港燈電力投資
HK Electric Investments

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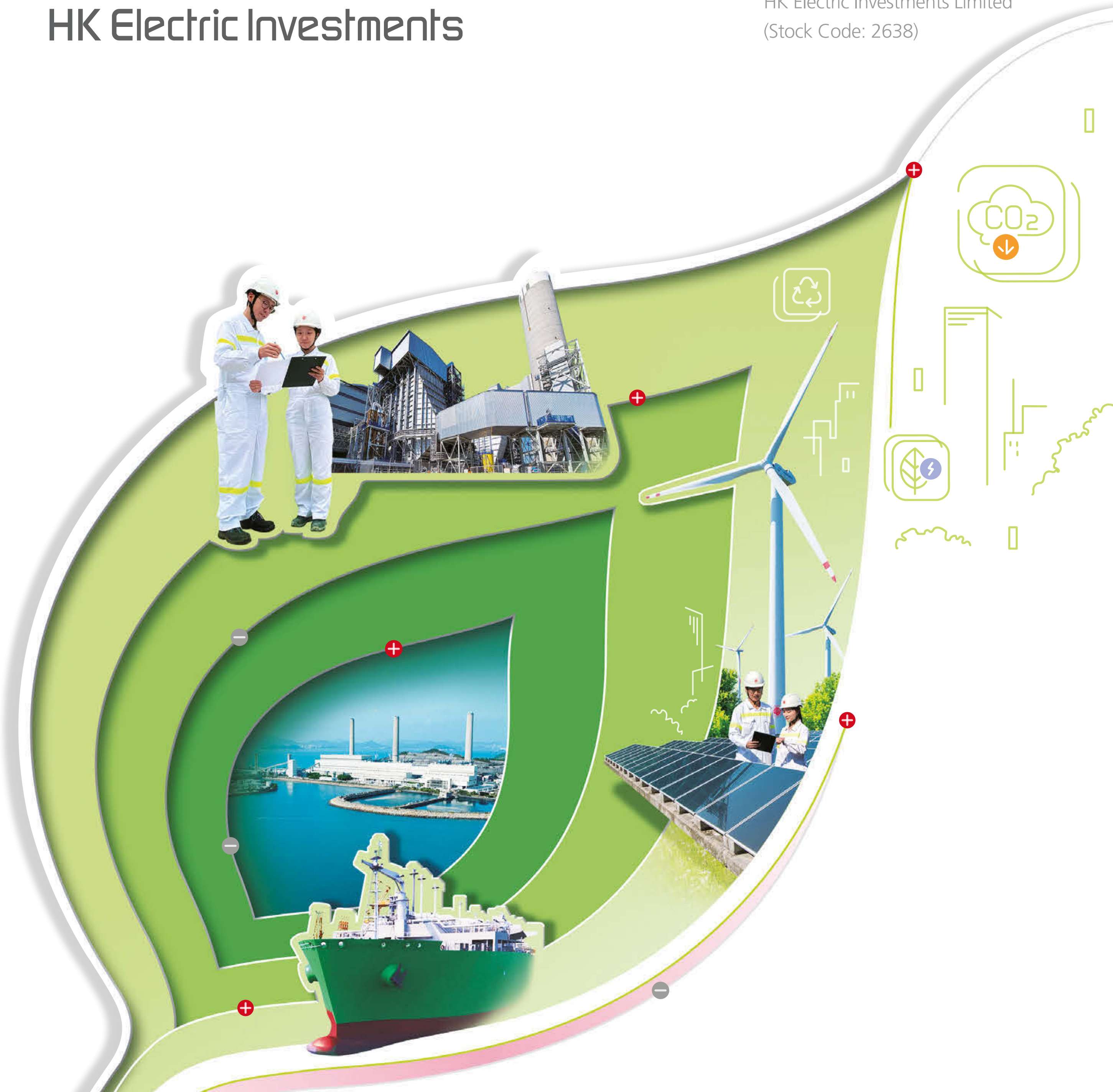
and
HK Electric Investments Limited
(Stock Code: 2638)



Annual Report **2021**

Crafting a Greener Future

港燈電力投資
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Crafting a Greener Future

Energy is on a constant journey towards a greener destination. HKEI and our wholly owned subsidiary HK Electric are systematically evolving our technology, infrastructure, and operations, with the goal of generating low-carbon power for today and tomorrow's residents of Hong Kong.

The cover of our 2021 Annual Report depicts this step-by-step, multifaceted approach towards creating a sustainable energy future for the city.

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 584,000 customers in Hong Kong. Powering the city's economic growth since 1890 with affordable, safe and reliable electricity, HK Electric is increasing its gas-fired generation capacity to help combat climate change and bring cleaner air to Hong Kong.

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.

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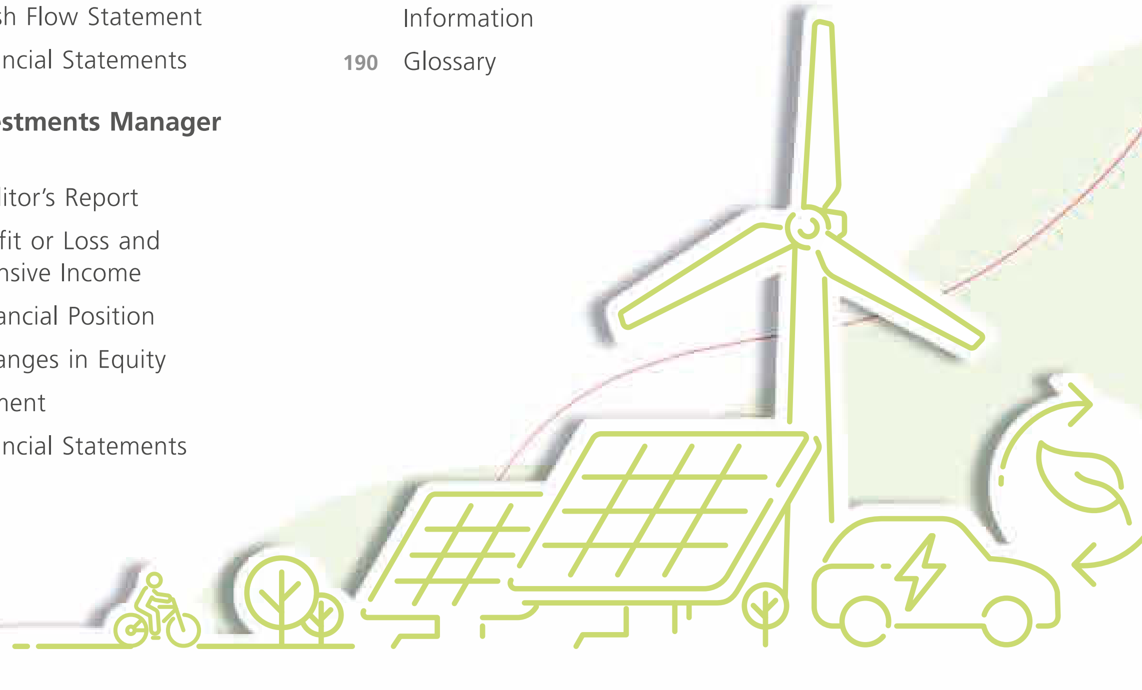


Performance Highlights

Financials

	2021	2020
Revenue	**HK$11,344 million**	HK$10,389 million
Distributable Income	**HK$2,830 million**	HK$2,830 million
Total Distribution per SSU	**HK32.03 cents**	HK32.03 cents
Interim Distribution per SSU	**HK15.94 cents**	HK15.94 cents
Final Distribution per SSU	**HK16.09 cents**	HK16.09 cents
Total Assets	**HK$114,828 million**	HK$111,567 million
Net Debt-to-Net Total Capital Ratio	**49%**	48%
S&P Credit Rating		
HK Electric	**A-/ Stable**	A-/ Stable
HK Electric Investments Limited	**A-/ Stable**	A-/ Stable

Operations

Generation

Generation Capacity
3,617 MW
2020: 3,617 MW

Electricity Generation

Gas-fired
~50%
2020: ~50%

Coal-fired
~50%
2020: ~50%

Number of Renewable Energy Installations under Feed-in Tariff Scheme
235
(Total capacity 4.5 MW)
2020: 130 (Total capacity 2.3 MW)

Renewable Energy Certificates Subscribed by Customers
~6 GWh
2020: ~3.5 GWh

Customer Services

Units Sold
10,361 GWh
2020: 10,134 GWh

Number of Customers
584,000
2020: 583,000

Number of Free Electric Vehicle Charging Operations
30,686
2020: 20,385

Smart Meters Installed
>120,000
2020: >40,000

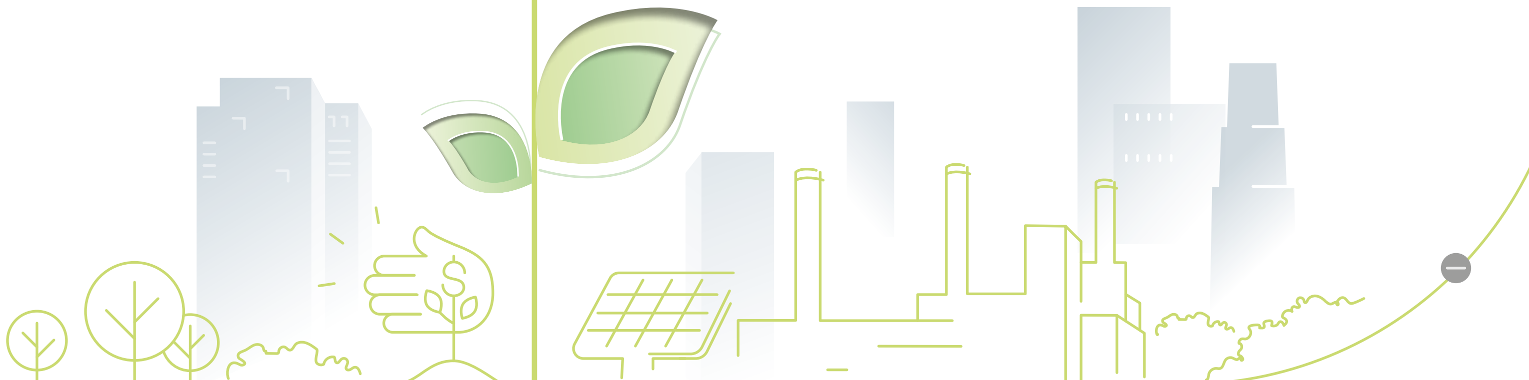
Average Customer Satisfaction Index (5-Point Scale)
4.69
2020: 4.72

Transmission & Distribution

Supply Reliability
>99.9999%
2020: >99.9999%

Unplanned Power Interruption per Customer
<0.5 minute
2020: <0.5 minute

Network Length
6,734 km
2020: 6,638 km



Progress on the journey to deliver reliable, clean and affordable electricity

Business Review

Chairman's Statement

We continue to evolve our operations to enable Hong Kong to achieve its decarbonisation goals and create a cleaner, healthier home for future generations.

I am pleased to present the 2021 annual results of HK Electric Investments (HKEI), and its wholly-owned subsidiary HK Electric. During the year, we passed a key strategic milestone – we successfully synchronised a new gas-fired combined-cycle generating unit, L11, ready for commercial operations in May 2022.

This milestone comes at one of the most critical periods in our long history – as we evolve our operations to enable Hong Kong to achieve its decarbonisation goals to create a cleaner, healthier home for future generations. We continue to focus on fighting climate change while meeting energy demands through innovation that ensures excellence in every aspect of our activities. A key achievement on this front is our attainment of over 99.9999% power supply reliability – for the second year in a row – making us one of the world's most reliable electricity companies.

Through the course of the year, we successfully reduced our carbon emissions by about 26% compared to the base year of 2005. We achieved this primarily by progressively replacing coal with natural gas, which has much lower emissions, as our primary fuel for power generation. About 50% of our electricity came from natural gas in 2021, and we will steadily increase this proportion in the coming years.

Other major initiatives of the 2019-2023 Development Plan also progressed well. They include the construction of the last of three new gas-fired combined-cycle generating units, L12; an offshore liquefied natural gas (LNG) terminal that will enhance the security of gas supply; and the rollout of smart meters with the associated Advanced Metering Infrastructure. These initiatives will enable Hong Kong to transform to a low-carbon and smart city.

Electricity sales increased by 2.2% in 2021 due to increased consumption from the commercial sector as Hong Kong slowly recovered from the economic slowdown triggered by the COVID-19 pandemic during the year. Net tariffs were frozen for 2021 at HK126.4 cents per unit of electricity to enable customers – especially small caterers and underprivileged families – to bounce back.

Financial results and distributions

For the year ended 31 December 2021, HKEI's EBITDA was HK$7,954 million (2020: HK$7,140 million) and audited profits attributable to holders of Share Stapled Units (SSU) was HK$2,933 million (2020: HK$2,732 million).

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK16.09 cents (2020: HK16.09 cents) per SSU, payable on 11 April 2022 to SSU holders whose names appear on the Share Stapled Units Register on 30 March 2022. Together with the interim distribution of HK15.94 cents (2020: HK15.94 cents) per SSU, this amounts to a total distribution of HK32.03 cents (2020: HK32.03 cents) per SSU for the year.

Capital investment to cut carbon emissions

The 2019-2023 Development Plan is our near-term pathway to reduce carbon emissions. Following 6.6-kV power receiving, gas turbine gas-in, steam blow and system restoration, we successfully synchronised L11 to the grid on schedule in November 2021. On-load tests were completed in preparation for commercial launch in May 2022.

In tandem, we moved ahead with construction activity on the main station building, chimney and circulating water intake for L12. After completing the installation of power block facilities, L12 will commence commercial operations in 2023.

The LNG terminal using Floating Storage and Regasification Unit (FSRU) technology passed key stages of its development process, including vessel design upgrade, jetty construction, pipe laying, topside structure fabrication, and hydrostatic testing. The terminal is scheduled for commissioning in 2022. To help mitigate any potential disruptions to the marine ecosystem, we have established a Marine Conservation Enhancement Fund and a Fisheries Enhancement Fund, which provided funding of approximately HK$27 million to 19 projects in the year.

Our strategic vision is to act as a catalyst to help our customers achieve more sustainable lifestyles. One of our key initiatives in this regard is the deployment of smart meters to help individuals and businesses optimise their energy use. We have installed more than 120,000 smart meters by the end of 2021 and launched a new mobile app that allows customers with smart meters to check their electricity usage at any time. With a better understanding of their consumption patterns, customers will be able to manage electricity use more effectively.

Actions to achieve Hong Kong's climate change goals

Under Hong Kong's Climate Action Plan 2050, the Government will strive for carbon neutrality by 2050. To support this effort, we have put into place several important initiatives.

Renewables uptake in Hong Kong is showing growth, in part due to the promotion through an attractive Feed-in Tariff Scheme. Customers' renewable energy installations connected to the HK Electric grid generated a total of 3.8 GWh of electricity in 2021.

Our state-of-the-art technologies ensure emissions control – including highly efficient natural-gas-fired combined-cycle plants to reduce carbon emissions from electricity generation, selective catalytic reduction system to minimise nitrogen oxides (NO_x) emissions, low NO_x burners, flue gas desulphurisation, and powerful electrostatic precipitators. As a result of these measures, we kept sulphur dioxide, NO_x, and respirable suspended particulates below statutory emission caps. We also engaged with the Government and agreed on more stringent emissions caps in the Technical Memorandum No. 9 published in 2021, which will come into force from 2026.

In addition, to help improve roadside air quality, and support Hong Kong's development into a low-carbon and smart city, HK Electric has been promoting the use of electric vehicles (EVs). We continued facilitating the uptake of electric transportation in Hong Kong by providing consultancy and technical support that will underpin the construction of around 50,000 EV charging points at residential carparks. We also engaged with the Government, bus and ferry companies to build charging facilities for public transport across Hong Kong Island.

We support the United Nations' Sustainable Development Goals (SDGs), focusing our efforts on three SDGs most relevant to our business, i.e. SDG 7 – Affordable and Clean Energy, SDG 9 – Industry, Innovation and Infrastructure, and SDG 13 – Climate Action. We have maintained a safe and affordable electricity supply with a world-class supply reliability. Our development plans for new gas-fired generating units and the offshore LNG terminal are also on track, enabling us to attain our emissions reduction targets. We are running various campaigns to educate the community and support our customers to go green, including the full-scale deployment of smart meters.

Chairman's Statement

Excellence in service delivery

At HK Electric, we have a responsibility to ensure that our migration to cleaner energy does not compromise our core pledges of reliability and service excellence. In 2021, we served about 584,000 customers, supplying a total of 10,361 GWh (2020: 10,134 GWh) of electricity – due to increased consumption from the commercial and industrial sectors. Our customers experienced less than 0.5 minute of unplanned power interruption on average per customer over these 12 months.

Greener electricity generation is a critical component of this. Lamma Power Station delivered improved environmental performance, thanks to about 50% gas-fired electricity generation, the use of low-sulphur coal, as well as sustainable energy sources (wind and solar). We deployed the latest technologies such as sensors, advanced analytics, and robotics to sustain low carbon intensity and increase automation while upholding our high standards of safety, supply reliability, and excellent service. More than 40 innovation projects are at various stages of implementation, including battery units to supply more eco-friendly and noise-free site power for heavy machinery.

HK Electric achieved all our pledged customer service standards throughout the year, with a move towards increasing the availability of self-service channels to give our customers more autonomy.

Helping hands for the community

We took advantage of the few months in 2021 when COVID-19 eased its hold on Hong Kong to resume volunteer work, spending more than 1,300 hours on activities that needed less in-person contact. The Smart Power Care Fund extended financial help to those in need, distributing HK$10 million worth of dining coupons on top of subsidies for energy-efficient electrical appliances, tariff subsidies for those living in subdivided units, and other relief measures.

As always, we maintained our efforts towards educating the public and younger generations about responsible energy use and renewables. Our long-standing Happy Green Campaign expanded its scope to 507 schools, with more than 80,000 students and local citizens taking part in various activities organised online or offline. The Smart Power Gallery hosted 99 virtual/physical guided tours to increase environmental awareness among children, introducing topics like climate change, renewable energy, and smart cities.

In addition, we sustained our ongoing measures to keep all stakeholders safe during the COVID-19 pandemic. To help build a protective barrier against COVID-19 in the community, we have been encouraging our employees to receive vaccines through a package of incentives including group vaccination booking, vaccination leave and gift coupons. Thanks to their support, all our employees have been vaccinated except those who are medically exempt.

Outlook

Basic Tariff is frozen for 2022 and a special rebate of HK1 cent per unit of electricity is provided to help customers recover from difficult times. However, significant increases in global fuel prices, together with increased natural gas consumption, have driven an upward adjustment of the Fuel Clause Charge. As a result, the 2022 Net Tariff is increased by HK8.9 cents per unit of electricity, wholly attributable to the increase in fuel costs.

We have set aside HK$63 million from our Smart Power Building Fund, Smart Power Care Fund and Smart Power Education Fund to provide support for the underprivileged, promote energy efficiency and conservation, and strengthen education on low carbon living to help alleviate the tariff impact on the public.

Our priority for the next 12 months is to achieve all deliverables under the 2019-2023 Development Plan on schedule, further increasing gas-fired power generation by 2023.

In alignment with Hong Kong's commitments to COP26 goals, we have pledged to evolve our business to decarbonise our entire value chain, supporting Hong Kong's zero-carbon transition under the Climate Action Plan 2050. While we target to achieve carbon neutrality in our operations before 2050 in the long term, our medium-term target is to reduce our absolute carbon emissions by more than 50% compared to the 2005 level not later than 2035. To increase the proportion of power we generate from renewables, we will proceed with our planning and design of a large-scale offshore wind farm that will produce about 4% of our electricity output when complete. We will also contribute our expertise to the ongoing government study into the use of hydrogen, an energy source which emits no carbon oxides.

The global power sector faces the challenge of green transformation which will have a long-term impact on the sector. We believe that decarbonisation and economic growth go hand in hand. As a Group, we are committed to investing in achieving carbon neutrality, a fairer and more equitable society, and pursuing the highest standards in corporate governance.

In closing, I express my heartfelt gratitude to my colleagues, the management, the Board, frontline staff and all our stakeholders whose efforts have made our achievements possible.

Fok Kin Ning, Canning
Chairman
Hong Kong, 15 March 2022

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 also innovating, deploying technology and equipment that allow us to minimise environmental impact.

In recent years, we plan to phase out coal-fired generation by early 2030s and have been increasing gas-fired generation in support of Clean Air Plan for Hong Kong 2035. In the long term, we look forward to working with our stakeholders to help achieve the Government's carbon neutrality vision for the city by 2050.

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 supply 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 > JUN

HK Electric expands relief measures and energy-saving programmes to help SMEs and underprivileged families overcome the challenges arising from the COVID-19 pandemic.

Our ongoing outreach to the elderly adopts a new approach with "CAREnJOY Go-Go-Go", which features a specially decorated electric vehicle to deliver giftbags to single elders.

HK Electric participates in the HKIE Innovation Expo organised by the Hong Kong Institution of Engineers, showcasing projects ranging from construction of a gas-fired generating unit to reuse of retired batteries.

An 11th route, The Eastern Sparkle, is launched under the company's "Green Hong Kong Green" programme, to help citizens appreciate the eco-heritage of our city. The project wins Bronze in the 17th China Golden Awards for Excellence in Public Relations in recognition of its achievements in promoting environmental messages.

A new service – Smart Power for Construction Site – is launched to help reduce carbon emissions during the construction life cycle by replacing diesel generators with electricity supply from the grid.

Following the success of the first three-year Belt and Road Advanced Professional Development Programme in Power and Energy, HK Electric and our partners renew the programme for another three years.

Echoing the "Ecosystem Restoration" theme adopted by United Nations' World Environment Day 2021, an urban organic farming course is organised for employees to promote the importance of healthy ecosystems.

Construction of the offshore LNG terminal makes significant progress with design upgrade for the Floating Storage and Regasification Unit vessel and pipeline laying to Lamma Power Station completed, while topside structure fabrication and pre-commissioning activities are ongoing.

HK Electric enters into a framework agreement with State Grid Shanghai Municipal Electric Power Company and State Grid International Development Company Limited to share experiences in applying clean power technology to achieve carbon neutrality.

Year at a Glance

JUL > DEC

Smart Power Services wins Gold and Outstanding Impact awards in the SDG Achievement Awards Hong Kong 2021, organised by Green Council, in recognition of our achievements in helping customers reduce their carbon footprint.

HK Electric reaffirms its support for the Government's decarbonisation strategies and zero-carbon vision, in line with Hong Kong's Climate Action Plan 2050, at the Environment Bureau's Carbon Neutrality Partnership Launching Ceremony.

HK Electric believes vaccination is the most effective means to protect the community and encourages employees to receive the COVID-19 vaccine. All our employees have been vaccinated except those who are medically exempt.

Our teams win numerous awards in the Safety Quiz co-organised by the Occupational Safety and Health Council and Labour Department.

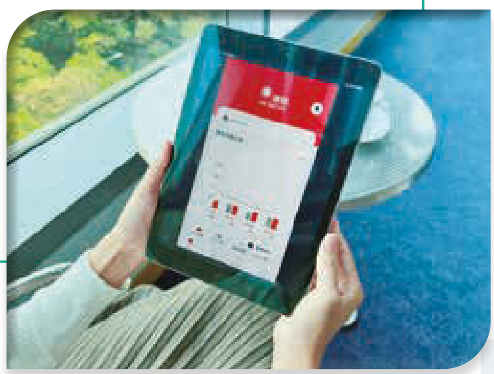
2022 tariff adjustments are announced. A total of HK$63 million is set aside for relief and energy-saving measures under three Smart Power Services funds, including a new round of "Care and Share" 2022 dining coupon scheme, to alleviate the impact of the 2022 tariff.

HK Electric takes a major step forward in its coal-to-gas transition with the successful synchronisation of another new gas-fired generating unit, L11, which will commence commercial operations in May 2022.

A series of activities and seminars are organised to enhance employees' understanding of the company's sustainable development strategies. A 130+ anniversary logo featuring the corporate tagline "Powering for Sustainability" is launched to illustrate our commitment to building a sustainable future.

The Hong Kong Police Force delivers a seminar on "The Trend of Cyber Security and Technology Crime" to HK Electric employees. The seminar highlights vulnerabilities and outlines measures to prevent cybercrime.

A new mobile app is launched with new features and functions including the provision of data from smart meters to customers enabling them to manage their own energy use more effectively.



CEO's Report

We are on the path to reducing the carbon footprint of the power we supply, as we continue to uphold our standards of reliability and service excellence to support Hong Kong's role as a global financial, business and services centre.

Wan Chi Tin
Chief Executive Officer

Sustainable excellence through innovation

In 2021, HK Electric took several steps forward in its journey towards powering Hong Kong's sustainable future through decarbonisation and innovation. Although the year saw continued global challenges and business disruptions as a result of the prolonged effects of the COVID-19 pandemic and the economic downturn, we remained Hong Kong's reliable energy partner, supported customers with innovative technologies, and progressed major capital projects while planning for future development.

Our main strategic platform was the smooth implementation of the HK$26.6 billion 2019-2023 Development Plan, now at its halfway mark. The key achievement was the timely synchronisation of L11, a 380-MW gas-fired combined-cycle generating unit, during the second half of the year. In tandem, we continued the construction of another gas-fired generating unit, L12, and an offshore liquefied natural gas (LNG) terminal in Hong Kong waters.

Steady transition to a green community

Our Development Plan has placed us on the path to reducing the carbon footprint of the power we supply, as we uphold our standards of reliability and service excellence to maintain Hong Kong's role as a global financial, business and services centre. In this regard, the three key capital assets we are simultaneously building – two gas-fired generating units, L11 and L12, and an offshore LNG terminal – will enable us to further increase gas-fired generation at Lamma Power Station (LPS) in the coming years.

Following back-energisation of the generator transformer and power receiving of the 6.6-kV switchboard, L11 successfully achieved gas turbine gas-in. We completed steam blow of all HP/IP/LP steam circuits and the ensuing system restoration. The unit was synchronised to the electricity grid in November 2021 and final on-load tests were substantially completed. L11 is scheduled for commercial launch in May 2022.

Construction of the L12 main station building and chimney is in progress. We are also building the heat recovery steam generator, a major piece of equipment that recovers heat from the gas turbine exhaust, converting water into steam and using it to power the steam turbine. Delivery of major plant equipment has commenced, and the construction and testing timeline will see the unit commissioned in 2023.

L11 is synchronised to HK Electric's electricity grid. The unit is scheduled for commercial operation in May 2022.

CEO's Report

Our increasing reliance on natural gas for power generation necessitates finding diversified sources of this fuel to guarantee supply reliability. To allow us to import and store natural gas from overseas by marine routes, we have been constructing an offshore LNG terminal using Floating Storage and Regasification Unit (FSRU) technology. The final stages of the jetty construction commenced in 2021, and we successfully completed the piling for jackets and installation of part of the topside structures. We put in place an 18-km subsea gas pipeline connecting the LNG terminal and LPS, and finished intermediate hydrostatic tests. The design upgrade of the FSRU vessel was completed in Singapore, in preparation for commercial launch in 2022.

To mitigate the impact of this construction on the marine ecosystem, we and our project partner CLP Power have established a Marine Conservation Enhancement Fund and a Fisheries Enhancement Fund. In 2021, the two funds provided approximately HK$27 million to 19 projects.

We deployed more than 120,000 smart meters by the end of 2021 and remain on track to complete this programme across our entire customer base by 2025. We also completed projects to develop and implement the AMI network infrastructure and IT systems needed to gather, analyse, and protect the data collected from these smart meters. In December 2021, we released a new corporate mobile app that provides power consumption data at half-hourly, daily, and monthly intervals, as well as usage projection and consumption alerts, to allow customers to monitor and optimise their electricity usage for better energy management.

Renewable energy generation helps us simultaneously reduce our carbon footprint and build a body of experience that supports us with its implementation in a wider scale. The solar power systems at LPS and on other HK Electric premises, along with Lamma Winds, our iconic wind turbine on Lamma Island, produced 2.0 GWh of green electricity during 2021.

We support the Government's goal of carbon neutrality before 2050 and are confident that we could halve our carbon emissions by 2035 compared with 2005 levels. Recognising that we could not rely on fossil fuels to achieve these targets, we are planning a large offshore wind farm in Hong Kong waters which, when commissioned, will account for about 4% of our electricity output. At the same time, we are studying whether it is possible and how we could retrofit our gas-fired units to use hydrogen as fuel in future.

Piling for jackets and installation of part of the topside structures of the LNG terminal are successfully completed.

Design upgrades of the LNG terminal's FSRU vessel are completed in Singapore, with commissioning scheduled for 2022.

Our iconic wind turbine, Lamma Winds, helps offset carbon emissions and enhances public understanding of renewable energy.

World-leading electricity supply

HK Electric sold 10,361 GWh of electricity (2020: 10,134 GWh) in 2021 following hotter weather and a recovering economy compared to 2020, out of which about 50% was from gas-fired generation. Efficient management and operational prudence enabled LPS to operate with high availability in parallel with current capital works and necessary social distancing guidelines throughout 2021.

Despite the lingering effects of the pandemic, we maintained our high service delivery standards, achieving a world-class power supply reliability rating of over 99.9999% for the second year in a row. Our customers experienced less than 0.5 minute of unplanned power interruptions on average.

Maintaining our network infrastructure

The foundation of our reliability record is strategic and proactive management of our transmission and distribution network. The efficient network design, sophisticated diagnostic techniques, and ongoing infrastructure refurbishment and upgrades helped us predict and prevent possible equipment failure.

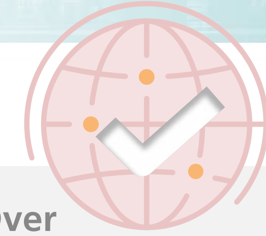
During the year, we continued to modernise our high-voltage and low-voltage networks, phasing out ageing components and cables. Major upgrades took place at 11 substations, which were converted from 11 kV to 22 kV to improve reliability. Thirty-three 11-kV/22-kV new substations were commissioned in 2021. We also replaced a total of 144 km of 22-kV, 11-kV, and LV cables, and installed 76 km of pilot and optical cables to enhance our ability to monitor and control the network.

To bolster disaster readiness and maintain power supply throughout emergencies, we successfully tested and commissioned our first set of 360-kVA mobile electricity generators capable of parallel operations.

The parallel operations function of our mobile generators combines the capacity of multi-generators for handling incidents requiring high power demand.

We invested in our LV network to boost automation and intelligence, including internal development of a new LV fault indicator with embedded connectivity, and the pilot production and deployment of 65 samples in Tai Hang. These devices will integrate with a planned LV network management system and enable better load analysis, identification of faulty cable sections, and rapid isolation of faults.

How does HK Electric maintain world-class reliability?



Over
99.9999%
Supply Reliability

We take our responsibility to provide a reliable and stable supply of electricity very seriously.

Hong Kong is a major international business and services hub, and has a huge proportion of the population living on high floors. As a result, any power failures are not only inconvenient, but also affect business and quality of life – it can even compromise people's ability to leave or return to their homes.

Our long-standing supply reliability of over 99.999% reached a new record of over 99.9999% in 2020 and 2021. This impressive number means that a HK Electric customer experiences less than 0.5 minute of unplanned power interruption in a year on average. Thanks to this highly reliable supply, our customers are able to enjoy modern and convenient lifestyles at a relatively affordable price.

Working seamlessly as one team

Our reliability track record relies on close coordination among our three operational divisions: Generation, which operates and maintains power generation units at Lamma Power Station (LPS); Transmission and Distribution (T&D), which is responsible for sustaining our network and its equipment; and System Control, which monitors our generation, transmission, and distribution systems.

All three business units work closely with each other; combining their expertise, exchanging technical knowledge and working round-the-clock to minimise the risk of supply interruption.

Condition monitoring, predictive maintenance and risk-based preventive maintenance are widely applied to the large number of generation assets at LPS which cover gas-fired units, coal-fired units, oil-fired units, solar panels and wind turbines.

Our T&D network comprises more than 6,700 km of high-voltage and low-voltage cables, including about 4,100 substations and 6,300 transformers. In such a sophisticated network, equipment faults causing loss of supply and voltage fluctuations cannot be completely avoided. Our strategy is to minimise their occurrence and impact through a year-round programme of proactive monitoring, maintenance and upgrading of critical assets.

Across our network, we maintain an equipment health index, supported by a comprehensive inspection programme, to enable us to identify and troubleshoot potential issues well in advance of their occurrence.

Proactive network maintenance and upgrade is key to HK Electric's high reliability rating.

Our proactive equipment inspection and maintenance strategy ensures unplanned power cuts are minimised.

A nerve centre with cutting-edge technology

We deploy the latest technology to assure reliability. Our System Control Centre is equipped with advanced SCADA computer systems. It is staffed round-the-clock by network-operation specialists and supported by an in-house IT team and software developers. Artificial intelligence and machine learning techniques are used in our Energy Management System, Distribution Management System, and other monitoring systems to identify issues proactively and formulate necessary preventive actions.

Substations are equipped with remote terminal units for online monitoring and remote control. Our network is fitted with advanced monitoring devices and fault indicators to identify defects, voltage dips, spikes and interruptions. State-of-the-art and well-maintained power system protection equipment can isolate and clear faults in a matter of milliseconds, avoiding wider power cuts. For the submarine parts of our network, we deploy remotely-operated underwater vehicles and on-shore monitoring system such as Automatic Identification System and CCTVs to inspect cables and pipes, assess weak points and prevent damages from anchored vessels.

Prepared for emergencies

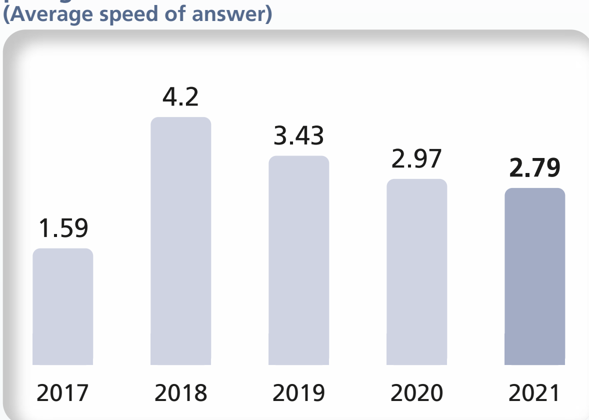
Unexpected situations are a constant threat to our operational activities. For example, extreme weather events are all too common in Hong Kong and present a significant challenge to the continued reliability of our network.

So we must have crisis management and contingency plans in place that enable us to continue to deliver uninterrupted power in all possible circumstances: damage to facilities, natural disasters, traffic disruptions, accidents, diseases and more. We constantly monitor trends and developments to refine the plans as they happen, staying in contact with authorities and other stakeholders to be forewarned.

To minimise exposure to damage from wind or rain, our network is constructed underground as far as possible. We are floodproofing all our low-lying substation infrastructure within 100 metres of the northern coastline of Hong Kong Island.

We make sure we are available 24x7 to take care of customers who might be experiencing problems of electricity supply or emergencies of their own installations. Our Customer Emergency Services Centre (CESC) provides 24-hour support via telephone calls and short message service (SMS), helping to resolve problems quickly and efficiently. In 2021, calls to the HK Electric CESC were answered in 2.79 seconds.

Emergency service calls answered within pledged time
(Average speed of answer)



Average speed of answer is the time in seconds that a customer service representative takes to answer a call.

CEO's Report

Ensuring the security of our infrastructure and premises

In the digital era, robust cybersecurity has become a business imperative; we rank it as one of our top corporate risks. Our aim is to protect customer data and ensure the confidentiality, integrity, and availability of all corporate information assets and critical infrastructure. We have been modernising our technologies to protect our critical assets from cyber-attacks. We conducted annual cybersecurity assessments, such as penetration tests and red/blue team assessments, to help us identify areas for improvement and strengthen our capabilities through real-time simulations. We also improved employees' cybersecurity awareness through workshops, theme talks, training videos, and mandatory quizzes, as well as quarterly drills.

A seminar conducted by the Hong Kong Police Force educates staff on cybersecurity and technology crime.

To enhance the physical security of the primary station buildings, we conducted a comprehensive review for primary station buildings as per the Critical Infrastructure Security Coordination Centre standards of the Hong Kong Police Force. Security upgrades were completed at Kennedy Road Station Building, North Point Station Compound, and Zetland Street Station Building.

The safety of our employees and security of our generating equipment remained a priority during 2021. LPS implemented an electronic permit-to-work system (e-PTW) to digitalise the traditional hardcopy safety documents, which ensures only authorised personnel can access specific equipment. The e-PTW enables engineers to work on essential documents digitally, reducing paper use and the risk of errors. Following positive feedback, this system will be further extended to all PTW offices in LPS in future.

Smart innovation at the heart of our business

We are always looking out for innovative ways to improve operations, ensure employee safety, and deliver reliable power. Since introducing our innovation strategy in 2018, we have executed over 280 projects of various sizes, including over 40 projects in 2021, featuring various new technologies and equipment to make our operations more efficient. Examples include a new algorithm to optimise the operation time of large electricity consumption pumps, a precision power analyser to reduce effort during efficiency tests, and battery units to supply more eco-friendly and noise-free site power for heavy machinery.

Automation plays a key role in day-to-day operations. Cameras mounted on drones conduct area surveys, remotely guided vehicles safely transport equipment, and autonomous storage and retrieval systems maintain an accurate inventory of stored items, equipment, and materials. Robotic process automation with optical character recognition automates invoice, drawing, and correspondence management processes. Building information modelling technologies provide a holistic view and improve the efficiency of construction process.

We continue to increase our adoption of Internet of Things (IoT) enabled devices for real-time data acquisition and monitoring. These include IoT sensors to provide real-time monitoring of the movement and settling of structures due to on-going construction work, AI-powered CCTV cameras to monitor the condition of distribution equipment in substations, and LV fault indicators and non-contact detectors for blown LV fuse panels to enhance supply reliability.

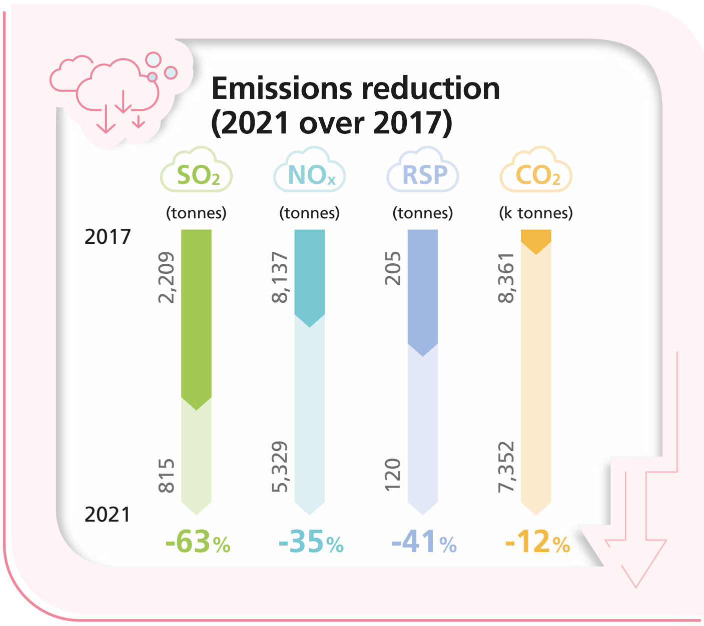
AI-powered CCTV cameras alert and safeguard workers in high-risk work spaces.

To enrich our innovation strategy, we collaborated with independent research institutes, universities, and business partners. Notably, our partnership with a local university allowed us to improve reactive power control in zone substations by applying machine learning to forecast load trends.

Based on the success of our continuous safety improvement and innovation initiative, we launched a more comprehensive HK Electric Innovation Award in March 2021. We received 38 entries from employees in four categories with different scales and varieties, including health and safety, sustainable development, operational improvement, and quality of services. In the first-level assessment, 28 projects were selected by a panel comprising all business unit heads of the company in November 2021. A judge panel – including the managing director, senior advisor, and three external judges – will determine the awards to be given to the candidates after the final presentation in 2022.

Delivering on our promise to preserve the environment

Utilising around 50% gas-fired generation, alongside low-sulphur coal, state-of-the-art equipment and monitoring devices, and renewable power sources, we kept sulphur dioxide (SO_2), nitrogen oxides (NO_x) and respirable suspended particulates (RSP) within Government's emission caps.



We kept our environmental and energy management systems updated to meet ISO 14001 and ISO 50001 requirements. We continue to follow the 4R policy (reduce, reuse, recycle and recover) wherever possible. Our commitment to resource efficiency and lower emissions also extends to our vendors and suppliers.

We remain cognisant of the importance of finding alternative and renewable uses for the by-products of our electricity generation operations. Reuse efforts in 2021 included incorporating pulverised fly ash and gypsum into cement production and converting 294 m^3 of garden waste into a nutrient-releasing mulch plant fertiliser.

A collection system to gather rainwater and plant processing water at LPS repurposed 113,640 m^3 of water for limestone slurry preparation in flue gas desulphurisation plants and gardening.

Thanks to its efforts in waste reduction, LPS was awarded an "Excellence Level" in Wastewi$e Certificate for the 15th consecutive year.

Rainwater and plant processing water is collected and reused at LPS.

CEO's Report

Our customer services team is committed to delivering the highest service standards.

Maintaining high-quality customer service

We remain committed to our core value of excellent service for our customers. In 2021, we met or exceeded all 18 pledged customer service standards, which are reviewed annually. Despite restrictions caused by the pandemic, results of the customer satisfaction index remained high, reaching 4.69 on a five-point scale in after-service surveys. During the year, we received 2,024 commendations from satisfied stakeholders – a new record – while we received a total of four product- or service-related complaints from stakeholders, down by half from the year before. All complaints were handled in accordance with established procedures.

To accommodate customers' diverse lifestyles, we offer flexible methods to pay bills. In 2021, we also introduced an online platform for customers to enquire the progress of their applications for supply, account transfer and termination, special meter reading, and autopay.

We continue to encourage customers to switch to digital billing, offering an incentive in the form of a credit payment and promoting the use of e-services. As a result, the number of e-form-based requests for transfer and termination of electricity accounts increased by 19.5% and 20.2% respectively, compared with 2020.

Our e-services allow customers to access and manage their accounts any time anywhere.

Giving the vulnerable a helping hand

The underprivileged and economically vulnerable are still feeling the effects of the pandemic. To soften these impacts, we extended coverage of the Smart Power Care Fund to encourage more sectors and premises to replace or install more efficient electrical appliances.

We maintained the "Care and Share" SME Caterers Subsidy Scheme in 2021, distributing dining coupons worth a total of HK$10 million to underprivileged families for use at over 220 eateries. Together, the Smart Power Care Fund and "Care and Share" SME Caterers Subsidy Scheme benefited more than 300 SMEs, 40,000 families in need, and 26,000 NGO community event participants.

The "Care and Share" SME Caterers Subsidy Scheme distributes dining coupons to underprivileged families for use at over 220 eateries.

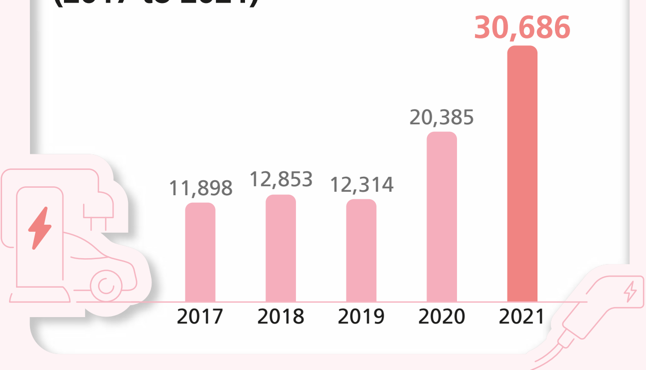
Encouraging electric transport

Transportation accounts for about 18% of carbon emissions, the second largest source in Hong Kong. Aside from major development projects, one of our strategic focus areas is to help reduce roadside emissions by promoting the wider use of electric vehicles (EVs).

We continued to support a network of 12 charging stations around Hong Kong Island for public use, free of charge. We observed a steady increase in the number of EV motorists, with 30,686 charging operations in 2021, 51% more than in 2020, prompting us to extend this no-cost service once again in 2022.

Our enthusiasm for EV adoption also encompasses public transport. We provided advisory services to the Government for the erection of charging facilities at various public ferry piers and public transport interchanges for the proposed electric ferries and electric light bus scheme, respectively. We also provided technical support to Citybus and First Bus to build charging facilities for electric buses at various bus terminals.

Free charging operations provided by our EV charging stations (2017 to 2021)



In line with the Government's HK$2 billion EV-charging at Home Subsidy Scheme, we continued with our free, one-stop "Smart Power EV Charging Solution" in 2021. We assisted customers who applied for the government subsidy, assessed the capacity of existing supply points to cater for the additional load of EV charging facilities, and reported on the necessary reinforcement works. Since the programme's launch, we provided support to EV charging solution implementation of our customers for about 400 cases covering about 50,000 car-parking spaces.

Driving energy efficiency and conservation

Promoting energy efficiency, conservation, and renewable energy in the community is another focus. We have formalised our work on this front under the award-winning Smart Power Services umbrella, which supported 18 funding / service schemes in 2021. We prioritised aid to disadvantaged members of society and those needing financial resources and technical expertise. To extend our reach, we worked with community NGOs and used mobile technologies.

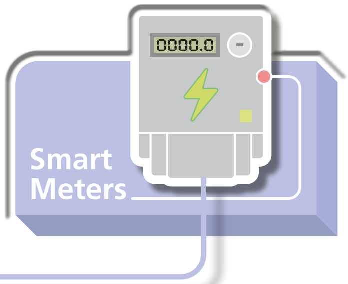
During 2021, we approved about HK$24 million in subsidies for efficiency enhancement works in more than 100 buildings, which would save about 2.7 GWh of energy. We provided a further HK$19.4 million in subsidies and relief measures for over 2,200 projects to enable households, non-residential customers, and SMEs to save power and improve electrical safety.

We help construction sites cut emissions from diesel generators by providing reliable electricity supply via low-voltage cables in weatherproof enclosures.

In addition, we conducted over 200 free energy audits for non-residential customers, facilitated the connection to electricity for more than 10 construction sites to encourage the reduction of carbon emissions throughout the construction lifecycle under a new service launched during the year – Smart Power for Construction Site – and offered technical advice to facilitate optimisation of their power supply arrangements.

Our popular Feed-in Tariff Scheme continued to encourage customers to set up their own renewable electricity installations. In 2021, we connected more than 100 renewable installations to the grid, amounting to over 2 MW in total capacity, and issued over 340 Renewable Energy Certificates to help customers offset their carbon emissions and support renewables development in Hong Kong.

Smart Meters – Automation and Data Insights



For HK Electric, smart meters are an essential part of our strategy to bring benefits to both the customers and the utility, as well as to help Hong Kong transform into a smart city.

What is a smart meter, and how does it help?

We have been installing smart meters for our customers since 2020 and we aim to complete the whole exercise by 2025 following our regular meter replacement cycle. These smart meters, with the associated Advanced Metering Infrastructure (AMI), facilitate automation, offer customers more granular data about their energy consumption, and provide a new avenue for communication with the smart grid – all essential for supporting Hong Kong's transformation into a smart city.

Over the last century, traditional electro-mechanical meters recorded our customers' electricity consumption accurately and reliably, but had to be read on site. About 30 years ago, new, simple electronic meters offered the enhanced ability to store consumption data at regular intervals. However, they still needed to be read on customer premises.

This situation changed when utilities began replacing traditional electronic meters with smart meters, which can communicate remotely with the electricity provider. This makes them much more powerful and useful, allowing utilities to save time and money by reading meters automatically and remotely and giving customers better insight into their consumption patterns.

This detailed data can help customers understand their own consumption habits and patterns, allowing them to take measures to optimise their energy use. For instance, they can know when their energy consumption rises and falls and correlate that with their usage of appliances.

A massive rollout project

HK Electric began research and testing long before rolling out smart meters in Hong Kong. In 2014, we began to study the technological feasibility of smart meters and the associated communication networks. We reached a milestone when we launched a large pilot project in 2017, installing 10,000 smart meters. We needed to ensure they would work as expected, perform effectively in the Hong Kong environment, and integrate well with our system.

Once we were satisfied with the results of the pilot project, we set the ambitious goal of systematically replacing all our meters with smart meters by 2025. So far, we have installed 120,000 smart meters – mainly in the Quarry Bay, Chai Wan, Ap Lei Chau, and Lamma Island areas – along with all of the associated AMI.

HK Electric Managing Director, Mr. Wan Chi-tin (centre), Operations Director, Mr. Francis Cheng (left), and Mr. Raymond Choi, General Manager (Customer Services) (right) launch the new HK Electric App which allows customers with smart meters to check their electricity usage any time anywhere.

Meeting COVID challenges head-on

However, the journey to this milestone has been met with plenty of challenges. In particular, the COVID-19 pandemic threatened to derail our rollout plans.

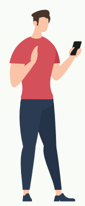
The COVID-19-related protocols had severely affected the travelling of overseas experts to work on our project here in Hong Kong. Not being able to work locally and with availability restricted to only a few hours a day due to the time-zone differences, it was difficult to maintain the necessary productivity.

We quickly changed our plans to adapt to these circumstances, enabling deployment to continue with adequate precautions and social distancing.

Alan Sit
a member of the IT team

Online meetings and collaboration tools were used to communicate and work together effectively with overseas contractors. Since many were in different time zones, meetings had to be concentrated in the mornings, late in the evenings and even on weekends. The large number of online meetings covered management level, working level and actual hands-on demonstration. The online meetings were much less effective than physical meetings especially when technical problems encountered had to be demonstrated and overcome, but nevertheless allowed the project to keep going forward.

★★★★★
Excellent app
Very convenient and easy to use with human-centred design



Some of the surveys and meter replacement work were also affected by COVID-19 cases or postponed.

To avoid interruptions in rollout, we kept a large pool of surveyed locations in reserve, so we could switch quickly if scheduled work was interrupted by COVID-19 cases.

Chan Ka
a member of the smart meter deployment team

A new app for the digital age

To maximise the benefits of these smart meters, we launched a new mobile app through which our customers can check and pay bills, view their usage and balance, and review their payment records. Customers with smart meters can also view more detailed energy consumption data and their projected bill for the next billing cycle.

The app also gives customers personalised alerts when they have reached a certain percentage of consumption to help them control their energy usage.

But the benefits of smart meters do not extend only to customers; they also give HK Electric the ability to handle customer enquiries more effectively and efficiently, and offer near-real-time visibility into our network performance.

Customer feedback

★★★★★
Clean design
The overall look of this App is pretty clean and easy to navigate

CEO's Report

We are committed to tackling climate change head-on, placing community values at the heart of everything we do and being a responsible employer.

Our commitment to sustainability

Our sustainability ethos is established and driven at the Board level by a Sustainability Committee. Its role is to assess, review, and recommend objectives and strategies related to the Group's advancement of initiatives around renewable resources, reducing our carbon footprint, supporting the community, and pursuing the highest standards in corporate governance.

The Board's recommendations are implemented under the leadership of an executive-level Sustainability Management Committee. We continually develop and update the Group's sustainability policies to ensure our efforts are integrated across the whole operation.

In 2021, we reviewed and revised our corporate Environmental Policy, adding more explicit direction on improving the Group's environmental performance.

Making progress on our commitment to Sustainable Development Goals

In 2021, we adopted and set internal targets to support three United Nations' Sustainable Development Goals (SDGs), namely SDG 7 – Affordable and Clean Energy, SDG 9 – Industry, Innovation, and Infrastructure, and SDG 13 – Climate Action. For SDG 7, we have maintained a safe and affordable electricity supply with world-class supply reliability, and are building an offshore LNG terminal to secure gas supplies at competitive prices. For SDG 9, we are implementing full-scale deployment of smart meters and completed anti-flooding enhancements on low-lying substations. For SDG 13, we are in the process of constructing two more new gas-fired generating units and running several campaigns to educate the public and support our customers to cut their carbon footprint.

In recognition of our accomplishments in this area, HK Electric's Smart Power Services, a full suite of funding and service schemes helping customers and the community in decarbonisation efforts, received the Gold Award and the Outstanding Impact Award in the SDG Achievement Awards Hong Kong 2021, organised by the Green Council.

After a comprehensive audit, an internationally renowned certification body, British Standards Institution, granted HK Electric the verification credential of ISO 20400:2017 Sustainable Procurement Certificate at the end of 2021.

As a "Carbon Neutrality Partner" of the Government, we pledge our full support for its four decarbonisation strategies and measures, namely net-zero electricity generation, energy saving and green buildings, green transport, and waste reduction, in line with Hong Kong's Climate Action Plan 2050 published by the Government.

To deliver on our commitment, it is imperative that our employees are on board. In 2021, we rolled out a mandatory training programme for all our employees, including a series of videos to enhance their understanding of sustainable development and industry best practices. Sustainability champions received further training and were tasked with developing new ideas to make our operations more sustainable.

Smart Power Services wins the Gold and Outstanding Impact awards in the "SDG Achievement Awards Hong Kong 2021".

CEO's Report

Connected with stakeholders

Communication with our stakeholders plays an integral part in our broader engagement with the community. We help build their trust and enlist their support by keeping them informed of our efforts and attending to their views. Regular channels include our Annual Report, Sustainability Report, Corporate Information Brochure, quarterly "HK Electric On-line" customer bulletin, a YouTube channel, and our Facebook page "@44KennedyRoad". Our corporate website and a newly-revamped HK Electric mobile phone app also provide timely updates on company developments.

The pandemic continues to limit the extent of unrestricted engagement we have with our stakeholders. Although tours and visits to company facilities remained suspended in 2021, we maintained contact with business partners and community groups via video conferences. Where circumstances allowed and in-person meetings were preferable, stringent social distancing rules and regulations were observed. It was against this background that we held a physical meeting of our Customer Liaison Group in September 2021, following an online meeting in the spring of 2021.

Likewise, we continued to promote energy efficiency and conservation efforts through the Smart Power Services both online and offline via emails, the corporate website, YouTube, Facebook, bill messages, and community talks. In 2021, we attended more than 60 meetings at various housing blocks and owners' associations to assist building owners in applying for the Smart Power Building Fund to enhance the energy efficiency performance of their communal building services installations.

With respect to employee communication, our long-standing Joint Consultation Committee (JC) offers a chance for employees to voice their opinions directly to management. During the year, we conducted a total of 18 JC meetings online. In addition, more than 80 employees provided their feedback and suggestions via telephone interviews in quarterly focus groups.

In 2021, a new support mechanism – Hear Your Voice was introduced to better engage ex-trainees and young talent, and support their career development in the company. The mechanism formed a regular channel of communication and exchange between the participants and our senior executives.

To establish a structured framework to review and evaluate the performance of major contractors and suppliers in the area of environmental and social responsibility, we engaged a total of 87 contractors and suppliers through a Sustainable Procurement Survey.

We interact with our stakeholders through both online and in-person channels.

(From left to right: HK Electric On-line, Customer Liaison Group meeting, virtual visit to LPS for shareholders)

Our management team participates in an urban organic planting course to walk their talk of encouraging low-carbon lifestyles.

A greener future for all

As a leading energy provider for Hong Kong, we have a responsibility to help combat climate change and protect the environment. We continuously look for ways to lower our own carbon footprint and educate and support others in reducing theirs. On top of reducing emissions during the process of electricity generation, we also raised awareness through both new and well-established initiatives within the company and in the community.

Our resource conservation and pollution reduction efforts are closely aligned with the Government's Energy Saving Charter and 4T Charter. We remain a signatory to the Wastewi$e policy. In 2021, we set new energy savings targets in line with the Government's Carbon Neutrality Partnership, to reduce energy consumption in our key office premises by 5% in 2025 compared with 2020.

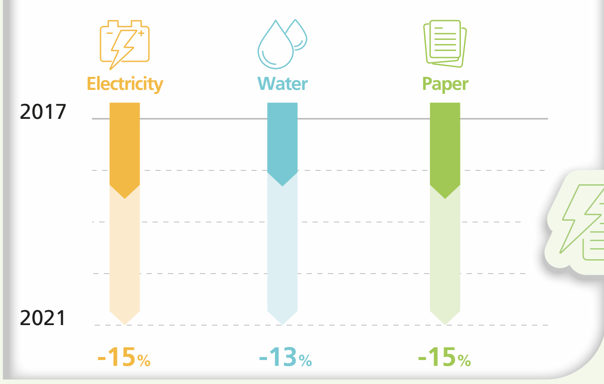
Conserving and recycling resources

Across all our operations, we took steps to conserve materials and recycle where possible. Water, electricity, and paper consumption across HK Electric's key office premises was respectively 2%, 5%, and 3.2% lower than in 2020.

During the year, we upgraded mechanical ventilation and air-conditioning systems with more efficient models to save energy. We also plan to install additional solar panels on selected facilities and office buildings.

Following the ratification of the Municipal Solid Waste charging scheme by the Legislative Council in 2021, we continued to optimise refuse management throughout the company and recycle food waste, paper, metal, plastics, used batteries, compact fluorescent lamps and printer cartridges. Experts from the Green Earth were invited to share with staff tips and methodologies to reduce plastic waste.

Reduction in electricity, water and paper consumption (2021 over 2017)



As a signatory of the Food Wise Charter, we strive to reduce food waste with strategies including thoughtful meal ordering and preparation, food-waste separation and composting of food waste to produce fertiliser.

CEO's Report

A winning entry of the "Decarbonisation: our New Mission" Pillar Box Design Competition on display now at Gloucester Road Waterfront.

Virtual tours of our Smart Power Gallery continue throughout the year.

Visits to company facilities as part of the Happy Green Ambassadors training programme.

Encouraging our stakeholders to care for the environment

We can increase our positive impact as an organisation when our employees take climate considerations to heart. During the year, we held a total of 59 refresher training courses to update personnel on environmental, energy, and resource conservation policies and initiatives.

To promote sustainability in the broader community, HK Electric provided support for several programmes run by external agencies. We participated in the Business Environment Council's Low Carbon Charter initiative and the Hong Kong Green Building Council's Advancing Net Zero project.

Over 850 employees engaged in the United Nations' World Environment Day 2021 initiative. As always, the campaign encouraged employees to go green around the four necessities of life: clothing, diet, living, and transport. Our participation included organising an environmental quiz, a workshop on urban organic planting, and recycling books and electronic gadgets.

HK Electric firmly believes in encouraging decarbonisation along the entire supply chain. As such, we urged suppliers and contractors to follow our high standards. In 2021, we engaged independent surveyors to conduct two inspections at two suppliers' premises, and a contractor to inspect one Indonesian coal shipment.

Spreading the green message

Raising younger generations' awareness

The secret to securing a greener future lies within the community we serve. Environmental literacy, especially for the younger generations, forms the backbone of our Smart Power Education Fund. To ensure we kept up the momentum for this activity despite ongoing social distancing restrictions, we continued to leverage digital channels to raise awareness.

The central pillar of our ventures is the Happy Green Campaign, which engages schools across Hong Kong through various educational endeavours. The theme for 2021 was "Decarbonisation: our new mission". Through a range of interactive and multimedia activities including an online video platform, the campaign promoted energy efficiency and conservation, renewable energy, and low-carbon living to about 80,000 people.

One of the highlight events of the year was a pillar box design competition. We invited students and members of the public to share their visions on decarbonisation through artistic creations. We received more than 480 entries, and adapted the winning designs for display at nine HK Electric pillar boxes across Hong Kong Island.

Our Happy Green Schools network has expanded to include more than 500 schools, which were invited to join various activities throughout the year, including an interactive drama and STEAM workshops, offered either on-site or online. More than 40 secondary school students were appointed as "Happy Green Ambassadors" during the year to promote eco-friendly living to their peers.

We provided 17 schools with up to HK$10,000 each to implement environmental projects. In addition, 17 projects from tertiary institutes and secondary schools received up to HK$50,000 each under the Green Energy Dreams Come True competition that seeks to encourage innovative, home-grown energy conservation initiatives.

We offered tours – both virtual and physical – of the Smart Power Gallery, where visitors could broaden their understanding of the ways and means to help combat climate change and transform Hong Kong into a smart city. In 2021, 99 tours were held for 4,217 participants.

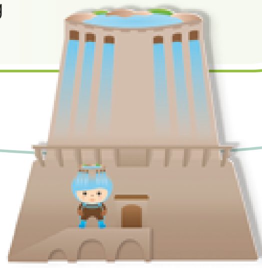
Highlighting our beautiful eco-heritage

Following the launch of a new eco-heritage route, "The Eastern Sparkle", we initiated a mobile phone photo competition to inspire the public to capture the beauty of the Eastern District, attracting about 250 entries.

Monthly physical tours continued to be suspended due to public-health concerns, so we offered online excursions. Experts in various fields joined our eco-leaders as guides on these virtual visits, sharing stories on ecology and the history of the trails. A total of nine online guided tours were organised, attracting more than 1,300 participants.

One of the highlights in "Reservoirs: Our String of Pearls"

Green Hong Kong Green's online eco-heritage tours, featuring special guests and interactive games, educate the public on green in a fun way.



Our Volunteers – Serving in the Time of COVID-19

Established in 2004, the HK Electric Volunteers Team has grown to become a dedicated CSR arm of the Company, living out our core value of caring for the community.

With COVID-19 raging for the last two years, the Team had to cancel many of its regular activities.

Our caring spirit, however, has kept the Team going in finding new ways to serve, especially those requiring minimal social contact or could be switched to online. It was only in the middle of 2021 when the pandemic was easing that we managed to carry out some face-to-face services with precautionary measures well in place.

The Team contributed a total of 1,322 hours to support 32 causes in 2021 encompassing elderly care, electrical safety, environmental stewardship, mental care and youth development. Though the number was still far short of our usual annual contribution, it demonstrated our continued commitment to serving the city we call home.

Creating personal connections

In early 2021 when the pandemic refrained us from visiting single elders in person, HK Electric volunteers prepared more than a thousand giftbags with protective gear for the elderly under the Company's CAREnJOY Go-Go-Go programme. The Team also partnered with the Hong Kong Federation of Youth Groups (HKFYG) to deliver similar packs to deprived families hard hit by the pandemic.

One of the volunteer participants was Dorothy Lee, Customer Services Manager, who devoted the highest number of service hours in 2021.

"Whenever I help others and see the smiles on their faces, there is no substitute for this sense of satisfaction. It is a blessing to be able to give, especially in this difficult time. Every time we visit a family, they would chat with us delightfully about their everyday life."

It may sound insignificant, but having someone to share is all that matters. A face mask can block the virus but not the connections between people.

Dorothy Lee
Customer Services Manager

Our project partner HKFYG was very receptive to our offer to help. "In the summer of 2021, we were grateful to know that HK Electric would like to provide material support to families in need as some of them have been grappling with the pandemic for a long time," said Mandy Lo, Unit-in-Charge of HKFYG's Shaukeiwan Youth S.P.O.T. Centre. The service brought the Team an "Outstanding Volunteer Group" award presented by the Eastern and Wan Chai District Social Welfare Office in early 2022.

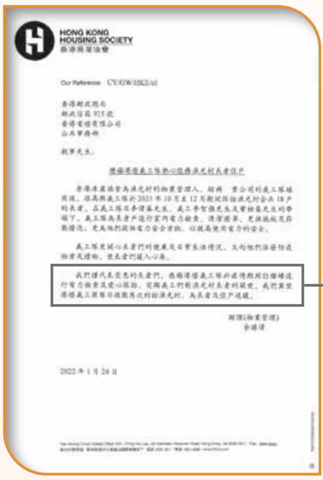
Using our expertise to keep the elderly safe

Promoting electrical safety is one of HK Electric's core missions. In late 2021 when the pandemic was more stabilised, the Team resumed electrical safety talks and electrical inspections for senior citizens living at home.

CK Lee from the Customer Installation Department is a longtime supporter of the electrical inspection programme. He has inspected the homes of hundreds of elderly in the last decade.

I am happy to be able to use my professional knowledge, skills and expertise to solve electricity-related problems of the elderly householders. Knowing that they feel relieved and much safer after our inspections is very rewarding to me.

CK Lee
Engineer, Customer Installation Department



A commendation letter from Hong Kong Housing Society.

Preserving the environment with coastal clean-up

Fighting the pandemic aside, the Team also supported several green projects during the year, accounting for about 40% of the total service hours.

A passion for the environment prompted Billy Sze, Engineer from Projects Division, to join 20 other volunteers to clear more than 60 kg of coastal waste on Lamma Island on one hot summer day.

I had no idea that there was so much rubbish on our beautiful coast – water bottles, plastic bags, and even fire extinguishers. I believe helping the community benefits everyone as we are living under the same sky, so a problem happening at your side today may turn into a problem of mine tomorrow.

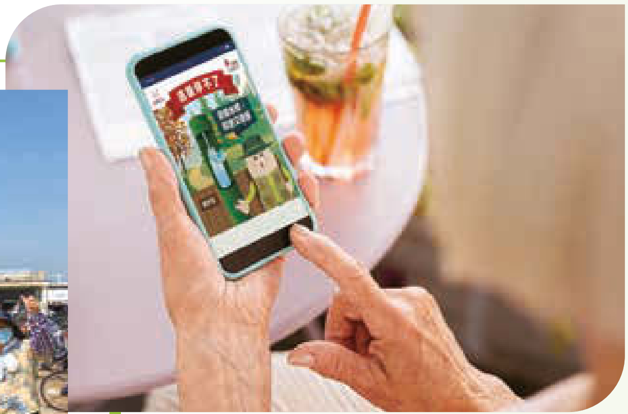
Billy Sze
Engineer, Projects Division

"The HK Electric Volunteers Team are staunch supporters of preserving the environment," said Emma Leung from The Green Earth, our partner for the coastal cleanup programme. "They are not only keen on serving, but also eager to learn more behind the issues and influence others."

A big thank-you to HK Electric volunteers for performing electrical inspections and visiting our elderly. Hope you would come again in future!

CEO’s Report

“CAREnJOY Go-Go-Go” uses one of the greenest modes of transport, bicycles, to distribute giftbags to senior citizens on Lamma Island.



“CAREnJOY Non-stop” provides weekly information feeds via mobile phones to show care and share useful tips with single elders.

Reaching out to the community

Supporting the community and playing an active role in helping those less fortunate is engrained in our ethos. Our outreach programmes focus on improving the wellbeing of local citizens and providing positive change for the underprivileged and elderly.

The “CAREnJOY for the Elderly” programme is central to our efforts to assist the vulnerable elderly in our community. Following a fully remote service offering in 2020, some face-to-face interactions resumed in 2021 and we organised four electrical safety talks on a smaller scale. We also extended our use of social media to maintain close communication with single elders, especially those who have to stay at home. In all, we sent out useful information and games through mobile phone messages on electrical safety and healthy living to over 9,300 elders on a regular basis.

Earlier in the year, we launched “CAREnJOY Go-Go-Go”, which used a specially decorated electric vehicle to distribute gift bags of daily necessities, essential personal protection equipment, and brain games, enabling the elderly community to benefit from some social interaction while staying safe. About 1,100 single elders across Hong Kong and Lamma Islands benefited from this initiative.

With the easing of restrictions in the latter part of the year, some of our University of the Third Age (U3A) centres organised face-to-face classes to encourage lifelong learning and volunteerism. About 300 U3A students attended seminars and a workshop to learn more about reducing plastic waste, decarbonisation, and gerontechnology. Another 333 submitted presentations showcasing how they continued learning throughout the pandemic.

Over 50 U3A students visit Gerontech Cleaning and Maintenance Service Centre to learn more about the technology for active aging.

U3A students attend a workshop on reducing plastic waste and decarbonisation.

Bringing out the best in our people

We have a long-standing commitment to fostering personal and professional growth while rewarding creativity and innovation in the workplace. We aim to be an employer of choice in Hong Kong, attracting, developing, retaining, and safeguarding the best talent.

In 2021, our 1,699 permanent and 133 contract employees consisted primarily of engineering and technical staff, and around 19.7% of employees were female. We recorded a voluntary staff turnover rate of 6% as we lost some talent to emigration and other personal and family reasons.

The gateway for future homegrown talent

We are deeply committed to being an equal opportunity employer. From recruitment, training, and transfer to compensation, benefits provision, and termination processes, all personnel are treated alike, regardless of their backgrounds or beliefs.

In the 2021 Randstad Hong Kong Employer Brand Research, our dedication to providing an equitable playing field and keeping workers engaged placed us among the top ten most attractive employers in Hong Kong. Based on a survey of 2,630 employees and job seekers, we ranked sixth out of the 30 best companies within Hong Kong.

HK Electric recruited six university graduates to join our graduate trainee programme in 2021. We also offered four university students the opportunity to join an industrial placement to gain valuable hands-on technical experience.

Employee development provides space for growth, and we continue to invest in learning opportunities. We devote resources to training courses, e-learning, on-the-job coaching, and job rotation. These educational offerings enhance our staff's capabilities and resilience while broadening their experience. During the year, we offered a total of 57,966 training hours.

Driving the sector forward

Maintaining our support of the Belt and Road programme to train experts from the power industry, we renewed a Memorandum of Understanding with the Hong Kong Polytechnic University, Xi'an Jiaotong University, and State Grid Corporation of China for another three years.

During the year, we hosted webinars and sharing sessions for the advanced professional development programme in power and energy, with 255 candidates from 25 countries attending. During the sessions, our engineers discussed the design and operations of the distribution network and the use of IoT technology in smart grids.

We conduct a wide range of training courses to cover the latest knowledge and skills in business operations.

Our international Belt and Road programme expert sharing sessions go successfully online despite travel restrictions.

Ensuring Everyone at LPS Construction Site is Healthy and Safe

Promoting the occupational safety and health of personnel and the integrity and normal operation of site equipment are our foremost priorities.

A safety culture comes from the top

We have more than 1,000 employees and workers working at Lamma Power Station (LPS) construction site, often with heavy equipment, high-voltage instruments, and highly inflammable materials. To make matters more complex, we are constructing two new gas-fired combined-cycle units in tandem with normal operational activities. The additional equipment and staff, transportation of materials, and social distancing measures of COVID-19, all contribute to a challenging risk profile at the LPS site.

Our senior management is actively involved in our safety culture and is ultimately responsible for our compliance with regulatory requirements and meeting industry best practices of health and safety. Our Health & Safety board, chaired by the Managing Director, sets our strategy and oversees a suite of comprehensive programmes to ensure injury-free operations.

Prevention is better than cure

A major Safety, Health and Environmental (SHE) Promotion programme forms the umbrella under which a range of activities are organised every year to promote health and safety awareness among staff, workers and contractors working at LPS.

One of the annual milestones in the programme is the annual SHE Day, which was held in December 2021 at the LPS construction site, with the theme of "Healthy Work, Creates a Smoke-Free Workplace". Management, staff and contractors came together for a meaningful day of activities, even participating in a friendly ping-pong tournament. Gift packs that included nicotine patches, healthy drinks and disposable masks were distributed to all attendees during the event.

The SHE programme encourages workers to pay attention to their personal health, make good use of their spare time to do more physical and mental exercise and injects positive thinking into the construction site.

Kwan Ying Leung
General Manager (Projects)

Another promotion, named "Life First", sought to increase safety awareness around four main high-risk types of work, including: work at heights, heavy machinery, lifting work and electrical work. The five-day event was kicked off with the distribution of "Lo Pan Rice" packets to about 600 participants.

The promotion was effective in reminding everyone to pay attention to safety measures before starting work, so as to reduce accidents.

Wan Chi Shing
Head of Electrical Engineering

COVID-19 continued to be a potential risk factor throughout 2021. However, the awareness and encouragement provided via our "Fight COVID-19 together" campaign meant the vaccination rate at the site exceeded 98%, with zero infections recorded.

All our safety rules for permits, specialised work procedures and social distancing guidelines are uploaded to our shared platform and made available to all staff. At the same time, our Safety Management System and Health and Safety manual are regularly reviewed to stay abreast of evolving technology and risks. We are proud that, despite the current risks associated with ongoing construction and day-to-day operations at LPS, we have recorded 1,146 accident-free days for Projects Division staff until the end of 2021, and our accident rate falls far below local industry averages.

Innovative solutions to keep employees safe

Engineers and workers at LPS are often required to work in potentially high-risk environments. To reduce the chances of injury, we are investing heavily in innovative technologies and methodologies such as Artificial Intelligence (AI) for use in our operations.

Applications include cameras installed at the top of construction cranes working on our new gas-fired units, to monitor construction activities and ensure that no accidental damage is done to the in-service plants of the power station. For example, they provide alerts when heavy loads are lifted over critical assets, such as the natural gas pipeline.

A new AI-powered smart safety helmet was introduced in 2021. In addition to the traditional radio communication used in hazardous spaces like vertical shafts or tunnel excavations, these helmets can proactively track accidental work falls, flag when someone is stationary for too long and even detect abnormal vital signs of our workers. Alert signals are sent to the watchmen, helping prevent accidents and improve our emergency response time.

Lost Time Injury Severity Rate

Employee	Contractor
0.00	3.59

Lost Time Injury Frequency Rate

Employee	Contractor
0.00	0.35

(per 200,000 employee-hours)

0 Work Safe Behaviour Observations

355 Safety Inspections

17 Reported Near-miss Incidents

2021 Safety Performance at LPS construction site

CEO's Report

Keeping our employees healthy, safe and secure at all times

Indoor air quality (IAQ) improvement remained an essential consideration during 2021. For the 17th consecutive year, our corporate offices at Hongkong Electric Centre obtained "Excellent Class" certification under the Government's IAQ Certification Scheme. Other offices at Electric Tower and the Customer Centre at Electric Centre also received this certification.

Safeguarding our employees is a top priority. We have a range of health and safety training protocols, promotional campaigns, business continuity plans, and other preventive measures to ensure workers are safe and without injury, despite operating heavy equipment and often in hazardous environments.

The foundation of our safeguarding principles is set out in the company's Safety Rules, which we review regularly to ensure alignment with new legislation, the working environment, and industry best practices. We also encourage employees to present their own innovative ways to reduce injuries and accidents and improve overall worksite conditions under our Continuous Safety Improvement and Innovation Scheme.

To cope with COVID-19, all our employees have received COVID-19 vaccination except those who are medically exempt.

Finding the ideal work-life balance

Motivated employees are key to achieving the company's business goals and ambitions. To this end, we have been a signatory to the Joyful@Healthy Workplace Charter, initiated by the Department of Health and related government authorities. We constantly monitor and review our policies, which promote employee wellbeing, and we proactively support our people. HK Electric and nine other companies have been selected as the first batch of strategic partners of the Occupational Safety and Health Council (OSHC), and we work closely with OSHC to promote health and safety culture in our company.

We encourage employees to take vaccine to help build a protective barrier against COVID-19 in the community.

To enhance professionalism and promote employee wellbeing and health, various initiatives including skills trainings, interest classes and physical training courses are organised for employees.

The commitment to a positive work-life balance requires open communication while enabling staff to handle day-to-day challenges and stress. In 2021, we launched a two-level psychosocial programme that provides managers and supervisors with training to build resilience and inner strength, and a webinar on positive thinking for all employees to help them make good use of positive emotions to enhance their personal and interpersonal effectiveness.

Fostering a caring and supportive environment in the workplace is essential to employee motivation. Our "Good Neighbour" programme drew the participation of more than 75 employees as ambassadors. As such, they provided just-in-time emotional support to colleagues in need with case stories and valuable resources shared on the intranet.

Conclusion

Our mission to help tackle climate change requires a wide range of proactive measures, including the voluntary disclosure of related information. We report our emission figures and efforts to reduce our carbon footprint via the annual Sustainability Report, which is prepared in line with the core option of the Global Reporting Initiative's Sustainability Reporting Standards, the Electric Utilities Sector Disclosures, and the Hong Kong Exchanges and Clearing Limited's ESG Reporting Guide.

We are committed to transforming Hong Kong into a green and smart city. This long-term goal is the bedrock of our business, and we believe in proactive action involving our customers, employees, and wider public.

Financial Review

Financial performance

The Trust Group's revenue and audited consolidated profit for the year ended 31 December 2021 were HK$11,344 million (2020: HK$10,389 million) and HK$2,933 million (2020: HK$2,732 million) respectively.

Distribution

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK16.09 cents (2020: HK16.09 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 (2020: HK16.09 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK15.94 cents (2020: HK15.94 cents) per SSU, brings the total distribution to HK32.03 cents (2020: HK32.03 cents) per SSU for the year ended 31 December 2021.

	2021 HK$ million	2020 HK$ million
Audited consolidated profit attributable to SSU holders	**2,933**	2,732
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	**5,317**	4,693
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(1,048)**	149
– changes in working capital	**108**	(223)
– adjustment for employee retirement benefit schemes	**22**	7
– taxes paid	**(448)**	(488)
	(1,366)	(555)
(iii) capital expenditure payment	**(4,802)**	(4,850)
(iv) net finance costs	**(930)**	(1,121)
Distributable income	**1,152**	899
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	**1,678**	1,931
Distributable income after adjustment of the discretionary amount	**2,830**	2,830
Interim distribution	**1,408**	1,408
Final distribution	**1,422**	1,422
Distribution amount	**2,830**	2,830
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	**HK15.94 cents**	HK15.94 cents
– Final distribution per SSU	**HK16.09 cents**	HK16.09 cents
Total distributions per SSU	**HK32.03 cents**	HK32.03 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 2021, 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 (2020: HK15.94 cents) was calculated based on the interim distribution amount of HK$1,408 million (2020: HK$1,408 million) and 8,836,200,000 SSUs in issue as at 30 June 2021 (30 June 2020: 8,836,200,000 SSUs). Final distribution per SSU of HK16.09 cents (2020: HK16.09 cents) was calculated based on the final distribution amount of HK$1,422 million (2020: HK$1,422 million) and 8,836,200,000 SSUs in issue as at 31 December 2021 (31 December 2020: 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$6,001 million (2020: HK$5,485 million), which was funded by cash from operations and external borrowings. Total external borrowings outstanding at 31 December 2021 were HK$46,626 million (2020: HK$44,890 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2021 had undrawn committed bank facilities of HK$6,250 million (2020: HK$5,150 million) and bank deposits and cash of HK$34 million (2020: HK$52 million).

Treasury policy, financing activities, capital and debt structure

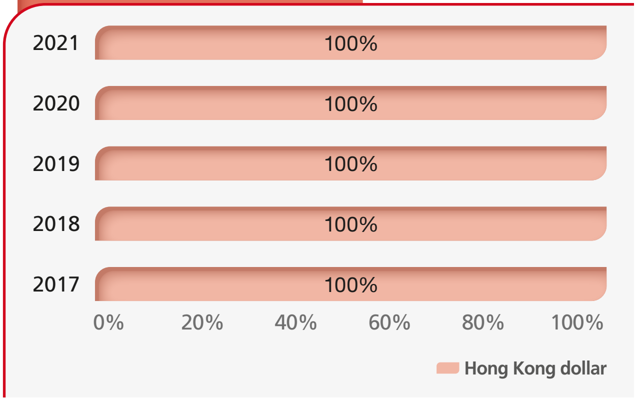
The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity 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 concluded several 5-year term and revolving credit facilities totalling HK$9,500 million with various financial institutions. These new credit facilities were deployed for the refinancing of maturing bank loans, funding for capital expenditure and for general corporate purposes.

As at 31 December 2021, the net debt of the Trust Group was HK$46,592 million (2020: HK$44,838 million) with a net debt-to-net total capital ratio of 49% (2020: 48%). The Trust Group's financial profile remained strong during the year. On 25 May 2021, Standard & Poor's reaffirmed the "A-" long-term credit rating and "Stable" outlook for the Company which had remained unchanged since September 2015, as well as the "A-" long-term credit rating of HK Electric with a stable outlook, unchanged since January 2014.

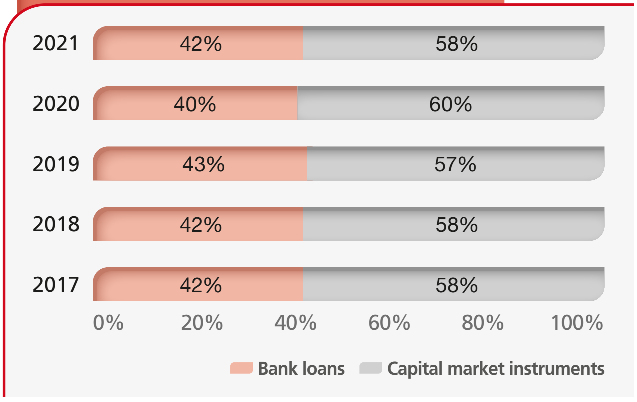
The profile of the Trust Group's external borrowings as at 31 December 2021, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

Debt Profile by Currency

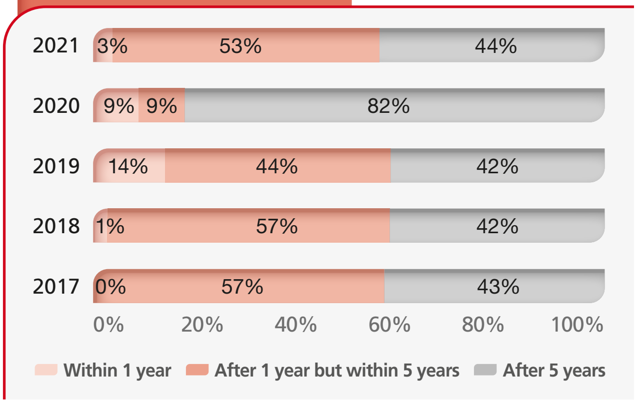


Financial Review

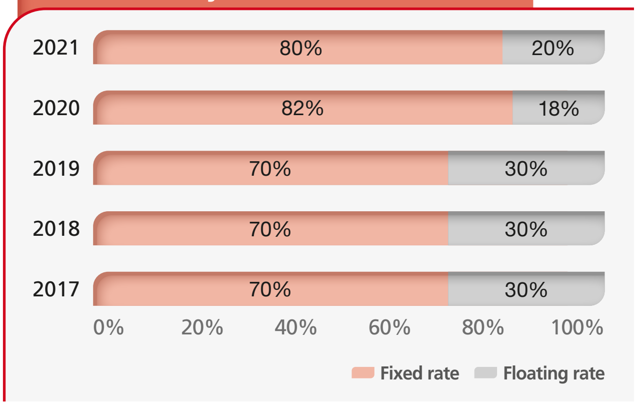
Debt Profile by Types of Borrowings



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 2021, 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 2021 amounted to HK$46,730 million (2020: HK$39,885 million).

Charge on assets

At 31 December 2021, no assets of the Trust Group were pledged to secure its loans and banking facilities (2020: Nil).

Contingent liabilities

As at 31 December 2021, the Trust Group had no guarantee or indemnity to external parties (2020: 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 2021, excluding directors' emoluments, amounted to HK$1,177 million (2020: HK$1,178 million). As at 31 December 2021, the Trust Group employed 1,699 (2020: 1,713) permanent employees. No share option scheme is in operation.

Awards Gallery

26 Awards Corporate / Community

- **2021 IDC Future Enterprise Awards for Hong Kong**
  - Best in Future of Industry Ecosystems
- **The 17th China Golden Awards for Excellence in Public Relations**
  - Corporate Social Responsibility: Gold Award
  - Environmental Protection and Green Communications: Bronze Award
- **2021 ARC Awards International**

  Annual Report 2020
  - Interior Design: Electric Power Company: Honours Award

  Sustainability Report 2020
  - Best of Infographics: Grand Award
  - Infographics (Sustainability Report: Hong Kong): Gold Award
  - Specialised Annual Reports (Sustainability Report: Hong Kong): Gold Award
  - Chairman's / President's Letter (Sustainability Report: Hong Kong): Bronze Award
  - Written Text (Sustainability Report: Hong Kong): Honours Award
- **Caring Company Scheme 2020/21**
  - 10 Years Plus Caring Company Logo
- **The Community Chest of Hong Kong**
  - Corporate and Employee Contribution Programme 2020/21: Silver Award
  - Employee Contribution Programme 2020/21: Outstanding Award
  - Love Teeth Day 2020/21: Outstanding Fund-raising Award
- **Construction Industry Volunteer Award Scheme 2021**
  - The Most Supportive Organisation Award

- **Randstad Employer Brand Award 2021**
  - Most Attractive Employers (Hong Kong): The 6th Place
- **ISO 20400:2017 Sustainable Procurement Certificate**
- **Eastern/Wan Chai District Co-ordinating Committee on Promotion of Volunteer Service**
  - Anti-epidemic Volunteer Group Award
- **Central Western, Southern and Islands District Co-ordinating Committee on Promotion of Volunteer Service**
  - Outstanding Corporate Volunteer
- **2020-2021 Age-Friendly City Appreciation Scheme**
  - Gold Star Award
- **Happiness-at-work Promotional Scheme 2021**
  - "Happy Company 5 Year Plus" Label
- **Good MPF Employer 2020-21**
  - Good MPF Employer 5 Years+
  - e-Contribution Award
  - MPF Support Award
- **Partner Employer Award 2021**
  - Corporate Category: Excellent Corporation
- **ERB Manpower Developer Award Scheme**
  - Manpower Developer 2020-2022
- **Web Accessibility Recognition Scheme 2020-2021**
  - Triple Gold Award (Website Stream)

25 Awards Customer Service

- **APCSC the 19th International Customer Relationship Excellence Awards**

  Corporate Category
  - Public Service of the Year 2021 (Public Utility)

  Individual Category
  - Customer Service Team Leader of the Year 2021 (Public Utilities – Contact Center)
  - Customer Service Professional of the Year 2021 (Public Utilities – Contact Center)
  - Customer Service Professional of the Year 2021 (Public Utilities – Service Center)
  - Customer Service Professional of the Year 2021 (Public Utilities – Technical Center)
  - Customer Service Professional of the Year 2021 (Contact Center): 2 Merits
  - Customer Service Professional of the Year 2021 (Technical Center): 2 Merits

Awards Gallery

- **Hong Kong Customer Contact Association Award 2021**

  Corporate Category
  – Mystery Caller Assessment Award – Public Service and Utilities: Best-in-Class
  – Mystery Caller Assessment Award – Public Service and Utilities: Gold Award

  Individual Category
  – Inbound Contact Centre Team Leader of the Year: Merit
  – Inbound Contact Centre Representative of the Year: Merit

- **HKRMA Quality Service Programme 2021**

  Corporate Category
  – 2021 Excellent Service Retailer of the Year – Flagship Store
  – 2021 Quality Service Retailer of the Year – Retail (Services) Category

- **HKRMA Quality Service Programme**

  January 2021 to March 2021
  – Service Category Leader – Retail (Services)

  April 2021 to June 2021
  – Service Category Leader – Retail (Services)
  – Quality Service Leader: Gold Award

  July 2021 to September 2021
  – Service Category Leader – Retail (Services)
  – Quality Service Leader: Silver Award

- **HKRMA 2021 Service Talent Awards**

  Individual Category
  – 2021 Excellent Service Star
  – Junior Frontline – Retail Services: Silver Award

- **Best SME's Partner Award 2021**
  – Best SME's Partner Gold Award

- **The Hong Kong ICT Awards 2021**
  – Smart Business (Solution for SME): Silver Award

- **Hong Kong Star Brand Award 2020-2021 (Enterprise)**

- **SDG Achievement Awards Hong Kong 2021**
  – Gold Award
  – Outstanding Impact Award

- **Hong Kong Green Organisation Certification**
  – Excellence Level Wastewi$e Certificate: Transmission and Distribution Division
  – Excellence Level IAQwi$e Certificate: Hongkong Electric Centre (Whole Building)
  – Good Level Energywi$e Certificate: Transmission and Distribution Division (Kennedy Road Station Building)

- **BOCHK Corporate Environmental Leadership Awards 2020**
  – Manufacturing Sector: Bronze Award

- **Indoor Air Quality Certification Scheme**
  – Excellent Class Certificate: Hongkong Electric Centre
  – Excellent Class Certificate: Electric Centre (Customer Centre)
  – Excellent Class Certificate: Electric Tower
  – Good Class Certificate: Electric Centre
  – Good Class Certificate: Lamma Power Station (New Control Building)
  – Good Class Certificate: Lamma Power Station (Administration and Control Building)

- **Conference of the Electricity Power Supply Industry (CEPSI) 2021**
  – Best Paper Award (Microgrid and Distributed Energy Resources Track)

- **Environmental Campaign Committee**
  – Hong Kong Green Organisation
  – 2 Carbon Reduction Certificates

- **CarbonCare® Label Scheme 2021**
  - CarbonCare® Star Label
  - CarbonCare® Label: Level 3
- **Green Office Awards Labelling Scheme and Eco-Healthy Workplace Award Labelling Scheme**
  - Green Office Label and Eco-Healthy Workplace Label
- **FoodWaste Lean and Green Label Scheme**
  - Lean Label: G/F & 1/F Amenity Building, Lamma Power Station

20 Awards
Quality / Health / Safety

- **The 13th Hong Kong Outstanding OSH Employee Award**
  - Management Group – Organisation/Enterprise Category: Bronze Award
- **27th Considerate Contractors Site Award Scheme**
  - 2 Site Supervisory Company Awards
- **Construction Industry Safety Short Film Competition 2021**
  - Open Group: 1st Runner-up
  - Open Group: 2nd Runner-up
- **Prevention of False Alarms Awards 2020**
  - Gold Award
- **Anti-Epidemic Hygiene Measures Certification Scheme**
  - Hongkong Electric Centre
  - Electric Centre
  - Customer Centre
  - Lamma Power Station – Administration and Control Building
  - Lamma Power Station – Maintenance Workshop and Office Building
- **Safety Quiz 2021**

  Enterprise Category
  - Plate Champion
  - Cup 1st Runner-up

- **20th Hong Kong Occupational Safety and Health Award**
  - OSH Most Valuable Partner Award: 15 Years Plus
  - OSH Annual Report Award: Gold Award
  - Safety Management System Award (Other Industries): Gold Award
  - Safety Culture Award: Gold Award
  - 5S Good Housekeeping Best Practices Award (Other Industries): Gold Award
  - Safety Performance Award (Other Industries): Outstanding Award
  - Safety Performance Award (Other Industries): Excellence Award

9 Awards
Staff

- **The HKIE Professional Volunteer Service Accreditation Programme 2019/2020**
  - 2 Grand Leadership Awards
  - 1 Gold Award
  - 2 Silver Awards
- **Construction Industry Outstanding Apprentice Awards 2021**
  - Outstanding Apprentice Award (Craftsmen Apprentices / Trainees Category)

- **Cybersecurity Professionals Awards 2021**
  - Silver Award (Transport & Public Utilities – Management Category)
- **2020 Volunteer Service Appreciation Certificate**
  - Bronze Award
- **2020 Outstanding Apprentice Award**
  - Outstanding Apprentice (Merit) Award

Ensuring integrity, transparency and accountability

Corporate Governance

Boards of Directors and Management Team

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning

Chairman

Aged 70. 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, Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust") and TPG Telecom Limited ("TPG Telecom"), a Director of Cenovus Energy Inc. ("Cenovus Energy"), and a Deputy President of the Board of Commissioners of PT Indosat Tbk. 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. Mr. Fok 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 71. 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, an Honorary Fellow of The Hong Kong Institution of Engineers and a Fellow of The Hong Kong Management Association. 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 59. 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 the CK Group in January 1992. All the companies mentioned above, except the Trustee-Manager and HK Electric, 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, a fellow of the Association of Chartered Certified Accountants and also a member of the Institute of Certified Management Accountants (Australia).

CHEN Daobiao

Aged 53. 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

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

("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.

CHENG Cho Ying, Francis

Aged 65. 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.

Boards of Directors and Management Team

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor

Deputy Chairman of the Company Board

Aged 57. 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"). 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, 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. Mr. Li 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 66. 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 was previously the Managing Director and the General Manager of Qatar Electricity & Water Co. which is listed on the Qatar Stock Exchange until his retirement in December 2020. Mr. Al-Mohannadi holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 83. 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 a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. Mr. Arculli was previously an Independent Non-executive Director, and is currently the Adviser to Chair, of Hang Lung Properties Limited. He was also 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 56. 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 54. 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 54. 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 and a Master Degree in Business Administration.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 65. 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 ("TOM Group") 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, a Doctor of Business Administration degree and a Doctor of Philosophy degree.

Boards of Directors and Management Team

KOH Poh Wah

Aged 65. Appointed to the Boards of the Trustee-Manager and the Company in May 2021. Ms. Koh is also a Director of HK Electric. She has more than 30 years of working experience in the areas of operations management, technology, financial and business re-engineering. Ms. Koh is an Independent Non-executive Director of ARA Asset Management (Fortune) Limited which is the manager of Fortune Real Estate Investment Trust, a listed real estate investment trust. Ms. Koh is also 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). Ms. Koh was previously the Regional Accountant (Alpha Asia Pacific) of Alpha International, a non-profit organisation, from 2012 to 2015 in charge of the finance functions for Alpha Asia Pacific region, Alpha Singapore and AAP Publishing Pte. Ltd. Prior to this role she was a Director with Future Positive Pte. Ltd. working extensively on information technology and business re-engineering consultancy areas. Ms. Koh also worked for American International Assurance Co. Ltd. for 15 years during the period from 1986 to 2000, with her last position as Vice President – Quality Support & Operations Management. Ms. Koh holds a Master of Science in Management Science and Operational Research, a Bachelor of Arts Degree (Honours) in Accounting, a Diploma from Institute for the Management of Information Systems (previously known as Institute of Data Processing Management, UK) and a Fellow of Life Management Institute (USA).

KWAN Kai Cheong

Aged 72. 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 Managing Director of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of G.T. Land Holdings Limited, a commercial property company 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), 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 Beijing Energy International Holding 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 81. 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.

George Colin MAGNUS

Aged 86. 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. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 70. 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, Queen's Road Capital Investment Ltd., CK Life Sciences and NexGen Energy Ltd., all being listed companies. He is also an Independent Non-executive Director of Welab Bank 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 was a Member of the Listing Committee of the Main Board and GEM of the Stock Exchange from July 2015 to July 2020. He was previously a member of the Executive Committee of The Canadian Chamber of Commerce in Hong Kong and is currently Governor of the chamber. He previously served as a Governor of the Canadian International School of Hong Kong for the periods between 1998 to 2004, and between 2006 to 2012 and was also a member on its Finance & Administration 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 88. 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

Frank John SIXT

Aged 70. 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, an Executive Director of CKI and a Non-executive Director of TPG Telecom. He is also a Director of HTAL and Cenovus Energy, an Alternate Director of HTAL, and a member of the Board of Commissioners of PT Indosat Tbk. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. He has almost four decades of legal, global finance and risk management experience, and possesses deep expertise in overseeing financial reporting system, risk management and internal control systems as well as sustainability issues and related risks. 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.

WOO Mo Fong, Susan (alias CHOW WOO Mo Fong, Susan)

Aged 68. 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, an Independent Non-executive Director of HKEX, 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.

MANAGEMENT TEAM OF THE COMPANY

CHOI Wai Man

Aged 62, General Manager (Customer Services), has been with the Group since October 1981. He has over 40 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.

Boards of Directors and Management Team

CHOW Fo Shing

Aged 52, General Manager (Generation), has been with the Group since September 1994. He has over 27 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.

HO Yin Piu, Bill

Aged 51, General Manager (Corporate Development), joined the Group in January 2019. He has over 27 years of experience in managing the corporate development and business operations of power utilities in Mainland China and Hong Kong. He holds a Bachelor of Engineering degree, a Master's degree in Business Administration, and a Master of Practising Accounting degree. He is a Chartered Engineer, and a member of The Hong Kong Institution of Engineers and The Institution of Engineering and Technology in the United Kingdom.

IP Sung Tai

Aged 63, General Manager (Transmission & Distribution), has been with the Group since October 1981. He has over 40 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.

KWAN Ying Leung

Aged 61, General Manager (Projects), has been with the Group since October 1983. He has over 30 years of experience in the management and execution of power generation projects. He holds a Bachelor of Science degree in Engineering. He is a Chartered Engineer, and a member of The Hong Kong Institution of Engineers and The Institution of Mechanical Engineers in the United Kingdom.

WAN Wai Kin, Mullar

Aged 63, General Manager (Information Technology), has been with the Group since July 1993. He has over 39 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 61, Chief Financial Officer, has been with the Group since September 2010. He has over 35 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 64, 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 57, 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).

YEUNG Yuk Chun, Mimi

Aged 58, General Manager (Public Affairs), has been with the Group since July 2003. She has over 35 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 52, 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 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 2021 (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 2021.

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 58 to 76.

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

Results

The results for the year ended 31 December 2021 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 171.

The results for the year ended 31 December 2021 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 174 to 182.

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 (2020: HK16.09 cents) per Share Stapled Unit for the year ended 31 December 2021, payable on 11 April 2022 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 30 March 2022. This, together with the interim distribution of HK15.94 cents (2020: HK15.94 cents) per Share Stapled Unit, brings the total distribution to HK32.03 cents per Share Stapled Unit for the year ended 31 December 2021 (2020: HK32.03 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 (2020: HK15.94 cents) and HK16.09 cents (2020: HK16.09 cents) respectively for the year ended 31 December 2021.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2021.

Combined Report of the Directors

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$2 million (2020: approximately HK$1 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 183.

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 2021 and 2020.

Purchases from the largest supplier of revenue items for the year represented 35% (2020: 39%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 82.8% (2020: 79.9%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2021.

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 2021 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, Dr. Fong Chi Wai, Alex, Mr. Deven Arvind Karnik, Ms. Koh Poh Wah (appointed on 13 May 2021), 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.

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.

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 2021.

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, 15 March 2022

Combined Corporate Governance Report

The Boards of the Trustee-Manager and the Company present their corporate governance report for the year ended 31 December 2021.

Corporate Governance

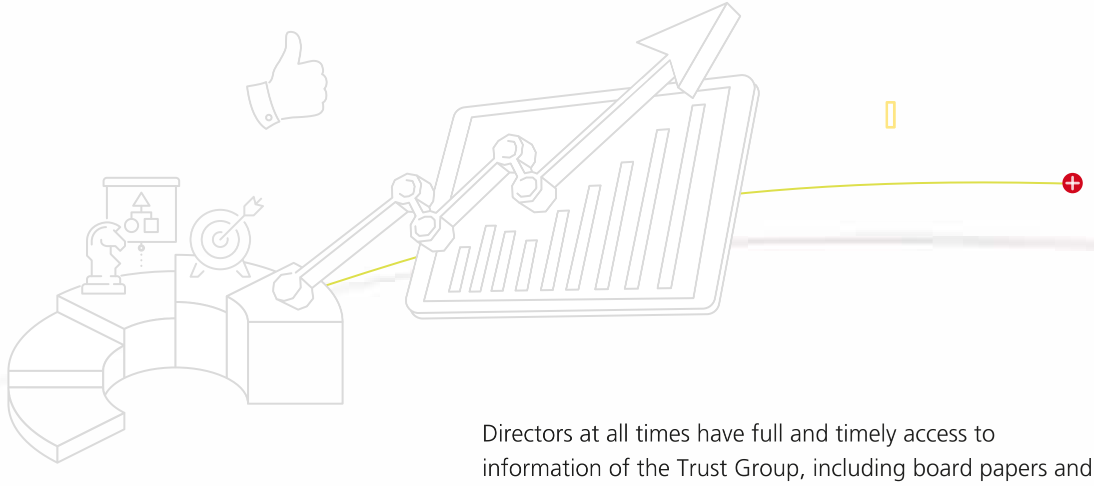
The Boards are committed to maintaining high standards of corporate governance, and recognise that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of the Trustee-Manager and the Trust Group, and the ability to attract investment, protect the rights of Holders of Share Stapled Units and other stakeholders, and enhance the value of the Share Stapled Units. The corporate governance practices of the Trustee-Manager and the Trust Group are designed to achieve these objectives and are maintained through a framework of processes, policies and guidelines.

The Trust, managed by the Trustee-Manager, 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, each of the Trustee-Manager and the Company is responsible for its compliance with the Listing Rules and other relevant laws and regulations, and will co-operate with each other to ensure compliance of the Listing Rules obligations and co-ordinate disclosure to the Stock Exchange.

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2021, except as stated and explained hereunder.

Vision, Missions and Core Values

The Trust and the Company have the vision to excel in the power business in Hong Kong, and are dedicated to the missions of enhancing shareholder value, delivering excellent customer services and supply reliability, nurturing a harmonious and engaged workforce, caring for the community the Group serves, caring for the environment in



all activities of the Group and driving efficiency in the Group's operations. Guided by the four core values – pursuit of excellence, integrity, respect and trust, and caring – the Group is committed to operating its business lawfully, ethically and responsibly.

The Boards are committed to ensuring the long-term sustainability of the Group's business and have formulated the Sustainability Policy, which is published on the Company's website, to set out the sustainability approach for its operations.

Under the leadership of the Boards, the Trustee-Manager and the Company instill these vision, missions, core values and sustainability approach in our staff and stakeholders while integrating them into the Group's day-to-day operations. Information on the Trust Group's performance and the basis on which the Trustee-Manager and the Company generate value over the longer term and the strategy for delivering the above vision and missions are set out in the Chairman's Statement on pages 6 to 8, the Long-term Development Strategy on page 9 and the CEO's Report on pages 14 to 39 of the Annual Report.

Boards of Directors

Each of the Trustee-Manager Board and the Company Board, led by the Chairman and comprising the same individuals, is collectively responsible for the management and operations of the Trustee-Manager and the Company respectively. Their responsibilities include approval and monitoring of strategies and policies, approval of annual budgets and business plans, evaluation of the performance, and oversight of the management. Management, led by the Chief Executive Officer, is responsible for the day-to-day operations of the Group. The senior management of the Trust Group, comprising the Executive Directors, is accountable to the Boards, and ultimately to the Holders of Share Stapled Units.

Directors at all times have full and timely access to information of the Trust Group, including board papers and related materials. 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 review.

Each Director has independent access to the management team for information on the Trust Group and unrestricted access to the advice and services of the Company Secretary 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.

The Trustee-Manager and the Company have arranged insurance coverage in respect of directors' liability for all Directors.

The Boards currently comprise five Executive Directors, six Non-executive Directors and seven Independent Non-executive Directors. Their names and biographical information are set out in the Boards of Directors and Management Team on pages 48 to 54 of the Annual Report. An updated list of Directors containing their biographical information 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.

Board Proceedings

The Trustee-Manager Board and the Company Board hold meetings on a combined basis. There are four regular meetings each year at approximately quarterly intervals and additional meetings will be held when warranted. Regular meetings 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 consider and approve

Combined Corporate Governance Report

matters by way of written resolutions, which are circulated to Directors together with explanatory 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.

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 for informed decisions 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 for their comments. The final minutes are kept by the Company Secretary and available for inspection by Directors. Copies are sent to Directors for their records within a reasonable time after each meeting. This arrangement also applies to meetings of the board committees.

Appointment and re-election

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.

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. Any Director appointed to fill the casual vacancy shall hold office only until the next following general meeting and in the case of an addition, until the next following annual general meeting, and shall be eligible for re-election at that meeting.

Directors retiring by rotation at the forthcoming annual general meeting are Mr. Fok Kin Ning, Canning, Mr. Chen Daobiao, Mr. Duan Guangming, Mr. Deven Arvind Karnik and Mr. Ralph Raymond Shea. Ms. Koh Poh Wah, who was appointed as a Director subsequent to the last annual general meeting, will also retire at the forthcoming annual general meeting. Save for Mr. Shea who is not seeking re-election due to retirement, the other retiring Directors offer themselves for re-election. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to be despatched to Holders of Share Stapled Units together with this Annual Report.

None of the 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).

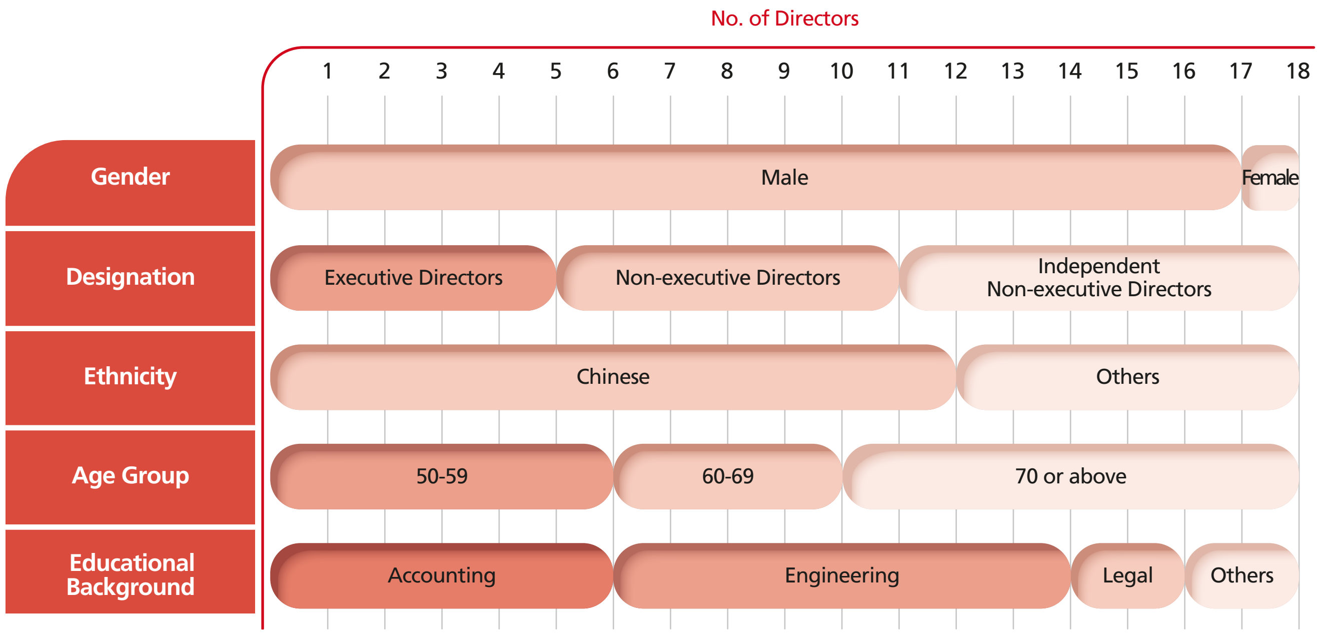
Nomination and Diversity

The Trustee-Manager and the Company recognise the importance of having qualified and competent Directors that possess a balance of skill set, experience, expertise and diversity of perspectives appropriate for the strategies of the Trustee-Manager and the Company, which can enhance decision-making capability and the overall effectiveness of the Boards to achieve corporate strategy as well as promote shareholder value.

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. They have delegated their responsibility to the Nomination Committee of the Company, and established the Director Nomination Policy and the Board Diversity Policy, which are published on the Company's website, to provide guidance on the approach and procedure for these processes. As provided in these policies, appointment to the Boards should be based on merit and attributes 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, and taking into consideration the benefits of various aspects of diversity, including gender, age, ethnicity, cultural and education background, professional experience and qualifications and other factors that may be relevant from time to time. The Nomination Committee of the Company will consider and make recommendations to the Company Board on the appointment of additional, replacement or re-electing directors based on these factors, and where an additional or replacement Directors is required, deploy multiple channels for identifying suitable candidates, including referral from Directors, Holders of Share Stapled Units, management, advisors and external executive search firms. Holders of Share Stapled Units may nominate a person other than a retiring Director to stand for election as a Director at a general meeting in accordance with article 16.5 of the Company's articles of association, the procedures for which are posted on the Company's website.

During the year, the Boards are pleased to welcome a female Independent Non-executive Director in joining them on 13 May 2021, and will continue to embrace gender diversity of Directors.

The diversity profile of the Boards as at 31 December 2021 is as follows:



Combined Corporate Governance Report

Directors' Time and Other Commitment

During 2021, the number of board and committee meetings and the attendance of each Director at these meetings and the annual general meeting are as follows:

	Company						Trustee-Manager			
Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Sustainability Committee Meetings	Meetings between Chairman and Independent Non-executive Directors	Board Meetings	Audit Committee Meetings	Meetings between Chairman and Independent Non-executive Directors	Combined 2021 Annual General Meeting
Executive Directors										
Fok Kin Ning, Canning (Chairman)	4/4	–	1/1	–	–	3/3	4/4	–	3/3	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	–	2/2	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	–	–	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	–	2/2	–	4/4	–	–	√
Chen Daobiao	4/4	–	–	–	–	–	4/4	–	–	√
Non-executive Directors										
Victor T K Li (Deputy Chairman)	3/4	–	–	1/1	–	–	3/4	–	–	√
Fahad Hamad A H Al-Mohannadi	3/4	–	–	–	–	–	3/4	–	–	x
Ronald Joseph Arculli	4/4	4/4	–	–	–	–	4/4	4/4	–	√
Duan Guangming	4/4	–	–	–	–	–	4/4	–	–	√
Deven Arvind Karnik	4/4	–	–	–	–	–	4/4	–	–	√
Zhu Guangchao	4/4	–	–	–	–	–	4/4	–	–	√
Independent Non-executive Directors										
Fong Chi Wai, Alex	4/4	–	1/1	–	2/2	3/3	4/4	–	3/3	√
Koh Poh Wah *(Appointed on 13 May 2021)*	2/2	2/2	–	–	–	1/1	2/2	2/2	1/1	–
Kwan Kai Cheong	3/4	–	–	–	–	2/3	3/4	–	2/3	√
Lee Lan Yee, Francis	4/4	4/4	–	1/1	–	3/3	4/4	4/4	3/3	√
George Colin Magnus	4/4	–	–	–	–	3/3	4/4	–	3/3	√
Donald Jeffrey Roberts	4/4	4/4	1/1	–	–	3/3	4/4	4/4	3/3	√
Ralph Raymond Shea	3/4	–	–	1/1	–	2/3	3/4	–	2/3	√

The Directors have each confirmed that he/she has made contributions to the Trust Group that are commensurate with his/her role and board responsibilities, devoted sufficient time and attention to the affairs of the Trust Group, and disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

Independence

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.

All Independent Non-executive Directors have each provided a confirmation of his/her independence (which also covers his/her immediate family members) to the Trustee-Manager and the Company for the financial year 2021 pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider them to be independent.

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.

Directors' Training

The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements necessary in discharging 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. Directors attend external forums or briefing sessions, or complete courses organised by professional bodies on relevant topics from time to time, which count towards their continuous professional development training.

Directors have provided to the Company their records of continuous professional development training during 2021, and they have participated in the following training activities:

1. Reading materials and e-trainings on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials on corporate governance, risk management and internal control
3. Reading materials, e-trainings and seminars on sustainability

Directors	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	√	√	√
Koh Poh Wah *(Appointed on 13 May 2021)*	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

For newly appointed Directors, the Company offers 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. Such briefings and materials were provided to Ms. Koh Poh Wah who was appointed as an Independent Non-executive Director during the year.

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Directors' Securities Transactions

The Trustee-Manager and the Company have established the Policy on Inside Information and Securities Dealing to explain the meaning of inside information and the illegality of insider dealing, set out the restrictions in securities dealing, and establish preventive controls and reporting mechanism applicable to confidential or unpublished inside information in relation to the Trust Group and its securities.

As stated in the policy, the Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. In addition, 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 the year to these individuals on prohibitions against dealing in the securities of the Trust and the Company during the "blackout period" specified in the Model Code.

All Directors have confirmed, following specific enquiry, that they have complied with the Model Code throughout the year ended 31 December 2021.

Directors' Responsibility for Financial Reporting and Disclosure

Annual and Interim Reports and Financial Statements

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

Going Concern

The Directors consider that each of the Trustee-Manager and the Group has 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 Directors are aware of the applicable requirements under the Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures, and authorise 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, and are subject to retirement from their directorship by rotation and re-election once every three years at the annual general meeting. During 2021, 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 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. He takes primary responsibility in ensuring that good corporate governance practices and procedures are established, and also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

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 meetings annually with Independent Non-executive Directors, without the presence of other Directors, to encourage them to voice out their independent views and promote an open and constructive dialogue. During the year, the Chairman had three such meetings with the Independent Non-executive Directors to discuss matters relating to the Group and its operations. All Directors, including the Non-executive Directors and the Independent Non-executive Directors, have independent access to the management team and may seek independent professional advice if considered appropriate.

The Chief Executive Officer 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. He 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, the Chief Executive Officer 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.

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

As at 31 December 2021, 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	Interests held jointly	Other	1,398,000 (Note 3)	0.02%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≃0%

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Notes:

(1) Such SSUs comprise:

(a) 2,700,000 SSUs held by a wholly-owned subsidiary of Li Ka Shing (Global) Foundation ("LKSGF"). 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 jointly held by Mr. Donald Jeffrey Roberts and his wife.

Save as disclosed above, as at 31 December 2021, 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.

Audit Committees

Each of the Trustee-Manager Audit Committee and the Company Audit Committee comprises three Independent Non-executive Directors and one Non-executive Director. They are chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director), Ms. Koh Poh Wah (an Independent Non-executive Director and appointed to the committees since 13 May 2021) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Trust Deed requires that the memberships of both committees must be the same. None of the committee members is a partner or former partner of the external auditor of the Trust, the Trustee-Manager and the Company.

The Audit Committees report directly to the Trustee-Manager Board and the Company Board, as appropriate, and act as the key representative body for overseeing relations with the external auditor. Their principal responsibilities are to assist the Boards in fulfilling their duties through the review and supervision of financial reporting, the review of financial information, the consideration of issues relating to external auditor and their appointment, the review and the development of corporate governance functions and risk management and internal control systems. The Company Audit Committee also oversees the Company's whistleblowing procedure. Committee members may seek independent professional advice where necessary to discharge their duties. The terms of reference of the Audit Committees are published on the Company's website and HKEX's website.

The Audit Committees held four meetings in 2021. During the meetings, they reviewed and considered matters including the interim and annual results, the interim and annual reports, the quarterly financial highlights, the risk management reports and the assessment and declarations in respect of the effectiveness of the risk management and internal control systems and the sustainability governance and management, the effectiveness of the Company's internal audit function, the internal audit plan and all internal audit reports compiled during the year, the corporate governance structure and compliance with the Corporate Governance Code and the Environmental, Social and Governance ("ESG") Reporting Guide, the continuous professional development activities undertaken by Directors and senior managers, the adequacy of resources, qualifications and trainings of accounting and internal audit staff, and auditor related matters (including fees, engagement, independence, re-appointment and auditor's report). In addition, the Company Audit Committee also reviewed and considered the Group's outstanding litigation and claims, and the statistics and registers on illegal or unethical behaviour of the Group (including whistleblowing cases). Management are available at all of these meetings to assist with any information and resources as may be required to enable committee members to carry out their functions.

Representatives from KPMG, the external auditor, were invited to attend two of the meetings to discuss the 2020 audited financial statements, the 2021 audit plan and various accounting matters with the committee members.

Subsequent to the financial year end, the Audit Committees reviewed at a meeting in March 2022 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 2021, and the Annual Report 2021 and resolved to recommend the approval of the financial statements and the re-appointment of KPMG as the external auditor of the Trust, the Trustee-Manager and the Company for 2022.

Nomination Committee

The Nomination Committee of the Company comprises three members, a majority of which are Independent Non-executive Directors. It is chaired by Mr. Lee Lan Yee, Francis (an Independent Non-executive Director), and the other members are Mr. Victor T K Li (a Non-executive Director) and Mr. Ralph Raymond Shea (an Independent Non-executive Director). The Trustee-Manager does not have a nomination committee as the Trust Deed and the Trustee-Manager's articles of association require the directors of the Company and the Trustee-Manager comprise the same individuals, and the requirement to establish a nomination committee is hence considered irrelevant to the Trustee-Manager.

The Nomination Committee reports directly to the Company Board. Its principal responsibilities are to review the structure, size, diversity profile and skills matrix of the Company Board, to facilitate 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, as guided by the process and criteria in Director Nomination Policy and Board Diversity Policy as mentioned earlier in this report. Committee members may seek independent professional advice where necessary to discharge their duties. 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 2021. During the meeting, members reviewed the structure, size and composition of the Company Board, the implementation and effectiveness of the Board Diversity Policy, and the independence of the Independent Non-executive Directors, and resolved to recommend the nomination of all the retiring Directors standing for re-election at the 2021 annual general meeting. During the year, members also considered and recommended the appointment of Ms. Koh Poh Wah as an Independent Non-executive Director.

Remuneration Committee

The Remuneration Committee of the Company comprises three members, a majority of which are Independent Non-executive Directors. It is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman of the Company Board) and Dr. Fong Chi Wai, Alex (an Independent Non-executive Director). The Trustee-Manager does not have a remuneration committee as the Directors of the Trustee-Manager, in such capacity, are not entitled to any remuneration.

The Remuneration Committee reports directly to the Company Board. Its 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. The terms of reference of the Remuneration Committee are published on the Company's website and HKEX's website.

The Company Board has adopted a Policy on Remuneration of Full Time Directors and Management Team to provide guidance on the determination of remuneration of Executive Directors and management team, with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration should be performance-based and, coupled with an incentive system, competitive to attract and retain talented employees. The Group's Human Resources Division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the Committee's consideration. Committee members may, if considered necessary, seek independent professional advice to perform their duties. The Trust Group does not have any equity-based remuneration during the year.

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The Remuneration Committee held a meeting in December 2021. During the meeting and under delegated responsibility from the Company Board, committee members considered and approved the performance-based bonus payable to the full time Executive Directors (namely, Mr. Wan Chi Tin, the Chief Executive Officer; Mr. Chan Loi Shun, Executive Director; Mr. Cheng Cho Ying, Francis, Operations Director and Mr. Chen Daobiao, Co-General Manager (Transmission & Distribution)) and management team of the Group in respect of the 2021 financial year and their remuneration package for 2022. No Director or member of the management team participated in the determination of his/her own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2022 wage and salary review proposal for the Group's employees.

The emoluments paid to each Director of the Company for the 2021 financial year are shown in note 12 to the financial statements on page 119 of the Annual Report. The remuneration paid to members of the management team for the 2021 financial year is disclosed by bands in the same note.

Sustainability Committee

The Sustainability Committee of the Company comprised three members. It is chaired by Mr. Wan Chi Tin (the Chief Executive Officer), and the other members are Mr. Cheng Cho Ying, Francis (an Executive Director) and Dr. Fong Chi Wai, Alex (an Independent Non-executive Director).

The Sustainability Committee reports directly to the Company Board. Its principal responsibilities are to oversee management of, and advise the Company Board on, the development and implementation of the sustainability initiatives of the Group, review the related policies and practices, and assess and make recommendations on matters concerning the Group's sustainability development and risks. The Group's Sustainability Management Committee, a management-level committee chaired by the Chief Executive Officer, supports the Sustainability Committee to discharge its duties and drives and coordinates the Group's sustainability efforts, and promotes understanding of sustainability within the Group. Committee members may, if considered necessary, seek any information required from management or have access to independent professional advice. The terms of reference of the Sustainability Committee are published on the Company's website and HKEX's website.

The Sustainability Committee held two meetings in 2021. During the meetings, members considered the Group's sustainability framework and its sustainability objectives, strategies, risks and opportunities, priorities, initiatives, goals and performance and discussed areas for enhancing the Group's sustainability performance and reporting. They also reviewed the Sustainability Report 2020 and a series of sustainability and governance policies.

Subsequent to the financial year end, the Sustainability Committee at a meeting held in March 2022 reviewed and recommended for the Boards' approval the Sustainability Report 2021.

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. He 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 Company Secretary also acts as the secretary to all board committees.

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 his relevant advice and service. Mr. Alex Ng, the Company Secretary of the Trustee-Manager and the Company, is an employee of the Group and has knowledge of the Group's daily affairs. He has received no less than 15 hours of relevant professional training during the year to refresh his skills and knowledge.

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 2021, 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 every seven years in accordance with the requirements under the HKICPA's Code of Ethics for Professional Accountants. The last rotation in respect of the Group took place in the audit of the 2021 financial statements and the next rotation will take place in the audit of the 2028 financial statements.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 84 to 89 and pages 172 and 173 of the Annual Report.

Remuneration

An analysis of the fees of KPMG for audit and non-audit services is shown in note 10 to the consolidated financial statements of the Trust and the Company on page 117 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 180 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.

Risk Management and Internal Control

Introduction

The Boards have overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving corporate strategic objectives, and overseeing the risk management and internal control systems. The Audit Committees assist the Boards in reviewing the effectiveness of the risk management and internal control systems to ensure that appropriate and effective systems are in place.

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, 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 also 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, and make their recommendation to the Boards for approval of the annual financial statements.

At the meetings held in March and July 2021, the Audit Committees reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the year 2020 and for the half year ended 30 June 2021 respectively, and considered the systems effective and adequate.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the corporate strategic objectives, and an enterprise risk management policy is in place to outline the framework and processes adopted by the Group and 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. These key risks include risks in topics such as climate change, environmental compliance, supply reliability, and health and safety which the Group considered to be key material ESG issues. More details are given in the Risk Management and Risk Factors on pages 77 to 81 of the Annual Report.

The management encourages 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

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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 Audit Committees, 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 Audit Committees. 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 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 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.

In addition, they 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.

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 Audit Committees. 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.

Pursuant to an agreement dated 14 January 2014 with Power Assets, the Company shares support services including 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 and Anti-corruption

The Trustee-Manager and the Group recognise the need to maintain a culture of corporate ethics and anti-corruption, and place great emphasis on ethical standards and integrity in all aspects of the Group's operations.

The Group's Code of Conduct gives primary guidance in dealing with ethical issues, provides mechanisms to report unethical conduct and helps to foster a culture of honesty and accountability. All employees, and other stakeholders in certain situations, are required to adhere to the standards set out in the Code of Conduct. Guidance on specific matters are supplemented by other policies and procedures of the Group, as appropriate.

The Trustee-Manager and the Group have established the Anti-fraud and Anti-bribery Policy which, together with the Code of Conduct, 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 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.

It is the responsibility of each Director and employee to avoid situations that may lead to or involve a conflict of interest, and make full disclosure of any dealings in case of potential or actual conflict. All Directors and employees who have access to and in control of the Trustee-Manager's and the Group's information are required to provide adequate safeguard to prevent any abuse or misuse of that information, and not to use it to secure personal advantage.

The Trustee-Manager and the Group ensure procurement of supplies and services are conducted in a manner of high ethical standards to promote fair and open competition. There are procurement and tendering procedures in place to ensure impartial selection of suppliers and contractors, and the hire of services and purchase of goods are based solely upon price, quality, suitability and need. Suppliers and contractors are expected to adhere to a high level of ethical standards as set out in the Code of Practice for Suppliers, and no corruption will be tolerated.

Combined Corporate Governance Report

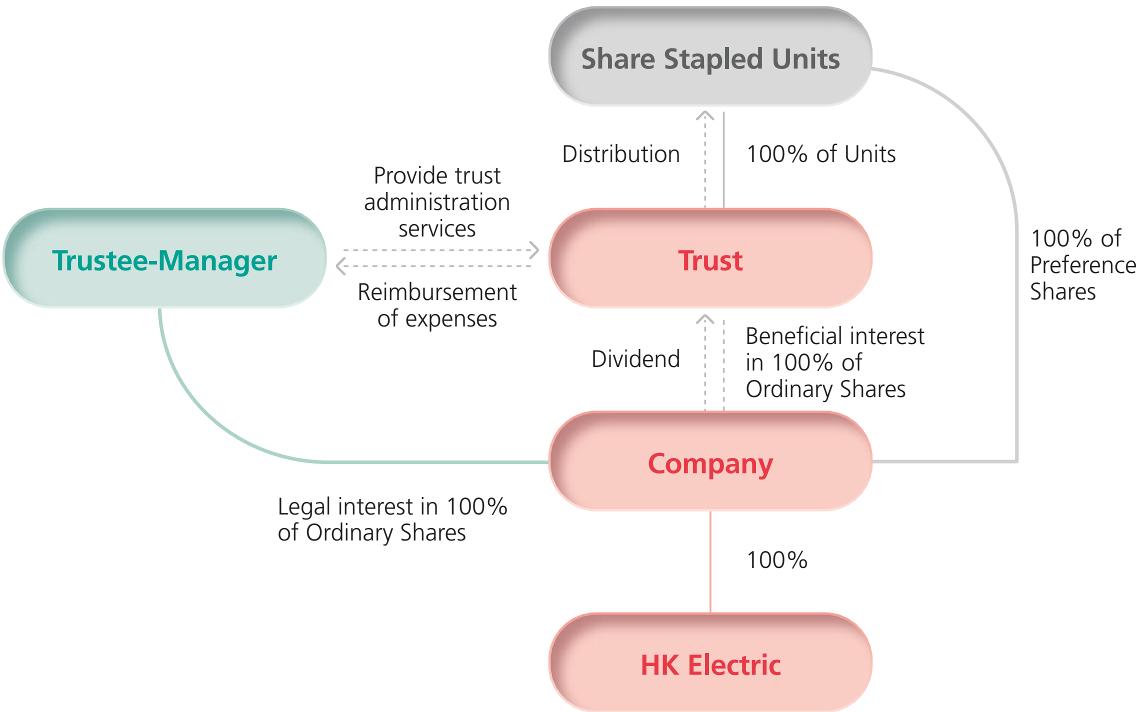
Whistleblowing

To ensure high standards of openness, probity and accountability, the whistleblowing procedures, as set out in the Code of Conduct and Whistleblowing Procedure, allow employees as well as customers, suppliers, contractors, debtors and creditors to report any suspected violation of the Code of Conduct or improprieties, misconduct or malpractice within the Group, including fraud and illegal acts. Investigations are carried out on all reported cases. The results are reported to the Company Audit Committee and the Chief Executive Officer, and disciplinary and remedial actions are taken as appropriate. During 2021, there were four reported whistleblowing cases, two of which involved breaches of the Code of Conduct, and no convicted case of corruption.

Holders of Share Stapled Units

Share Stapled Units

A Share Stapled Unit is 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. The structure of the Trust Group and the Share Stapled Units is as follows:



Constitutional Documents

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. No changes were made to any of these constitutional documents during the year ended 31 December 2021.

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.

Distribution Policy

The Boards have adopted a distribution policy which outlines the principles of payment on distribution. The 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 Company's articles of association. The level of such distribution from time to time will depend on prevailing business conditions and the Company's capital requirements and earning performance.

Registration and related matters

The Trustee-Manager and the Company handle registration matters relating to Share Stapled Units, such as transfer of Share Stapled Units, change of address, change of distribution payment instruction, issue and/or loss of Share Stapled Unit certificates and death of 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 188 of the Annual Report.

Financial Calendar and Other Information

A financial calendar of the announced key dates for 2021 and 2022 and other relevant information of the Share Stapled Units are set out on page 189 of the Annual Report.

Rights relating to General Meeting

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 requisite for the convening of an extraordinary general meeting to put forward proposals for transaction, 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. Holders of Share Stapled Units can 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.

Conflict of Interest

The Trustee-Manager and the Company have implemented certain 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. Under the Company's articles of association, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the board which it has determined to be material, the matter should be dealt with by a physical board meeting instead of a circulating written resolution and independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. Further, pursuant to the Trust Deed and the Trustee-Manager's articles of association, 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.

Combined Corporate Governance Report

A committee, comprising all Independent Non-executive Directors, has reviewed compliance by Power Assets in 2021 of the terms of a non-competition deed dated 14 January 2014. Pursuant to the deed, Power Assets agreed, save for certain exceptions, not to, and to procure its members not to, carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Taking into consideration the 2021 written compliance confirmation from Power Assets and all other relevant factors, the committee is of the view that Power Assets complied with the terms of the above non-competition deed during 2021.

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 2021 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.

Communications with Holders of Share Stapled Units

The Trustee-Manager and the Company have established the Holder of Share Stapled Units Communication Policy, which is published on the website of the Company, to lay down the framework and put in place a range of communication channels between themselves and Holders of Share Stapled Units and investors to promote effective communication.

General Meetings

Annual general meeting and other general meetings are the primary forums for communications with Holders of Share Stapled Units and their participation and for Directors to develop a balanced understanding of their views.

2021 Annual General Meeting

The 2021 annual general meeting (the "AGM"), held at Harbour Grand Kowloon on 12 May 2021, was held as a hybrid meeting for the first time. In addition to the traditional physical attendance, Holders of Share Stapled Units had the option of attending, participating and voting at the AGM through online access. The online access option allowed Holders of Shares Stapled Units to participate in the AGM and helped to protect their health and safety against possible exposure to the COVID-19 pandemic. 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 7 April 2021, more than 20 clear business days (as required by the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting.

The AGM was attended by all Directors, other than one Non-executive Director who was not able to attend due to other commitment. The chairmen and members of all board committees as well as representatives from KPMG, the external auditor, were available at the meeting to answer questions from the Holders of Share Stapled Units, which could either be raised at the meeting venue or online. A separate resolution was proposed in respect of each substantially separate issue and voted by way of a poll, and the poll voting procedure was explained fully to Holders of Share Stapled Units at the start of the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, acted as scrutineer for the poll.

All resolutions proposed at the meeting were ordinary resolutions and were passed by more than 50% of the votes, with the percentage of votes in favour set out below:

– 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 2020 (99.9644%);

- Election of Mr. Victor T K Li (98.2367%), Mr. Wan Chi Tin (99.5322%), Mr. Fahad Hamad A H Al-Mohannadi (95.8754%), Mr. Chan Loi Shun (99.2688%), Mr. Kwan Kai Cheong (98.5887%) and Mr. Zhu Guangchao (91.6416%) 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 (99.8126%); and
- General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units not exceeding 10% of the total number of Share Stapled Units in issue (99.9950%).

The poll results, including the number of Share Stapled Units voted for and against each resolution, were announced to the meeting on its conclusion and subsequently posted on the Company's and HKEX's websites on the same day.

Financial and Other Reporting

The Trustee-Manager and the Company report operating results for the first half of the financial year and the full financial year and produce interim and annual reports, and from time to time communicate other information with Holders of Share Stapled Units by way of announcement or circular, in accordance with the requirements of the Listing Rules and applicable laws. They also publish sustainability report for the full financial year to report on its approach, commitments and strategy to sustainability, key achievements with regard to its sustainability performance during the year and plans and targets for the future.

Corporate Website

The Company's corporate website at www.hkei.hk is an information platform to facilitate communications with Holders of Share Stapled Units, the investor community and other stakeholders. It contains a wide range of information, including financial results, annual and interim reports, sustainability reports, notices, announcements and circulars, press releases and other corporate publications. An e-subscription service is available to enable subscribers to register and receive notification when financial and sustainability reports and Listing Rules announcements are posted.

Holders of Share Stapled Units may, as a standing or an ad hoc instruction, elect to receive certain corporate communication (such as the notices of general meetings and accompanying papers, circulars, annual reports and interim reports) by post. In the absence of any such instructions, they will receive a notification letter informing them of the release of the documents on the Company's and HKEX's websites, but 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 version or access through the Company's website) corporate communications. Holders of Share Stapled Units are encouraged to access corporate communications through the Company's website to support the environment and reduce paper consumption.

Investor Relations

All Holders of Share Stapled Units may put enquiries to the Boards at general meetings, whether they attend the meetings physically or through online access, and at other times by writing to the Company for the attention of an Executive Director, the Chief Financial Officer or the Company Secretary, whose contact channels are set out on page 188 of the Annual Report.

To facilitate communication with Holders of Share Stapled Units and the investment community and solicit their views, meetings, briefings and roadshows with investors and analysts are held from time to time, as appropriate.

Combined Corporate Governance Report

Interests and Short Positions of Holders of Share Stapled Units

As at 31 December 2021, 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 Note (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 HKEI 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 2021, 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.

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.

Independent Assurance from Internal and External Auditors

"Top-down"

Oversight by Company Board/ Company Audit Committee Assisted by Risk Management Committee and Management

Identify and Manage Risks at Corporate Level

"Bottom-up"

Operating Units

Identify, Manage and Report Risks at Business Unit Level

Risk Management Framework Governance

COMPANY BOARD (Through Company Audit Committee)

Company Board/Company Audit Committee Oversight

- Has overall responsibility for the Group's risk management and internal control systems
- Determine and evaluate the nature and extent of the risks that the Group is willing to accept in pursuit of the Group's strategic and business objectives
- Discuss the risk management and internal control systems with management to ensure management has performed its duty to have effective systems

RISK MANAGEMENT COMMITTEE (Chaired by the Chief Executive Officer)

Risk Review, Communication and Confirmation to Company Board/Company Audit Committee

- Oversee the Group's risk profile and assess if key risks are appropriately mitigated
- Ensure that an ongoing review of the effectiveness of the risk management and internal control systems have been conducted and provide such confirmation to the Company Board, via the Company Audit Committee

MANAGEMENT

Risk & Control Monitoring

- Responsible for designing, implementing and monitoring the risk management and internal control systems
- Identify and monitor key corporate risks
- Provide confirmation to the Risk Management Committee on the effectiveness of the systems

OPERATING UNITS

Front-line Risk and Control Ownership

- Design, implement and monitor controls at business unit level, escalate promptly on relevant risk issues
- Provide assurance to the Risk Management Committee on the effectiveness of risk management and internal control activities at business unit level
- Seek continuous process improvement and reassessment

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, laws and regulations, Group strategy, 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

The global economic recovery continues despite the prolonged effects of the COVID-19 pandemic. However, the threat of the more infectious variants, rising inflation and commodity prices, supply chain bottlenecks, trade protectionism, and geopolitical tensions may pose downside risks to the world economy. The pace of Hong Kong's economic recovery is also restrained by virtually frozen inbound tourism, pandemic developments, and strained China-US relations.

The prevailing uncertainty in the global and Hong Kong economies and the disruptions associated with the COVID-19 pandemic in many countries have 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.

Interest rates and currency markets

The Group is exposed to interest rate risk primarily on its interest-bearing liabilities, and 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.

Electricity market

The operations of the Group's electricity business in Hong Kong are subject to the Scheme of Control Agreement (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, energy efficiency and conservation, 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.

Climate Change

The impacts of climate change are global in scope, affecting many countries and regions. Climate change may increase the frequency and intensity of extreme weather events, such as super typhoons, floods, severe rainstorms, extreme temperatures, and other natural catastrophes. It could disrupt supply chains, interrupt business operations, and cause financial and physical damages. To combat climate change and address the growing expectation from the public for a low-carbon and sustainable economy, Hong Kong has aimed to achieve carbon neutrality before 2050, as announced in ''The Chief Executive's 2020 Policy Address''. In October 2021, the Government published "Hong Kong's Climate Action Plan 2050", outlining the strategies for combating climate change. This Plan sets medium to long-term targets for reducing Hong Kong's carbon emissions by 50% before 2035 (as compared to the 2005 level) and ultimately achieving carbon neutrality before 2050. As a major utility in Hong Kong, the Group is subject to physical and transition risks posed by climate change.

Risk Factors

The Group mitigates the physical risks by continuing to build climate resilience into its power infrastructure, as mentioned in the "Reliability of Supply" risk factor below. To address the risks related to the transition to low-carbon electricity supply, the Group has pledged full support for the Government's carbon reduction targets and is pursuing various decarbonisation initiatives. These include, but are not limited to, decarbonising our generation portfolio through coal-to-gas power generation transition and renewable energy (RE), and exploring the use of other potential zero-carbon energy technologies and innovative generation solutions. We also implement recycling practices to reduce wastes and discharges from our operations, advance energy efficiency and RE through funding schemes and educational activities, champion the adoption of electric vehicles, and support environmental projects initiated by green groups and community organisations.

Our Sustainability Report 2021 offers more detailed discussions on how the Group manages climate-related challenges and opportunities.

Environmental compliance

In 2008, the Government promulgated annual emission allowances for the power sector (including those for Lamma Power Station) for 2010 and beyond through the Technical Memorandum for Allocation of Emission Allowances in respect of Specified Licences under the Air Pollution Control Ordinance (APCO). So far, nine Technical Memoranda have been issued. The latest one, issued in 2021, further tightened the annual emission allowances for 2026 and onwards.

Failure to comply with these requirements could 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.

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, achievement of the fuel mix target set by the Government, 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. To secure gas supplies at competitive prices, the joint-venture development of an offshore Liquefied Natural Gas (LNG) terminal is underway, which is scheduled for commercial operation in 2022.

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 centred maintenance and condition monitoring; upgrades 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 at 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 COVID-19 pandemic on its services can be minimised.

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. Operational activities also undergo risk assessment to mitigate or eliminate potential hazards. Sustainable improvements are made to strengthen the organisation's culture and commitment to health and safety.

With the COVID-19 pandemic ongoing, the Group maintains an emergency response level for its Influenza Pandemic Contingency Plan and has heightened preventive and control measures in its operations with an aim to reduce the risk of infection to employees, contractors, visitors, customers, and members of the public. The Group also joins the effort to support the Government's COVID-19 vaccination programme and closely reviews the coordination of vaccinations and regular COVID-19 tests.

Cybersecurity

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 cybersecurity risks. A robust Cybersecurity Management Framework has been established with the implementation of an Information Security Management System which is based upon a defense-in-depth cybersecurity management strategy with deployment of multiple layers of security controls throughout the IT landscape and integration with different cybersecurity processes. This 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.

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. It must comply with the conditions contained in its operational and construction licences and permits. Changes in laws and regulations may also cause it to incur additional capital expenses or other obligations or liabilities in order to comply with such changes. Failure to comply with the applicable laws and regulations and relevant changes could expose the Group to prosecution and litigation and result in fines, sanctions, criminal penalties and/or the suspension, revocation or non-renewal of licences or permits, 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.

Reliable performance yielding long-term value

Financial Statements

KPMG

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 171 (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 2021, 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 2021 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 2021 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 2021 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 2021 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.

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.

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.

INDEPENDENT AUDITOR'S REPORT

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 HKSAs 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 HKSAs, 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, actions taken to eliminate threats or safeguards applied.

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 Lee Wai Shun, Wilson.

KPMG

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

15 March 2022

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

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	2021 $ million	2020 $ million
Revenue	5	**11,344**	10,389
Direct costs		**(5,497)**	(5,334)
		5,847	5,055
Other revenue and other net income	7	**49**	148
Other operating costs	8	**(1,051)**	(1,063)
Operating profit		**4,845**	4,140
Finance costs	9	**(800)**	(971)
Profit before taxation	10	**4,045**	3,169
Income tax:	11		
Current		**(413)**	(452)
Deferred		**(322)**	(116)
		(735)	(568)
Profit after taxation		**3,310**	2,601
Scheme of Control transfers	13(b)	**(377)**	131
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company		**2,933**	2,732
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	15	**33.19 cents**	30.92 cents

The notes on pages 95 to 171 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 2021
(Expressed in Hong Kong dollars)

	2021 $ million	2020 $ million
Profit for the year attributable to the holders of Share Stapled Units/ shares of the Company	**2,933**	2,732
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	**197**	86
Net deferred tax charged to other comprehensive income	**(33)**	(14)
	164	72
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(6)**	8
Cost of hedging – changes in fair value	**1**	(6)
Net deferred tax credited to other comprehensive income	**1**	–
	(4)	2
	160	74
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	**469**	(173)
Reclassification adjustments for amounts transferred to profit or loss	**152**	17
Cost of hedging – changes in fair value	**(141)**	(607)
Cost of hedging – reclassified to profit or loss	**(63)**	(63)
Net deferred tax (charged)/credited to other comprehensive income	**(31)**	81
	386	(745)
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	**3,479**	2,061

The notes on pages 95 to 171 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 2021
(Expressed in Hong Kong dollars)

	Note	2021 $ million	2020 $ million
Non-current assets			
Property, plant and equipment		**71,316**	68,814
Interests in leasehold land held for own use		**5,424**	5,620
	16	**76,740**	74,434
Goodwill	17	**33,623**	33,623
Interest in a joint venture	19	**477**	278
Derivative financial instruments	26	**596**	616
Employee retirement benefit scheme assets	27(a)	**1,045**	887
		112,481	109,838
Current assets			
Inventories	20	**904**	726
Trade and other receivables	21	**1,157**	951
Fuel Clause Recovery Account	22	**252**	–
Bank deposits and cash	23(a)	**34**	52
		2,347	1,729
Current liabilities			
Trade and other payables and contract liabilities	24	**(4,078)**	(2,820)
Fuel Clause Recovery Account	22	**–**	(796)
Current portion of bank loans and other interest-bearing borrowings	25	**(1,233)**	(4,184)
Current tax payable	29(a)	**(506)**	(541)
		(5,817)	(8,341)
Net current liabilities		**(3,470)**	(6,612)
Total assets less current liabilities		**109,011**	103,226
Non-current liabilities			
Bank loans and other interest-bearing borrowings	25	**(45,393)**	(40,706)
Derivative financial instruments	26	**(197)**	(697)
Customers' deposits		**(2,317)**	(2,268)
Deferred tax liabilities	29(b)	**(9,982)**	(9,597)
Employee retirement benefit scheme liabilities	27(a)	**(350)**	(367)
Other non-current liabilities	28	**(1,314)**	(1,122)
		(59,553)	(54,757)
Scheme of Control Fund and Reserve	13(c)	**(1,065)**	(726)
Net assets		**48,393**	47,743
Capital and reserves			
Share capital	30(b)	**8**	8
Reserves		**48,385**	47,735
Total equity		**48,393**	47,743

Approved and authorised for issue by the Boards on 15 March 2022.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 95 to 171 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 2021
(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of 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 distribution/ dividend (note 14)	Total
Balance at 1 January 2020	8	47,472	324	(754)	1,422	48,472
Changes in equity for 2020:						
Profit for the year	–	–	–	2,732	–	2,732
Other comprehensive income	–	–	(743)	72	–	(671)
Total comprehensive income	–	–	(743)	2,804	–	2,061
Amounts transferred to the initial carrying amount of hedged items, net of tax	–	–	40	–	–	40
Final distribution/second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,422)	(1,422)
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 2020 and 1 January 2021	**8**	**47,472**	**(379)**	**(780)**	**1,422**	**47,743**
Changes in equity for 2021:						
Profit for the year	**–**	**–**	**–**	**2,933**	**–**	**2,933**
Other comprehensive income	**–**	**–**	**382**	**164**	**–**	**546**
Total comprehensive income	**–**	**–**	**382**	**3,097**	**–**	**3,479**
Amounts transferred to the initial carrying amount of hedged items, net of tax	**–**	**–**	**1**	**–**	**–**	**1**
Final distribution/second interim dividend in respect of previous year approved and paid (see note 14(c))	**–**	**–**	**–**	**–**	**(1,422)**	**(1,422)**
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 2021	**8**	**47,472**	**4**	**(513)**	**1,422**	**48,393**

The notes on pages 95 to 171 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 2021
(Expressed in Hong Kong dollars)

	Note	**2021 $ million**	2020 $ million
Operating activities			
Cash generated from operations	23(b)	**7,344**	7,351
Interest paid		**(720)**	(936)
Interest received		**13**	16
Hong Kong Profits Tax paid		**(448)**	(488)
Net cash generated from operating activities		**6,189**	5,943
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		**(4,603)**	(4,614)
Capitalised interest paid		**(223)**	(201)
New loan to a joint venture		**(199)**	(236)
Proceeds from disposal of property, plant and equipment		**–**	1
Net cash used in investing activities		**(5,025)**	(5,050)
Financing activities			
Proceeds from bank loans	23(c)	**16,048**	973
Repayment of bank loans	23(c)	**(14,450)**	(1,250)
Issuance of medium term notes	23(c)	**–**	10,249
Redemption of medium term notes	23(c)	**–**	(8,267)
Payment of lease liabilities	23(c)	**(2)**	(3)
New customers' deposits	23(c)	**327**	291
Repayment of customers' deposits	23(c)	**(278)**	(264)
Distributions/dividends paid		**(2,830)**	(2,830)
Net cash used in financing activities		**(1,185)**	(1,101)
Net decrease in cash and cash equivalents		**(21)**	(208)
Cash and cash equivalents at 1 January		**52**	266
Effect of foreign exchange rate changes		**3**	(6)
Cash and cash equivalents at 31 December	23(a)	**34**	52

The notes on pages 95 to 171 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 2021 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 2021 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 2021 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 a number of amendments to 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 cash flows 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)).

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

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)). At each reporting date, the Groups assess whether there is any objective evidence that the investment is impaired. 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))).

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.

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)

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

(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 fiber 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 leased 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.

(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.

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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

The current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within 12 months after the reporting period.

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

(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.

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 response 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.

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)

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.

(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.

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)

(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.

(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.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. All receivables are subsequently stated at amortised cost, using the effective interest method and including an 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, 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)).

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.

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)

(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 invoice amounts.

(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.

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.

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)

(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.

(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 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)).

(4) Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Groups will comply with the conditions attaching to them. Grants that compensate the Groups for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

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 number of amendments to HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following amendments to HKFRSs are relevant to the Trust's and the Company's consolidated financial statements:

– Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The adoption of these amendments does not have a material impact on the Groups' results and financial positions for the current or prior periods. The Groups have not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

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:

	2021 **$ million**	2020 $ million
Sales of electricity	**11,312**	10,363
Less: concessionary discount on sales of electricity	**(5)**	(4)
	11,307	10,359
Electricity-related income	**37**	30
	11,344	10,389

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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

7. Other revenue and other net income

	2021 **$ million**	2020 $ million
Interest income on financial assets measured at amortised cost	**13**	15
Government grants (see note below)	**–**	101
Sundry income	**36**	32
	49	148

This represented the funding support from the Employment Support Scheme under the Anti-epidemic Fund set up by the Government in 2020. The purpose of the funding was to provide financial support to enterprises to retain their employees. Under the terms of the grant, the Groups were required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

8. Other operating costs

	2021 **$ million**	2020 $ million
Administrative expenses, government rent and rates	**312**	344
Staff costs in relation to corporate and administrative supports	**229**	231
Provisions for asset decommissioning obligation	**194**	170
Portion of depreciation and amortisation of leasehold land included in other operating costs	**196**	193
Net loss on disposal and written off of property, plant and equipment	**120**	125
	1,051	1,063

9. Finance costs

	2021 $ million	2020 $ million
Interest on borrowings and other finance costs	**1,085**	1,236
Less: interest expense and other finance costs capitalised to		
assets under construction	**(271)**	(250)
interest expense transferred to fuel costs	**(14)**	(15)
Total interest expense arising from borrowings and other finance costs	**800**	971

Interest expense has been capitalised at an average rate of approximately 2.5% (2020: 2.9%) per annum for assets under construction.

10. Profit before taxation

	2021 $ million	2020 $ million
Profit before taxation is arrived at after charging:		
Depreciation		
– owned property, plant and equipment	**2,924**	2,817
– properties leased for own use	**2**	2
Amortisation of leasehold land	**196**	196
Expenses of short-term leases	**4**	6
Costs of inventories	**4,812**	3,499
Write down of inventories	**23**	12
Staff costs	**735**	740
Net loss on disposal and written off of property, plant and equipment	**120**	125
Auditor’s remuneration		
– audit and audit related services	**5**	6
– non-audit services (see note below)	**–**	–

Auditor’s remuneration for non-audit services amounted to $415,000 (2020: $301,000).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	2021 **$ million**	2020 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**414**	452
Over-provision in respect of prior years	**(1)**	–
	413	452
Deferred tax (see note 29(b))		
Origination and reversal of temporary differences	**322**	116
	735	568

The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 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 2020.

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:

	2021 **$ million**	2020 $ million
Profit before taxation	**4,045**	3,169
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate (see note below)	**667**	523
Tax effect of non-deductible expenses	**75**	73
Tax effect of non-taxable income	**(3)**	(21)
Tax effect of recognition of previously unrecognised temporary differences	**(3)**	(7)
Over-provision in respect of prior years	**(1)**	–
Actual tax expense	**735**	568

For the year ended 31 December 2021, the notional tax is calculated at 16.5% (2020: 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 2020.

12. Directors' emoluments and management team 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 [9] $ million	Retirement scheme contributions $ million	Bonuses $ million	2021 Total emoluments $ million	2020 Total emoluments $ million
Executive Directors [1]						
Fok Kin Ning, Canning [3]						
Chairman	0.12	0.89	–	–	**1.01**	0.88
Wan Chi Tin [5]						
Chief Executive Officer	0.09	8.98	–	9.95	**19.02**	18.31
Chan Loi Shun	0.07	3.32	–	–	**3.39**	3.39
Chen Daobiao	0.07	2.95	0.02	0.61	**3.65**	3.54
Cheng Cho Ying, Francis [5]	0.09	4.23	0.01	1.93	**6.26**	6.15
Non-executive Directors						
Victor T K Li [4]						
Deputy Chairman to the Company Board	0.09	0.37	–	–	**0.46**	0.38
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	**0.07**	0.07
Ronald Joseph Arculli [2]	0.14	0.06	–	–	**0.20**	0.19
Duan Guangming	0.07	–	–	–	**0.07**	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 [3] [5]	0.11	0.01	–	–	**0.12**	0.10
Koh Poh Wah [2] [8]	0.09	–	–	–	**0.09**	–
Kwan Kai Cheong	0.07	0.02	–	–	**0.09**	0.09
Lee Lan Yee, Francis [2] [4]	0.16	0.02	–	–	**0.18**	0.16
George Colin Magnus	0.07	0.02	–	–	**0.09**	0.09
Donald Jeffrey Roberts [2] [3]	0.16	0.01	–	–	**0.17**	0.17
Ralph Raymond Shea [4]	0.09	0.03	–	–	**0.12**	0.10
Alternate Directors						
Woo Mo Fong, Susan						
(alias Chow Woo Mo Fong, Susan) [6]	–	0.07	–	–	**0.07**	0.06
Frank John Sixt [7]	–	0.03	–	–	**0.03**	0.02
Total for the year 2021	**1.70**	**21.01**	**0.03**	**12.49**	**35.23**	
Total for the year 2020	1.49	20.68	0.04	11.70		33.91

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(Expressed in Hong Kong dollars unless otherwise indicated)

12. Directors' emoluments and management team remuneration (continued)

Notes:

(1) Senior management of the Groups comprise all Executive Directors.
(2) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
(3) Member of the Remuneration Committee.
(4) Member of the Nomination Committee.
(5) Member of the Sustainability Committee.
(6) An Alternate Director to Mr. Fok Kin Ning, Canning.
(7) An Alternate Director to Mr. Victor T K Li.
(8) Appointed as Independent Non-executive Director with effect from 13 May 2021.
(9) 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.

(a) The five highest paid individuals of the Groups included three directors (2020: two) whose total emoluments are shown above. The remuneration of the other two individuals (2020: three) who comprise the five highest paid individuals of the Groups is set out below:

	2021 $ million	2020 $ million
Basic salaries, allowances and other benefits	**6.95**	9.34
Retirement scheme contributions	**0.91**	1.26
Bonuses	**2.69**	3.42
	10.55	14.02

(b) The total remuneration of management team, including the two individuals (2020: three) who comprise the five highest paid individuals in note (a) above is within the following bands:

	2021 Number	2020 Number
Nil – $1,000,000	**–**	2
$1,000,001 – $1,500,000	**–**	1
$2,000,001 – $2,500,000	**–**	2
$2,500,001 – $3,000,000	**2**	2
$3,000,001 – $3,500,000	**5**	4
$3,500,001 – $4,000,000	**2**	1
$5,000,001 – $5,500,000	**2**	2

(c) The remuneration of Directors and management team is as follows:

	2021 $ million	2020 $ million
Short-term employee benefits	**72**	71
Post-employment benefits	**2**	2
	74	73

At 31 December 2021 and 2020, there was no amount due from Directors and management team.

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.

Under current SoCA, a Smart Power Care Fund was established on 1 January 2019 with initial funding provided by the net closing balance as at 31 December 2018 of the Smart Power Fund, which was established pursuant to 2013 mid-term review of 2009-2018 SoCA, 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/(to) the consolidated statement of profit or loss represents:

	2021 $ million	2020 $ million
Tariff Stabilisation Fund	**344**	(164)
Rate Reduction Reserve	**1**	8
Smart Power Care Fund		
– Provisional sum injected in current year	**–**	11
– Provisional sum to be injected in the following year	**32**	14
	377	(131)

In 2021, a provisional sum of $31,760,000, representing deduction of HK Electric's 2021 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 2021 for injection into the Smart Power Care Fund in the following year.

In 2020, a provisional sum of $24,767,000, representing deduction of HK Electric's 2020 financial incentive, was transferred from the consolidated statement of profit or loss, of which $10,509,000 was injected into the Smart Power Care Fund with the remaining $14,258,000 was included in the trade and other payables and contract liabilities as at 31 December 2020 for injection into the Smart Power Care Fund in 2021.

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(Expressed in Hong Kong dollars unless otherwise indicated)

13. Scheme of Control transfers (continued)

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

$ million	Tariff Stabilisation Fund	Rate Reduction Reserve	Smart Power Care Fund	Total
At 1 January 2020	848	14	16	878
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	14	(14)	–	–
Transfer (to)/from the consolidated statement of profit or loss	(164)	8	–	(156)
Injection for the year	–	–	43	43
Disbursement for the year	–	–	(39)	(39)
At 31 December 2020 and 1 January 2021	**698**	**8**	**20**	**726**
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	**8**	**(8)**	**–**	**–**
Transfer from the consolidated statement of profit or loss	**344**	**1**	**–**	**345**
Injection for the year	**–**	**–**	**14**	**14**
Disbursement for the year	**–**	**–**	**(20)**	**(20)**
At 31 December 2021	**1,050**	**1**	**14**	**1,065**

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.

14. Distributions/dividends

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

	2021 $ million	2020 $ million
Audited consolidated profit attributable to the holders of Share Stapled Units	**2,933**	2,732
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	**5,317**	4,693
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(1,048)**	149
– changes in working capital	**108**	(223)
– adjustment for employee retirement benefit schemes	**22**	7
– taxes paid	**(448)**	(488)
	(1,366)	(555)
(iii) capital expenditure payment	**(4,802)**	(4,850)
(iv) net finance costs	**(930)**	(1,121)
Distributable income	**1,152**	899
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	**1,678**	1,931
Distributable income after adjustment of the discretionary amount	**2,830**	2,830

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 2021, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

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14. Distributions/dividends (continued)

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

	2021 **$ million**	2020 $ million
Interim distribution/first interim dividend declared and paid of 15.94 cents (2020: 15.94 cents) per Share Stapled Unit/share	**1,408**	1,408
Final distribution/second interim dividend proposed after the end of the reporting period of 16.09 cents (2020: 16.09 cents) per Share Stapled Unit/share	**1,422**	1,422
	2,830	2,830

For the year ended 31 December 2021, the Company Board declared the payment of a second interim dividend of 16.09 cents per ordinary share (2020: 16.09 cents per ordinary share), amounting to $1,422 million (2020: $1,422 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 2021, the Trustee-Manager Board declared a final distribution of 16.09 cents per Share Stapled Unit (2020: 16.09 cents per Share Stapled Unit), amounting to $1,422 million (2020: $1,422 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 2021 (2020: 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

	2021 **$ million**	2020 $ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 16.09 cents (2020: 16.09 cents) per Share Stapled Unit/share	**1,422**	1,422

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 $2,933 million (2020: $2,732 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2020: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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 2020	16,811	4	54,434	956	9,759	81,964	6,959	88,923
Additions	–	2	94	31	5,130	5,257	1	5,258
Transfer	1,436	–	3,804	62	(5,302)	–	–	–
Disposals	(12)	(3)	(447)	(25)	–	(487)	–	(487)
At 31 December 2020 and 1 January 2021	**18,235**	**3**	**57,885**	**1,024**	**9,587**	**86,734**	**6,960**	**93,694**
Additions	**–**	**1**	**92**	**28**	**5,528**	**5,649**	**–**	**5,649**
Transfer	**406**	**–**	**2,653**	**131**	**(3,190)**	**–**	**–**	**–**
Disposals	**(21)**	**(2)**	**(332)**	**(26)**	**–**	**(381)**	**–**	**(381)**
At 31 December 2021	**18,620**	**2**	**60,298**	**1,157**	**11,925**	**92,002**	**6,960**	**98,962**
Accumulated depreciation and amortisation								
At 1 January 2020	3,012	2	11,893	456	–	15,363	1,144	16,507
Written back on disposals	(4)	(3)	(307)	(25)	–	(339)	–	(339)
Charge for the year	525	2	2,260	109	–	2,896	196	3,092
At 31 December 2020 and 1 January 2021	**3,533**	**1**	**13,846**	**540**	**–**	**17,920**	**1,340**	**19,260**
Written back on disposals	**(10)**	**(2)**	**(203)**	**(25)**	**–**	**(240)**	**–**	**(240)**
Charge for the year	**532**	**2**	**2,348**	**124**	**–**	**3,006**	**196**	**3,202**
At 31 December 2021	**4,055**	**1**	**15,991**	**639**	**–**	**20,686**	**1,536**	**22,222**
Net book value								
At 31 December 2021	**14,565**	**1**	**44,307**	**518**	**11,925**	**71,316**	**5,424**	**76,740**
At 31 December 2020	14,702	2	44,039	484	9,587	68,814	5,620	74,434

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to $271 million (2020: $250 million).

Depreciation charges for the year included $80 million (2020: $77 million), relating to assets utilised in development activities, which have been capitalised.

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17. Goodwill

(a) Carrying amount of goodwill

	2021 **$ million**	2020 $ 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 (2020: 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 5.99% (2020: 5.54%). 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% (2020: 1.0%).

There was no indication of impairment arising from review on goodwill as at 30 November 2021.

If the discount rate rose to 7.17% (2020: 6.74%), 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 2021.

18. Investments in subsidiaries

Details of the subsidiaries at 31 December 2021 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$9,004 million Hong Kong dollar fixed rate notes US$1,750 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$400 million United States dollar callable zero coupon notes (see note 25)	100% (1)	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

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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:

	2021 $ million	2020 $ million
Current assets		
Bank deposits and cash	**1**	–
Other current assets	**1**	231
	2	231
Non-current assets	**2,105**	699
Current liabilities	**(517)**	(3)
Non-current liabilities		
Loans from shareholders	**(1,590)**	(927)
Net assets	**–**	–
Revenue	**1**	1
Profit for the year	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

	2021 **$ million**	2020 $ million
Groups' share of net assets	**–**	–
Loan to joint venture (see note below)	**477**	278
	477	278

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.

20. Inventories

	2021 **$ million**	2020 $ million
Coal, fuel oil and natural gas	**620**	430
Stores and materials (see note below)	**284**	296
	904	726

Included in stores and materials is capital stock of $144 million (2020: $158 million) which was purchased for future maintenance of capital assets.

21. Trade and other receivables

	2021 **$ million**	2020 $ million
Trade debtors, net of loss allowance (see notes (a) and (b) below)	**611**	470
Other receivables (see note below)	**457**	358
	1,068	828
Derivative financial instruments (see note 26)	**4**	3
Deposits and prepayments	**85**	120
	1,157	951

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 $407 million (2020: $312 million) to be received from electricity customers.

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)

(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:

	2021 $ million	2020 $ million
Current and within 1 month	**580**	451
1 to 3 months	**30**	19
More than 3 months but less than 12 months	**1**	–
	611	470

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:

	2021			
	ECL rate %	Gross carrying amount $ million	Lifetime ECLs $ million	Net carrying amount $ million
Live accounts				
Provision on collective basis	**2**	**593**	**(11)**	**582**
Final accounts				
Provision on individual basis	**9**	**8**	**(1)**	**7**
Other trade debtors				
Provision on collective basis	**0**	**22**	**–**	**22**
		623	**(12)**	**611**

	2020			
	ECL rate %	Gross carrying amount $ million	Lifetime ECLs $ million	Net carrying amount $ million
Live accounts				
Provision on collective basis	2	438	(10)	428
Final accounts				
Provision on individual basis	6	9	(1)	8
Other trade debtors				
Provision on collective basis	0	34	–	34
		481	(11)	470

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

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

	2021 $ million	2020 $ million
At 1 January	**11**	12
Impairment losses recognised during the year	**2**	–
Amounts written off during the year	**(1)**	(1)
At 31 December	**12**	11

22. Fuel Clause Recovery Account

HK Electric adjusts Fuel Clause Charge per unit for electricity sales on a monthly basis to reflect actual cost of fuels in a timely manner.

Movements in the Fuel Clause Recovery Account were as follows:

	2021 $ million	2020 $ million
At 1 January	**(796)**	(647)
Transferred to profit or loss	**3,122**	1,823
Fuel Clause Charges during the year	**(2,074)**	(1,972)
At 31 December	**252**	(796)

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

23. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2021 $ million	2020 $ million
Cash at bank and in hand	**34**	52

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

	Note	2021 $ million	2020 $ million
Profit before taxation		**4,045**	3,169
Adjustments for:			
Interest income	7	**(13)**	(15)
Finance costs	9	**800**	971
Interest expense transferred to fuel costs	9	**14**	15
Depreciation	10	**2,926**	2,819
Amortisation of leasehold land	10	**196**	196
Net loss on disposal and written off of property, plant and equipment	10	**120**	125
Increase in provisions for asset decommissioning obligation	28(a)	**194**	170
Net financial instrument revaluation and exchange (gains)/losses		**(2)**	4
Smart Power Care Fund disbursement	13(c)	**(20)**	(39)
Changes in working capital:			
(Increase)/decrease in inventories		**(192)**	98
(Increase)/decrease in trade and other receivables		**(257)**	70
Movements in Fuel Clause Recovery Account		**(1,048)**	149
Increase/(decrease) in trade and other payables and contract liabilities		**560**	(385)
Increase/decrease in net employee retirement benefit assets/liabilities		**22**	7
Payment for asset decommissioning obligation expenditure	28(a)	**(1)**	(3)
Cash generated from operations		**7,344**	7,351

(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.

$ million	Bank loans (note 25)	Medium term notes (note 25)	Customers' deposits	Lease liabilities (note 28(b))	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2021	**18,080**	**26,810**	**2,268**	**2**	**(392)**	**685**	**47,453**
Changes from financing cash flows:							
Proceeds from bank loans	**16,048**	**–**	**–**	**–**	**–**	**–**	**16,048**
Repayment of bank loans	**(14,450)**	**–**	**–**	**–**	**–**	**–**	**(14,450)**
Payment of lease liabilities	**–**	**–**	**–**	**(2)**	**–**	**–**	**(2)**
New customers' deposits	**–**	**–**	**327**	**–**	**–**	**–**	**327**
Repayment of customers' deposits	**–**	**–**	**(278)**	**–**	**–**	**–**	**(278)**
Total changes from financing cash flows	**1,598**	**–**	**49**	**(2)**	**–**	**–**	**1,645**
Changes in fair value	**–**	**–**	**–**	**–**	**3**	**(498)**	**(495)**
Other changes:							
Increase in lease liabilities	**–**	**–**	**–**	**1**	**–**	**–**	**1**
Interest on borrowings and other finance costs	**(66)**	**204**	**–**	**–**	**–**	**–**	**138**
At 31 December 2021	**19,612**	**27,014**	**2,317**	**1**	**(389)**	**187**	**48,742**

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Reconciliation of liabilities arising from financing activities: (continued)

$ million	Bank loans (note 25)	Medium term notes (note 25)	Customers' deposits	Lease liabilities (note 28(b))	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2020	18,333	24,679	2,241	3	(459)	–	44,797
Changes from financing cash flows:							
Proceeds from bank loans	973	–	–	–	–	–	973
Repayment of bank loans	(1,250)	–	–	–	–	–	(1,250)
Issuance of medium term notes	–	10,249	–	–	–	–	10,249
Redemption of medium term notes	–	(8,267)	–	–	–	–	(8,267)
Payment of lease liabilities	–	–	–	(3)	–	–	(3)
New customers' deposits	–	–	291	–	–	–	291
Repayment of customers' deposits	–	–	(264)	–	–	–	(264)
Total changes from financing cash flows	(277)	1,982	27	(3)	–	–	1,729
Exchange adjustments	–	15	–	–	–	–	15
Changes in fair value	–	(58)	–	–	67	685	694
Other changes:							
Increase in lease liabilities	–	–	–	2	–	–	2
Interest on borrowings and other finance costs	24	192	–	–	–	–	216
At 31 December 2020	18,080	26,810	2,268	2	(392)	685	47,453

24. Trade and other payables and contract liabilities

	2021 $ million	2020 $ million
Trade and other payables		
Creditors measured at amortised cost (see note (a) below)	**3,970**	2,794
Lease liabilities (see note 28(b))	**1**	1
Derivative financial instruments (see note 26)	**29**	3
	4,000	2,798
Contract liabilities (see note (b) below)	**78**	22
	4,078	2,820

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

(a) Creditors' ageing is analysed as follows:

	2021 $ million	2020 $ million
Due within 1 month or on demand	**2,020**	1,189
Due after 1 month but within 3 months	**770**	616
Due after 3 months but within 12 months	**1,180**	989
	3,970	2,794

(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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Contract liabilities (continued)

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

	2021 $ million	2020 $ million
At 1 January	**22**	18
Increase in contract liabilities as a result of billing in advance for performance of electricity-related services	**64**	10
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	**(8)**	(6)
At 31 December	**78**	22

25. Bank loans and other interest-bearing borrowings

	2021 $ million	2020 $ million
Bank loans	**19,612**	18,080
Current portion	**(1,233)**	(4,184)
	18,379	13,896
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**8,952**	8,946
Zero coupon notes (see note (b) below)	**779**	752
	9,731	9,698
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**13,549**	13,534
Zero coupon notes (see note (b) below)	**3,734**	3,578
	17,283	17,112
Non-current portion	**45,393**	40,706

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.4% to 4% per annum (2020: 2.4% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 1.875% to 2.875% per annum (2020: 1.875% to 2.875% per annum).

(b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of $1,056 million (2020: $1,056 million) and accrual yield of 3.5% per annum (2020: 3.5% per annum).

The United States dollar zero coupon notes embed with issuer call options allowing issuer to early redeem the notes. In 2020, the Groups exercised the issuer call options and redeemed US$250 million of these notes.

As at 31 December 2021, the United States dollar zero coupon notes have nominal amount of US$400 million (2020: US$400 million) and accrual yield of 4.375% per annum (2020: 4.375% per annum). They 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 2021 and 2020, 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:

	2021 **$ million**	2020 $ million
After 1 year but within 2 years	**299**	2,500
After 2 years but within 5 years	**24,294**	1,298
After 5 years	**20,800**	36,908
	45,393	40,706

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

(Expressed in Hong Kong dollars unless otherwise indicated)

26. Derivative financial instruments

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
	$ million	**$ million**	$ million	$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**–**	**(37)**	–	(57)
– Interest rate swaps	**15**	**(150)**	–	(628)
– Forward foreign exchange contracts	**585**	**(9)**	619	(4)
Fair value hedges:				
– Forward foreign exchange contracts	**–**	**(30)**	–	(11)
	600	**(226)**	619	(700)
Analysed as:				
Current	**4**	**(29)**	3	(3)
Non-current	**596**	**(197)**	616	(697)
	600	**(226)**	619	(700)

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.

(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 2021. 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 2021 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

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(Expressed in Hong Kong dollars unless otherwise indicated)

27. Employee retirement benefits (continued)

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

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

	2021 $ million	2020 $ million
Present value of defined benefit obligations	**3,121**	3,401
Fair value of assets of the Schemes	**(3,816)**	(3,921)
	(695)	(520)
Represented by:		
Employee retirement benefit scheme assets	**(1,045)**	(887)
Employee retirement benefit scheme liabilities	**350**	367
	(695)	(520)

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 12 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:

	2021 $ million	2020 $ million
At 1 January	**3,401**	3,459
Current service cost	**60**	59
Interest cost	**24**	61
Employee contributions paid to the Schemes	**11**	13
Actuarial (gains)/losses due to:		
– liability experience	**(18)**	(25)
– change in financial assumptions	**(97)**	214
– change in demographic assumptions	**35**	20
Benefits paid	**(288)**	(396)
Transfer out	**(7)**	(4)
At 31 December	**3,121**	3,401

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

	2021 **$ million**	2020 $ million
At 1 January	**3,921**	3,900
Interest income on the Schemes' assets	**24**	69
Return on Schemes' assets, excluding interest income	**117**	295
Employer contributions paid to the Schemes	**38**	44
Employee contributions paid to the Schemes	**11**	13
Benefits paid	**(288)**	(396)
Transfer out	**(7)**	(4)
At 31 December	**3,816**	3,921

The Groups expect to contribute $45 million to the Schemes in 2022.

(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:

	2021 **$ million**	2020 $ million
Current service cost	**60**	59
Net interest income on net defined benefit asset/liability	**–**	(8)
	60	51

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

	2021 **$ million**	2020 $ million
Direct costs	**41**	33
Other operating costs	**19**	18
	60	51

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)

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

	2021 **$ million**	2020 $ million
At 1 January	**489**	403
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**197**	86
At 31 December	**686**	489

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

	2021 **$ million**	2020 $ million
Hong Kong equities	**308**	382
European equities	**205**	214
North American equities	**606**	610
Asia Pacific and other equities	**192**	197
Global bonds	**2,401**	2,466
Deposits, cash and others	**104**	52
	3,816	3,921

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:

	2021	2020
Discount rate		
– The Pension Scheme	**1.6%**	1.0%
– The Guaranteed Return Scheme	**1.2%**	0.4%
Long-term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.0%

(ix) Sensitivity analysis

(1) The Pension Scheme

	Increase/(decrease) in defined benefit obligations	
	2021 **$ million**	2020 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(56)**	(59)
– decrease by 0.25%	**59**	62
Pension increase rate		
– increase by 0.25%	**56**	59
– decrease by 0.25%	**(54)**	(56)
Mortality rate applied to specific age		
– set forward one year	**(74)**	(77)
– set backward one year	**75**	78

(2) The Guaranteed Return Scheme

	Increase/(decrease) in defined benefit obligations	
	2021 **$ million**	2020 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(20)**	(26)
– decrease by 0.25%	**21**	26
Interest to be credited		
– increase by 0.25%	**20**	26

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 2020.

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)

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

	2021	2020
The Pension Scheme	**12.9 Years**	13.2 Years
The Guaranteed Return Scheme	**6.0 Years**	6.5 Years

(b) Defined contribution retirement schemes

	2021 **$ million**	2020 $ million
Expenses recognised in profit or loss	**66**	63

Forfeited contributions of $1,857,000 (2020: $1,148,000) have been received during the year.

28. Other non-current liabilities

	2021 **$ million**	2020 $ million
Provisions (see note (a) below)	**1,314**	1,121
Lease liabilities (see note (b) below)	**–**	1
	1,314	1,122

(a) Provisions

	2021 **$ million**
Provisions for asset decommissioning obligation	
At 1 January	**1,121**
Additional provisions made	**194**
Provisions utilised	**(1)**
At 31 December	**1,314**

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:

	2021		2020	
	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	**1**	**1**	1	1
After 1 year but within 2 years	**–**	**–**	1	1
	1	**1**	2	2
Less: total future interest expenses		**–**		–
Present value of lease liabilities		**1**		2

29. Income tax in the consolidated statement of financial position

(a) Current taxation in the consolidated statement of financial position

	2021 $ million	2020 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**414**	452
Balance of Profits Tax provision relating to prior year	**92**	89
	506	541

(b) Deferred tax liabilities

	2021 $ million	2020 $ million
Deferred tax liabilities	**9,982**	9,597

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 2020	9,573	(107)	16	58	9,540
Charged/(credited) to profit or loss	136	(24)	6	(2)	116
Charged/(credited) to other comprehensive income	–	–	14	(81)	(67)
Charged directly in equity	–	–	–	8	8
At 31 December 2020 and 1 January 2021	**9,709**	**(131)**	**36**	**(17)**	**9,597**
Charged/(credited) to profit or loss	**152**	**173**	**(4)**	**1**	**322**
Charged to other comprehensive income	**–**	**–**	**33**	**30**	**63**
At 31 December 2021	**9,861**	**42**	**65**	**14**	**9,982**

(ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2021 and 2020.

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 2020	8	47,472	8	2,437	1,422	51,347
Changes in equity for 2020:						
Profit for the year	–	–	–	3,161	–	3,161
Other comprehensive income	–	–	(335)	–	–	(335)
Total comprehensive income	–	–	(335)	3,161	–	2,826
Second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,422)	(1,422)
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 2020 and 1 January 2021	**8**	**47,472**	**(327)**	**2,768**	**1,422**	**51,343**
Changes in equity for 2021:						
Profit for the year	**–**	**–**	**–**	**3,369**	**–**	**3,369**
Other comprehensive income	**–**	**–**	**232**	**–**	**–**	**232**
Total comprehensive income	**–**	**–**	**232**	**3,369**	**–**	**3,601**
Second interim dividend in respect of previous year approved and paid (see note 14(c))	**–**	**–**	**–**	**–**	**(1,422)**	**(1,422)**
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 2021	**8**	**47,472**	**(95)**	**3,307**	**1,422**	**52,114**

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 (2020: 16.09 cents) per ordinary share, amounting to $1,422 million (2020: $1,422 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

	2021	
	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**

	2020	
	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 2020	87	(12)	75
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(869)	704	(165)
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	44	(27)	17
Net deferred tax credited/(charged) to other comprehensive income	81	(112)	(31)
	(744)	565	(179)
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	–	(25)	(25)
Balance at 31 December 2020 and 1 January 2021 (see note 3 below)	**(657)**	**528**	**(129)**
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**371**	**92**	**463**
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**152**	**–**	**152**
Net deferred tax charged to other comprehensive income	**(49)**	**(15)**	**(64)**
	474	**77**	**551**
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**(5)**	**(5)**
Balance at 31 December 2021 (see note 3 below)	**(183)**	**600**	**417**

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 2020	82	167	249
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(120)	(487)	(607)
– 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	–	(6)	(6)
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	65	65
Net deferred tax credited to other comprehensive income	20	92	112
Balance at 31 December 2020 and 1 January 2021 (see note 3 below)	**(18)**	**(232)**	**(250)**
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(9)**	**(132)**	**(141)**
– 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	**–**	**1**	**1**
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	**–**	**6**	**6**
Net deferred tax credited to other comprehensive income	**2**	**32**	**34**
Balance at 31 December 2021 (see note 3 below)	**(25)**	**(388)**	**(413)**

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 2021, the Groups' strategy, which was unchanged from 2020, 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 2021 and 2020 was as follows:

	2021 **$ million**	2020 $ million
Bank loans and other interest-bearing borrowings	**46,626**	44,890
Less: Bank deposits and cash	**(34)**	(52)
Net debt	**46,592**	44,838
Total equity	**48,393**	47,743
Net debt	**46,592**	44,838
Net total capital	**94,985**	92,581
Net debt-to-net total capital ratio	**49%**	48%

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 $399 million of trade and other receivables at 31 December 2021 (2020: $293 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.

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)

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.

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.

		2021			2020		
$ million	Note	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
Financial assets							
Interest rate swaps	31(f)(i)	15	(15)	–	–	–	–
Forward foreign exchange contracts	31(f)(i)	585	(180)	405	619	(459)	160
Total		600	(195)	405	619	(459)	160
Financial liabilities							
Cross currency swaps	31(f)(i)	37	(26)	11	57	(38)	19
Interest rate swaps	31(f)(i)	150	(130)	20	628	(407)	221
Forward foreign exchange contracts	31(f)(i)	39	(39)	–	15	(14)	1
Total		226	(195)	31	700	(459)	241

(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 $6,250 million at 31 December 2021 (2020: $5,150 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.

	2021					
	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	2,014	1,072	26,446	31,384	60,916	46,773
Creditors and accrued charges	3,846	–	–	–	3,846	3,846
	5,860	1,072	26,446	31,384	64,762	50,619
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	139	138	395	66	738	155
Gross settled						
Cross currency swaps and related interest accruals						30
– outflow	202	201	520	119	1,042	
– inflow	(197)	(197)	(509)	(117)	(1,020)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(576)
– outflow	1,379	141	4	16,750	18,274	
– inflow	(1,378)	(140)	(3)	(17,523)	(19,044)	
Other forward foreign exchange contracts:						30
– outflow	733	54	–	–	787	
– inflow	(713)	(46)	–	–	(759)	

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)

	2020					
	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	4,930	3,224	3,385	48,245	59,784	45,035
Creditors and accrued charges	2,628	–	–	–	2,628	2,628
	7,558	3,224	3,385	48,245	62,412	47,663
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	121	128	386	171	806	637
Gross settled						
Cross currency swaps and related interest accruals						50
– outflow	202	201	605	235	1,243	
– inflow	(198)	(198)	(592)	(230)	(1,218)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(615)
– outflow	2,886	55	30	16,750	19,721	
– inflow	(2,902)	(55)	(28)	(17,523)	(20,508)	
Other forward foreign exchange contracts:						11
– outflow	202	156	38	–	396	
– inflow	(202)	(148)	(35)	–	(385)	

(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).

	2021		2020	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Bank loans and other borrowings	**2.74**	**(37,108)**	2.67	(36,956)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**0.03**	**34**	0.03	52
Bank loans and other borrowings	**0.94**	**(9,518)**	0.90	(7,934)
Customers' deposits	*****	**(2,317)**	*	(2,268)
		(11,801)		(10,150)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2021, 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 $92 million (2020: $84 million). Other components of consolidated equity would have increased/decreased by approximately $460 million (2020: $570 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 2020.

(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.

	2021	
'million (expressed in original currencies)	**USD**	**JPY**
Bank deposits and cash	**–**	**24**
Trade and other payables and contract liabilities	**(161)**	**(3,478)**
Bank loans and other borrowings	**(2,229)**	**–**
Gross exposure arising from recognised assets and liabilities	**(2,390)**	**(3,454)**
Notional amounts of forward foreign exchange contracts designated as hedging instruments	**1,347**	**3,251**
Notional amounts of cross currency swaps designated as hedging instruments	**950**	**–**
Net exposure arising from recognised assets and liabilities	**(93)**	**(203)**

	2020	
'million (expressed in original currencies)	USD	JPY
Trade and other payables and contract liabilities	(74)	(3,260)
Bank loans and other borrowings	(2,209)	–
Gross exposure arising from recognised assets and liabilities	(2,283)	(3,260)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	1,279	2,966
Notional amounts of cross currency swaps designated as hedging instruments	950	–
Net exposure arising from recognised assets and liabilities	(54)	(294)

(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.

	2021		2020	
$ million	**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)
Japanese Yen	**(1)**	**13**	19	21

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 2020.

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 year ended 31 December 2021 and 2020.

(i) Cash flow hedges

	2021									
				Carrying amount of hedging instruments included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average fixed swap rates/ contract rates	Notional amount of hedging instruments $ million	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 2022 to 2035	2.08%	27,668	15	-	(187)	-	371	(371)	-
(2) For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2022 to 2032	See note below	8,786	207	4	(2)	(7)	36	(36)	-
(3) For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	9,489	374	-	-	-	56	(56)	-

				2020						
				Carrying amount of hedging instruments included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average fixed swap rates/ contract rates	Notional amount of hedging instruments $ million	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 2021 to 2035	2.15%	19,768	–	–	(685)	–	(869)	869	–
(2) For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2021 to 2032	See note below	10,383	224	3	(2)	(2)	285	(285)	–
(3) For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	9,338	392	–	–	–	419	(419)	–

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

	2021									
				Carrying amount included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average variable swap rates/ contract rates	Notional amount $ million	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
Forward foreign exchange contracts	Ranging from 2022 to 2023	See note below	787	-	-	(8)	(22)	(20)	20	-

	2021		
Hedged items	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
Financial liabilities	(759)	30	Trade and other payables and contract liabilities

Hedging instruments	Maturity date	Weighted average variable swap rates/ contract rates	Notional amount $ million	Carrying amount included in: Derivative financial instruments under non-current assets $ million	Carrying amount included in: Trade and other receivables $ million	Carrying amount included in: Derivative financial instruments under non-current liabilities $ million	Carrying amount included in: Trade and other payables and contract liabilities $ million	Changes in fair value used for calculating hedge ineffectiveness: Hedging instruments $ million	Changes in fair value used for calculating hedge ineffectiveness: Hedged items $ million	Hedge ineffectiveness recognised in profit or loss $ million
	2020									
Forward foreign exchange contracts	Ranging from 2021 to 2023	See note below	396	–	–	(10)	(1)	(11)	11	–

Hedged items	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
	2020		
Financial liabilities	(384)	11	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:

	2021	2020
Weighted average contract rates		
USD:HKD	**7.4875**	7.4985
JPY:HKD	**0.0752**	0.0775
GBP:HKD	**10.2134**	10.0986
EUR:HKD	**9.5059**	9.4779
JPY:USD	**107.0041**	104.0172
GBP:USD	**1.3345**	–

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	**2021** **$ million**	2020 $ million
Financial assets			
Derivative financial instruments:			
– Interest rate swaps	31(a)	**15**	–
– Forward foreign exchange contracts	31(a)	**585**	619
		600	619
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	31(a)	**37**	57
– Interest rate swaps	31(a)	**150**	628
– Forward foreign exchange contracts	31(a)	**39**	15
		226	700

(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 2021 and 2020.

(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:

	2021 $ million	2020 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**5,840**	7,140
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**13,111**	14,303

(b) At 31 December 2021, the Groups' share of capital commitments of a joint venture was $141 million (2020: $343 million).

At 31 December 2021, the Groups' share of the lease and other commitments of a joint venture approximated to $1,628 million (2020: $1,170 million).

33. Contingent liabilities

At 31 December 2021, the Groups had no guarantee or indemnity to external parties (2020: 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 $42 million (2020: $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 2021, the total outstanding balance receivable from Power Assets group was $4 million (2020: $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 2021 are disclosed in note 19.

(ii) Interest income received/receivable from HKLTL in respect of the Shareholder Loan Facility amounted to $13 million (2020: $6 million).

(iii) 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 2021, HKLTL reimbursed related costs of $11 million (2020: $6 million) to HK Electric.

(c) Key management personnel remuneration

Remuneration for key management personnel of the Groups are disclosed in note 12.

(d) 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	2021 $ million	2020 $ million
Non-current assets			
Investments in subsidiaries		**60,882**	60,338
Current assets			
Trade and other receivables		**12**	41
Bank deposits and cash		**1**	1
		13	42
Current liabilities			
Trade and other payables		**(22)**	(14)
Current portion of bank loans		**–**	(2,698)
		(22)	(2,712)
Net current liabilities		**(9)**	(2,670)
Total assets less current liabilities		**60,873**	57,668
Non-current liabilities			
Bank loans		**(8,664)**	(5,998)
Derivative financial instruments		**(95)**	(327)
		(8,759)	(6,325)
Net assets		**52,114**	51,343
Capital and reserves	30(a)		
Share capital		**8**	8
Reserves		**52,106**	51,335
Total equity		**52,114**	51,343

Approved and authorised for issue by the Boards on 15 March 2022.

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 2021 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 2021.

38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments to HKFRSs which are not yet effective for the year ended 31 December 2021 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 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
• Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
• Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
• Amendments to HKAS 1 and HKFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
• Amendments to HKAS 8, *Definition of Accounting Estimates*	1 January 2023
• Amendments to HKAS 12, *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*	1 January 2023

The Groups are in the process of making an assessment of what the impact of these amendments 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 174 to 182, which comprise the statement of financial position as at 31 December 2021, 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 2021 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 ("HKSAs") 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 HKSAs 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 HKSAs, 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

15 March 2022

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

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** **$**	2020 $
Revenue		**–**	–
Administrative expenses		**–**	–
Profit before taxation	4	**–**	–
Income tax	5	**–**	–
Profit and total comprehensive income for the year		**–**	–

The notes on pages 178 to 182 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2021
(Expressed in Hong Kong dollars)

	Note	**2021** **$**	2020 $
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 15 March 2022.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 178 to 182 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	Share capital $	Reserves $	Total $
Balance at 1 January 2020	1	–	1
Changes in equity for 2020:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2020 and 1 January 2021	**1**	**–**	**1**
Changes in equity for 2021:			
Profit and total comprehensive income for the year	**–**	**–**	**–**
Balance at 31 December 2021	**1**	**–**	**1**

The notes on pages 178 to 182 form part of these financial statements.

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2021
(Expressed in Hong Kong dollars)

	2021 **$**	2020 $
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 178 to 182 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 a number of amendments to 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 123, 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.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (continued)

(d) Related parties (continued)

(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.

3. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Company. The adoption of these amendments to HKFRSs has no material impact on the Company's financial statements.

The Company has not applied any new standard, amendment or interpretation that is not effective for the current accounting period.

4. Profit before taxation

Auditor's remuneration of $57,000 (2020: $57,000) and all other expenses of the Company which were incurred for the administering of the Trust of $440,497 (2020: $367,274) 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 directors' emoluments is disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, as no fees or other emoluments were paid to the Directors during 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

	2021		2020	
	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.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

10. Immediate and ultimate controlling parties

At 31 December 2021, 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 2021

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments to HKFRSs which are not yet effective for the year ended 31 December 2021 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 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	**2021**	2020	2019	2018	2017
Revenue	**11,344**	10,389	10,739	11,612	11,693
Operating profit	**4,845**	4,140	4,213	5,086	5,280
Finance costs	**(800)**	(971)	(1,004)	(967)	(848)
Profit before taxation	**4,045**	3,169	3,209	4,119	4,432
Income tax	**(735)**	(568)	(614)	(759)	(794)
Profit after taxation	**3,310**	2,601	2,595	3,360	3,638
Scheme of Control transfers	**(377)**	131	(268)	(309)	(297)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	**2,933**	2,732	2,327	3,051	3,341

Consolidated Statement of Financial Position

$ million	**2021**	2020	2019	2018	2017
Property, plant and equipment and interests in leasehold land	**76,740**	74,434	72,416	71,059	70,502
Goodwill	**33,623**	33,623	33,623	33,623	33,623
Other non-current assets	**2,118**	1,781	1,500	1,161	1,457
Net current liabilities	**(3,470)**	(6,612)	(8,069)	(1,828)	(1,900)
Total assets less current liabilities	**109,011**	103,226	99,470	104,015	103,682
Non-current liabilities	**(59,553)**	(54,757)	(50,120)	(54,624)	(53,625)
Scheme of Control Fund and Reserve	**(1,065)**	(726)	(878)	(648)	(335)
Net assets	**48,393**	47,743	48,472	48,743	49,722
Share capital	**8**	8	8	8	8
Reserves	**48,385**	47,735	48,464	48,735	49,714
Total equity	**48,393**	47,743	48,472	48,743	49,722

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 with a term of 15 years from 1 January 2019 to 31 December 2033.

The 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 2021 and 2020. 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	**2021**	2020	2019	2018	2017	2016	2015	2014	2013	2012
Sales of electricity	**11,312**	10,363	10,694	11,541	11,621	11,373	11,165	11,165	10,176	10,364
Transfer from Fuel Clause Recovery Account	**3,122**	1,823	2,051	2,696	1,904	1,206	1,861	2,994	3,510	3,867
Other Scheme of Control revenue	**73**	162	77	115	93	79	74	63	67	74
Gross tariff revenue	**14,507**	12,348	12,822	14,352	13,618	12,658	13,100	14,222	13,753	14,305
Fuel costs	**(4,778)**	(3,453)	(3,842)	(4,530)	(3,785)	(3,105)	(3,697)	(4,818)	(5,271)	(5,673)
Operating costs	**(1,735)**	(1,697)	(1,723)	(1,656)	(1,592)	(1,460)	(1,277)	(1,143)	(995)	(1,040)
Interest	**(621)**	(778)	(764)	(779)	(719)	(811)	(838)	(789)	(285)	(264)
Depreciation and amortisation	**(2,530)**	(2,414)	(2,342)	(2,355)	(2,210)	(2,127)	(2,054)	(1,988)	(1,982)	(1,919)
Net revenue before taxation	**4,843**	4,006	4,151	5,032	5,312	5,155	5,234	5,484	5,220	5,409
Scheme of Control taxation	**(670)**	(695)	(688)	(557)	(698)	(1,209)	(1,140)	(1,009)	(988)	(856)
Net revenue after taxation	**4,173**	3,311	3,463	4,475	4,614	3,946	4,094	4,475	4,232	4,553
Interest on borrowed capital	**926**	1,018	1,043	983	873	821	729	690	288	271
Interest on incremental customers' deposit	**–**	–	1	–	–	–	–	–	–	–
Scheme of Control net revenue	**5,099**	4,329	4,507	5,458	5,487	4,767	4,823	5,165	4,520	4,824
Transfer (to)/from Tariff Stabilisation Fund	**(344)**	164	(222)	(303)	(291)	181	84	(249)	389	72
Permitted Return	**4,755**	4,493	4,285	5,155	5,196	4,948	4,907	4,916	4,909	4,896
Interest on borrowed capital	**(926)**	(1,018)	(1,043)	(983)	(873)	(821)	(729)	(690)	(288)	(271)
Interest on incremental customers' deposit	**–**	–	(1)	–	–	–	–	–	–	–
Transfer to Smart Power Care Fund/ Smart Power Fund	**(32)**	(25)	(32)	–	(5)	(5)	(5)	(10)	–	–
Transfer to Rate Reduction Reserve	**(1)**	(8)	(14)	(6)	(1)	(1)	(1)	–	(1)	(1)
Net Return	**3,796**	3,442	3,195	4,166	4,317	4,121	4,172	4,216	4,620	4,624

THE HONGKONG ELECTRIC COMPANY, LIMITED
TEN-YEAR STATEMENT OF FINANCIAL POSITION

At 31 December

HK$ million	**2021**	2020	2019	2018	2017	2016	2015	2014	2013	2012
Non-current assets										
Property, plant and equipment and interests in leasehold land	**59,355**	56,437	53,791	51,753	50,494	49,971	49,482	49,198	49,137	49,345
Interest in a joint venture	**477**	278	42	–	–	–	–	–	–	–
Employee retirement benefit scheme assets	**1,045**	887	809	593	648	454	580	668	615	216
Derivative financial instruments	**596**	616	641	539	784	1,034	314	352	241	646
	61,473	58,218	55,283	52,885	51,926	51,459	50,376	50,218	49,993	50,207
Current assets										
Coal, fuel oil and natural gas	**620**	430	522	675	671	624	525	572	592	763
Stores and materials	**284**	296	297	314	340	361	357	361	356	351
Trade and other receivables	**1,147**	931	1,056	1,024	1,065	1,218	1,155	1,129	1,104	1,183
Fuel Clause Recovery Account	**252**	–	–	–	–	–	–	–	1	820
Bank deposits and cash	**33**	51	297	33	1,658	310	6,155	4,629	1,060	8
	2,336	1,708	2,172	2,046	3,734	2,513	8,192	6,691	3,113	3,125
Current liabilities										
Bank loans and other borrowings	**(1,233)**	(1,486)	(6,010)	(440)	–	(335)	(900)	(520)	(503)	(5,317)
Fuel Clause Recovery Account	**–**	(796)	(647)	(855)	(2,771)	(4,088)	(2,283)	(631)	–	–
Trade and other payables and contract liabilities	**(8,883)**	(7,107)	(6,940)	(6,607)	(6,626)	(6,263)	(5,519)	(4,740)	(2,081)	(2,305)
Bank overdrafts – unsecured	**–**	–	(33)	–	–	–	–	–	–	–
Current taxation	**(506)**	(541)	(577)	(137)	(214)	(351)	(360)	(219)	(340)	(330)
	(10,622)	(9,930)	(14,207)	(8,039)	(9,611)	(11,037)	(9,062)	(6,110)	(2,924)	(7,952)
Net current assets/(liabilities)	**(8,286)**	(8,222)	(12,035)	(5,993)	(5,877)	(8,524)	(870)	581	189	(4,827)
Total assets less current liabilities	**53,187**	49,996	43,248	46,892	46,049	42,935	49,506	50,799	50,182	45,380
Non-current liabilities										
Bank loans and other borrowings	**(36,729)**	(34,708)	(28,319)	(32,855)	(32,714)	(30,700)	(37,646)	(38,703)	(29,574)	(21,893)
Derivative financial instruments	**(102)**	(370)	(14)	(411)	(184)	(73)	(168)	(63)	–	–
Customers' deposits	**(2,317)**	(2,268)	(2,241)	(2,195)	(2,130)	(2,057)	(2,001)	(1,937)	(1,900)	(1,839)
Deferred tax liabilities	**(7,113)**	(6,628)	(6,467)	(6,168)	(5,848)	(5,595)	(5,698)	(5,927)	(5,955)	(5,912)
Employee retirement benefit scheme liabilities	**(350)**	(367)	(368)	(393)	(288)	(406)	(587)	(499)	(443)	(821)
Other non-current liabilities	**(1,314)**	(1,122)	(955)	(747)	(503)	–	–	–	–	–
	(47,925)	(45,463)	(38,364)	(42,769)	(41,667)	(38,831)	(46,100)	(47,129)	(37,872)	(30,465)
Tariff Stabilisation Fund (note 1)	**(1,050)**	(698)	(848)	(620)	(316)	(24)	(204)	(288)	(36)	(425)
Rate Reduction Reserve (note 2)	**(1)**	(8)	(14)	(6)	(1)	(1)	(1)	–	(3)	(2)
Smart Power Care Fund/Smart Power Fund (note 3)	**(14)**	(20)	(16)	(22)	(18)	(14)	(10)	(5)	–	–
Net assets	**4,197**	3,807	4,006	3,475	4,047	4,065	3,191	3,377	12,271	14,488
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	**1,666**	1,427	1,259	1,125	1,326	1,057	921	1,002	1,000	–
Hedging reserves	**120**	(31)	336	(61)	310	597	(141)	(36)	15	3
Proposed dividend	**–**	–	–	–	–	–	–	–	–	3,229
	4,197	3,807	4,006	3,475	4,047	4,065	3,191	3,377	3,426	5,643
Loan capital	**–**	–	–	–	–	–	–	–	8,845	8,845
Total equity	**4,197**	3,807	4,006	3,475	4,047	4,065	3,191	3,377	12,271	14,488

Notes:
1. The Tariff Stabilisation Fund is not part of shareholders' funds.
2. 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.
3. 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 current 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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Units sold (millions of kWh)										
Commercial	**7,409**	7,178	7,751	7,766	7,824	7,893	8,012	8,015	8,011	8,164
Residential	**2,659**	2,667	2,475	2,466	2,485	2,584	2,541	2,610	2,437	2,541
Industrial	**293**	289	293	305	306	315	326	330	325	331
Total (millions of kWh)	**10,361**	10,134	10,519	10,537	10,615	10,792	10,879	10,955	10,773	11,036
Annual increase/(decrease) (%)	**2.2**	(3.7)	(0.2)	(0.7)	(1.6)	(0.8)	(0.7)	1.7	(2.4)	1.3
Average Net Tariff per Tariff Review (HK cents per kWh)										
Basic Tariff	**109.0**	102.0	101.3	109.1	108.9	105.5	102.6	101.8	94.7	94.1
Special Rent & Rates Rebate	**–**	(0.4)	(2.3)	(4.0)	(4.0)	–	–	–	–	–
Net Basic Tariff	**109.0**	101.6	99.0	105.1	104.9	105.5	102.6	101.8	94.7	94.1
Fuel Clause Charge	**17.4**	24.8	23.4	23.4	23.4	27.9	32.3	33.1	40.2	37.0
Special Fuel Rebate	**–**	–	(2.3)	(16.0)	(17.9)	–	–	–	–	–
Net Tariff (HK cents per kWh)	**126.4**	126.4	120.1	112.5	110.4	133.4	134.9	134.9	134.9	131.1
Number of customers (000's)	**584**	583	581	579	577	575	572	570	569	567
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	2,000	2,000	2,250	2,500	2,500	2,500	2,500	2,500
Gas-fired combined-cycle units (note 1)	**1,060**	1,060	680	680	680	680	680	680	680	680
Wind turbine and photovoltaic system (note 2)	**2**	2	2	2	2	2	2	2	2	2
Total (MW)	**3,617**	3,617	3,237	3,237	3,487	3,737	3,737	3,737	3,737	3,737
System maximum demand (MW)	**2,384**	2,336	2,395	2,376	2,513	2,428	2,427	2,460	2,453	2,494
Annual increase/(decrease) (%)	**2.1**	(2.5)	0.8	(5.5)	3.5	0.0	(1.3)	0.3	(1.6)	(0.2)
Annual load factor (%)	**55.1**	55.0	56.4	56.8	54.0	56.7	57.3	56.9	56.1	56.6
Thermal efficiency (%)	**37.6**	37.6	35.5	35.6	35.9	35.9	36.2	36.1	36.3	36.0
Plant availability (%)	**89.0**	89.5	90.9	90.7	87.1	85.6	85.5	88.4	85.7	84.6
Number of switching stations	**24**	24	24	24	24	24	24	24	24	25
Number of zone substations	**27**	27	27	27	27	27	27	27	27	27
Number of customer substations	**3,962**	3,944	3,920	3,912	3,889	3,848	3,818	3,793	3,776	3,755
Number of employees	**1,699**	1,713	1,770	1,763	1,776	1,790	1,801	1,814	1,826	1,820
Capital expenditure (HK$ million) (note 3)	**6,001**	5,485	4,620	3,695	2,929	2,799	2,516	2,252	1,973	2,613

Notes:

1. To achieve Hong Kong's fuel mix target of around 50% gas generation from 2020, HK Electric not only had to build a new gas-fired unit L10, but also defer the retirement of an old gas-fired unit GT57. Instead of the original schedule of 2020, GT57 will now be retired in 2022 when another new gas-fired unit L11 comes into operation. This is an interim measure to achieve government objective. The installed capacity since 2020 without GT57 would otherwise be 3,272 MW.
2. 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. The system was further increased to 1.1 MW in 2021 due to replacement of aged panels with ones of larger capacity.
3. 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
KOH Poh Wah
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
KOH Poh Wah
LEE Lan Yee, Francis

Company Audit Committee

Donald Jeffrey ROBERTS *(Chairman)*
Ronald Joseph ARCULLI
KOH Poh Wah
LEE Lan Yee, Francis

Remuneration Committee

Donald Jeffrey ROBERTS *(Chairman)*
FOK Kin Ning, Canning
FONG Chi Wai, Alex

Nomination Committee

LEE Lan Yee, Francis *(Chairman)*
LI Tzar Kuoi, Victor
Ralph Raymond SHEA

Sustainability Committee

WAN Chi Tin *(Chairman)*
CHENG Cho Ying, Francis
FONG Chi Wai, Alex

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.

CORPORATE INFORMATION

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/hk/contact

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/hk/contact

ADR (Level 1 Programme) Depositary

Deutsche Bank Trust Company Americas
1 Columbus Circle, New York, NY 10019
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	3 August 2021
Annual Results Announcement	15 March 2022
Ex-distribution Date	29 March 2022
Record Date for Final Distribution	30 March 2022
Distribution per Share Stapled Unit	
Interim : HK15.94 cents	27 August 2021
Final : HK16.09 cents	11 April 2022
Closure of Registers	13 May 2022 to 18 May 2022
– Annual General Meeting	(both days inclusive)
Annual General Meeting	18 May 2022

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2021	HK$67,597 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

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 and as amended by the deed of amendment dated 13 May 2020
"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