total equity	48,472	48,743	49,722	49,905	49,012

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR SCHEME OF CONTROL STATEMENT

(a) Scheme of Control

The activities of HK Electric are subject to a Scheme of Control Agreement ("SoCA") agreed with the Government. The 2009-2018 SoCA expired on 31 December 2018. In April 2017, the Government, HK Electric and HK Electric Investments Limited entered into a new SoCA for a term of 15 years from 1 January 2019 to 31 December 2033.

The new SoCA provides for HK Electric to earn a Permitted Return of 8% of average net fixed assets. The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SoCA. No excess capacity adjustment was made in 2019 and 2018. Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the Scheme of Control net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 7% per annum, is added to, and a tax adjustment is made against, net revenue after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

(b) Ten-Year Scheme of Control Statement for the year ended 31 December

HK\$ million	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Sales of electricity	10,694	11,541	11,621	11,373	11,165	11,165	10,176	10,364	10,140	10,338
Transfer from Fuel Clause Recovery Account	2,051	2,696	1,904	1,206	1,861	2,994	3,510	3,867	3,755	2,794
Other Scheme of Control revenue	77	115	93	79	74	63	67	74	100	62
Gross tariff revenue	12,822	14,352	13,618	12,658	13,100	14,222	13,753	14,305	13,995	13,194
Fuel costs	(3,842)	(4,530)	(3,785)	(3,105)	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)	(4,570)
Operating costs	(1,723)	(1,656)	(1,592)	(1,460)	(1,277)	(1,143)	(995)	(1,040)	(1,040)	(1,097)
Interest	(764)	(779)	(719)	(811)	(838)	(789)	(285)	(264)	(248)	(112)
Depreciation and amortisation	(2,342)	(2,355)	(2,210)	(2,127)	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)	(1,793)
Net revenue before taxation	4,151	5,032	5,312	5,155	5,234	5,484	5,220	5,409	5,333	5,622
Scheme of Control taxation	(688)	(557)	(698)	(1,209)	(1,140)	(1,009)	(988)	(856)	(794)	(930)
Net revenue after taxation	3,463	4,475	4,614	3,946	4,094	4,475	4,232	4,553	4,539	4,692
Interest on borrowed capital	1,043	983	873	821	729	690	288	271	239	118
Interest on incremental customers' deposit	1	–	–	–	–	–	–	–	–	–
Scheme of Control net revenue	4,507	5,458	5,487	4,767	4,823	5,165	4,520	4,824	4,778	4,810
Transfer from/(to) Tariff Stabilisation Fund	(222)	(303)	(291)	181	84	(249)	389	72	46	(58)
Permitted return	4,285	5,155	5,196	4,948	4,907	4,916	4,909	4,896	4,824	4,752
Interest on borrowed capital	(1,043)	(983)	(873)	(821)	(729)	(690)	(288)	(271)	(239)	(118)
Interest on incremental customers' deposit	(1)	–	–	–	–	–	–	–	–	–
Transfer to Smart Power Care Fund/ Smart Power Fund	(32)	–	(5)	(5)	(5)	(10)	–	–	–	–
Transfer to Rate Reduction Reserve	(14)	(6)	(1)	(1)	(1)	–	(1)	(1)	(1)	(1)
Net return	3,195	4,166	4,317	4,121	4,172	4,216	4,620	4,624	4,584	4,633

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR STATEMENT OF FINANCIAL POSITION

At 31 December

HK\$ million	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Non-current assets										
Property, plant and equipment and interests in leasehold land	53,791	51,753	50,494	49,971	49,482	49,198	49,137	49,345	48,848	47,976
Interest in a joint venture	42	–	–	–	–	–	–	–	–	–
Employee retirement benefit scheme assets	809	593	648	454	580	668	615	216	271	796
Derivative financial instruments	641	539	784	1,034	314	352	241	646	433	21
	55,283	52,885	51,926	51,459	50,376	50,218	49,993	50,207	49,552	48,793
Current assets										
Coal, fuel oil and natural gas	522	675	671	624	525	572	592	763	780	433
Stores and materials	297	314	340	361	357	361	356	351	335	314
Trade and other receivables	1,056	1,024	1,065	1,218	1,155	1,129	1,104	1,183	1,078	1,118
Fuel Clause Recovery Account	–	–	–	–	–	–	1	820	1,035	569
Bank deposits and cash	297	33	1,658	310	6,155	4,629	1,060	8	24	9
	2,172	2,046	3,734	2,513	8,192	6,691	3,113	3,125	3,252	2,443
Current liabilities										
Bank loans and other borrowings	(6,010)	(440)	–	(335)	(900)	(520)	(503)	(5,317)	(617)	(52)
Fuel Clause Recovery Account	(647)	(855)	(2,771)	(4,088)	(2,283)	(631)	–	–	–	–
Trade and other payables and contract liabilities	(6,940)	(6,607)	(6,626)	(6,263)	(5,519)	(4,740)	(2,081)	(2,305)	(2,565)	(1,577)
Bank overdrafts – unsecured	(33)	–	–	–	–	–	–	–	–	–
Current taxation	(577)	(137)	(214)	(351)	(360)	(219)	(340)	(330)	(218)	(157)
	(14,207)	(8,039)	(9,611)	(11,037)	(9,062)	(6,110)	(2,924)	(7,952)	(3,400)	(1,786)
Net current assets/(liabilities)	(12,035)	(5,993)	(5,877)	(8,524)	(870)	581	189	(4,827)	(148)	657
Total assets less current liabilities	43,248	46,892	46,049	42,935	49,506	50,799	50,182	45,380	49,404	49,450
Non-current liabilities										
Bank loans and other borrowings	(28,319)	(32,855)	(32,714)	(30,700)	(37,646)	(38,703)	(29,574)	(21,893)	(26,691)	(25,727)
Derivative financial instruments	(14)	(411)	(184)	(73)	(168)	(63)	–	–	(10)	(132)
Customers' deposits	(2,241)	(2,195)	(2,130)	(2,057)	(2,001)	(1,937)	(1,900)	(1,839)	(1,801)	(1,747)
Deferred tax liabilities	(6,467)	(6,168)	(5,848)	(5,595)	(5,698)	(5,927)	(5,955)	(5,912)	(5,883)	(5,763)
Employee retirement benefit scheme liabilities	(368)	(393)	(288)	(406)	(587)	(499)	(443)	(821)	(827)	(587)
Other non-current liabilities	(955)	(747)	(503)	–	–	–	–	–	–	–
	(38,364)	(42,769)	(41,667)	(38,831)	(46,100)	(47,129)	(37,872)	(30,465)	(35,212)	(33,956)
Tariff Stabilisation Fund (note 1)	(848)	(620)	(316)	(24)	(204)	(288)	(36)	(425)	(497)	(543)
Rate Reduction Reserve (note 2)	(14)	(6)	(1)	(1)	(1)	–	(3)	(2)	(1)	(4)
Smart Power Care Fund/Smart Power Fund (note 3)	(16)	(22)	(18)	(14)	(10)	(5)	–	–	–	–
Net assets	4,006	3,475	4,047	4,065	3,191	3,377	12,271	14,488	13,694	14,947
Capital and reserves										
Share capital	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Reserves	1,259	1,125	1,326	1,057	921	1,002	1,000	–	4	–
Hedging reserves	336	(61)	310	597	(141)	(36)	15	3	(4)	8
Proposed dividend	–	–	–	–	–	–	–	3,229	2,438	3,683
	4,006	3,475	4,047	4,065	3,191	3,377	3,426	5,643	4,849	6,102
Loan capital	–	–	–	–	–	–	8,845	8,845	8,845	8,845
Total equity	4,006	3,475	4,047	4,065	3,191	3,377	12,271	14,488	13,694	14,947

Notes:

- The Tariff Stabilisation Fund is not part of shareholders' funds.
- Pursuant to Scheme of Control, the year-end balance of the reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.
- Pursuant to 2013 mid-term review of 2009-2018 Scheme of Control Agreement ("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 of non-commercial buildings. 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.

THE HONGKONG ELECTRIC COMPANY, LIMITED

TEN-YEAR OPERATING STATISTICS

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Units sold (millions of kWh)										
Commercial	7,751	7,766	7,824	7,893	8,012	8,015	8,011	8,164	8,081	8,124
Residential	2,475	2,466	2,485	2,584	2,541	2,610	2,437	2,541	2,482	2,472
Industrial	293	305	306	315	326	330	325	331	334	337
Total (millions of kWh)	10,519	10,537	10,615	10,792	10,879	10,955	10,773	11,036	10,897	10,933
Annual (decrease)/increase (%)	(0.2)	(0.7)	(1.6)	(0.8)	(0.7)	1.7	(2.4)	1.3	(0.3)	0.1
Average Net Tariff per Tariff Review (HK cents per kWh)										
Basic Tariff	101.3	109.1	108.9	105.5	102.6	101.8	94.7	94.1	93.1	94.5
Special Rent & Rates Rebate	(2.3)	(4.0)	(4.0)	–	–	–	–	–	–	–
Net Basic Tariff	99.0	105.1	104.9	105.5	102.6	101.8	94.7	94.1	93.1	94.5
Fuel Clause Charge	23.4	23.4	23.4	27.9	32.3	33.1	40.2	37.0	30.2	25.4
Special Fuel Rebate	(2.3)	(16.0)	(17.9)	–	–	–	–	–	–	–
Net Tariff (HK cents per kWh)	120.1	112.5	110.4	133.4	134.9	134.9	134.9	131.1	123.3	119.9
Number of customers (000's)	581	579	577	575	572	570	569	567	567	566
Installed capacity (MW)										
Gas turbines and standby units	555	555	555	555	555	555	555	555	555	555
Coal-fired units	2,000	2,000	2,250	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined-cycle units	680	680	680	680	680	680	680	680	680	680
Wind turbine and photovoltaic system (note 1)	2	2	2	2	2	2	2	2	1	1
Total (MW)	3,237	3,237	3,487	3,737	3,737	3,737	3,737	3,737	3,736	3,736
System maximum demand (MW)	2,395	2,376	2,513	2,428	2,427	2,460	2,453	2,494	2,498	2,510
Annual increase/(decrease) (%)	0.8	(5.5)	3.5	0.0	(1.3)	0.3	(1.6)	(0.2)	(0.5)	(1.1)
Annual load factor (%)	56.4	56.8	54.0	56.7	57.3	56.9	56.1	56.6	55.9	55.8
Thermal efficiency (%)	35.5	35.6	35.9	35.9	36.2	36.1	36.3	36.0	36.2	36.2
Plant availability (%)	90.9	90.7	87.1	85.6	85.5	88.4	85.7	84.6	84.4	85.6
Number of switching stations	24	24	24	24	24	24	24	25	25	25
Number of zone substations	27	27	27	27	27	27	27	27	27	27
Number of customer substations	3,920	3,912	3,889	3,848	3,818	3,793	3,776	3,755	3,741	3,710
Number of employees	1,770	1,763	1,776	1,790	1,801	1,814	1,826	1,820	1,848	1,851
Capital expenditure (HK\$ million) (note 2)	4,620	3,695	2,929	2,799	2,516	2,252	1,973	2,613	2,887	2,427

Notes:

- The 800-kW wind turbine was commissioned in 2005; the 550-kW thin film photovoltaic system was commissioned in 2010 and was expanded to 1-MW in March 2013.
- These are capital expenditures solely for electricity-related property, plant and equipment. The capital expenditures exclude additions of right-of-use assets and include capital expenditures of the offshore LNG terminal developed by a joint venture.

CORPORATE INFORMATION

HK Electric Investments Manager Limited (港燈電力投資管理人有限公司)

(Incorporated in Hong Kong with limited liability, the trustee-manager of HK Electric Investments)

and

HK Electric Investments Limited (港燈電力投資有限公司)

(Incorporated in the Cayman Islands with limited liability)

Board of Directors

Executive Directors

FOK Kin Ning, Canning (*Chairman*)
(WOO Mo Fong, Susan (alias CHOW WOO Mo Fong, Susan) as his alternate)
WAN Chi Tin (*Chief Executive Officer*)
CHAN Loi Shun
CHEN Daobiao
CHENG Cho Ying, Francis

Non-executive Directors

LI Tzar Kuoi, Victor (*Deputy Chairman*)
(Frank John SIXT as his alternate)
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DUAN Guangming
Deven Arvind KARNIK
ZHU Guangchao

Independent Non-executive Directors

FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Trustee-Manager Audit Committee

Donald Jeffrey ROBERTS (*Chairman*)
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Company Audit Committee

Donald Jeffrey ROBERTS (*Chairman*)
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Remuneration Committee

Donald Jeffrey ROBERTS (*Chairman*)
FOK Kin Ning, Canning
FONG Chi Wai, Alex

Nomination Committee

FOK Kin Ning, Canning (*Chairman*)
WAN Chi Tin
CHAN Loi Shun
CHEN Daobiao
CHENG Cho Ying, Francis
LI Tzar Kuoi, Victor
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DUAN Guangming
Deven Arvind KARNIK
ZHU Guangchao
FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Company Secretary

Alex NG

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Mizuho Bank, Ltd.
MUFG Bank, Ltd.

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Email: mail@hkei.hk

Share Stapled Units Registrar

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

Principal Share Registrar

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

Hong Kong Branch Share Registrar

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

ADR (Level 1 Programme) Depositary

Deutsche Bank Trust Company Americas
60 Wall Street, New York, NY 10005
Website: www.adr.db.com
Email: adr@db.com

Investor Relations

For institutional investors, please contact:
CHAN Loi Shun (*Executive Director*) or
WONG Kim Man (*Chief Financial Officer*)

For other investors, please contact:
Alex NG (*Company Secretary*)

Email: mail@hkei.hk
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

FINANCIAL CALENDAR AND SHARE STAPLED UNIT INFORMATION

Financial Calendar

Interim Results Announcement	30 July 2019
Annual Results Announcement	17 March 2020
Ex-distribution Date	31 March 2020
Record Date for Final Distribution	1 April 2020
Annual Report Despatch Date	On or before 3 April 2020
Distribution per Share Stapled Unit	
Interim : HK15.94 cents	23 August 2019
Final : HK16.09 cents	14 April 2020
Closure of Registers	8 May 2020 to 13 May 2020
– Annual General Meeting	(both days inclusive)
Annual General Meeting	13 May 2020

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2019	HK\$67,862 million
Share Stapled Unit to American Depositary Share Ratio	10:1

Stock Codes

The Stock Exchange of Hong Kong Limited	2638
Bloomberg	2638 HK
Refinitiv	2638.HK
ADR Ticker Symbol	HKVTY
CUSIP Number	40422B101

GLOSSARY

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Annual General Meeting"	The annual general meeting of unitholders of the Trust and shareholders of the Company, as convened by the Trustee-Manager and the Company held on a combined basis as a single meeting characterised as the annual general meeting of Holders of Share Stapled Units
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"CK Hutchison"	CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1)
"CKI"	CK Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"Company"	HK Electric Investments Limited, 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
"HKEX"	Hong Kong Exchanges and Clearing Limited
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI

GLOSSARY

Term(s)	Definition
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
"Registers"	The Share Stapled Units Register, the Units Register, the Principal and Hong Kong Branch Registers of Members and the Register of Beneficial Interests
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Stapled Unit(s)" or "SSU(s)"	Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
"Share Stapled Units Register"	The register of registered Holders of Share Stapled Units
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trust"	HK Electric Investments, 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

This Annual Report has been printed in both the English and Chinese languages. If Holders of Share Stapled Units who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.hkei.hk. If, for any reason, Holders of Share Stapled Units who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Annual Report, they may request that a printed copy of this Annual Report be sent to them free of charge by mail.

Holders of Share Stapled Units may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at 44 Kennedy Road, Hong Kong or to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@hkei.hk.



港燈電力投資

HK Electric Investments

