Financials

We present an accounting view of our 2016 financial performance and where we stood at the end of the year 2016

Approaching Our Financial Statements

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help readers who are not familiar with accounting rules and financial expressions to understand our financial information, by explaining the functions and relationships between the essential financial statements: the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

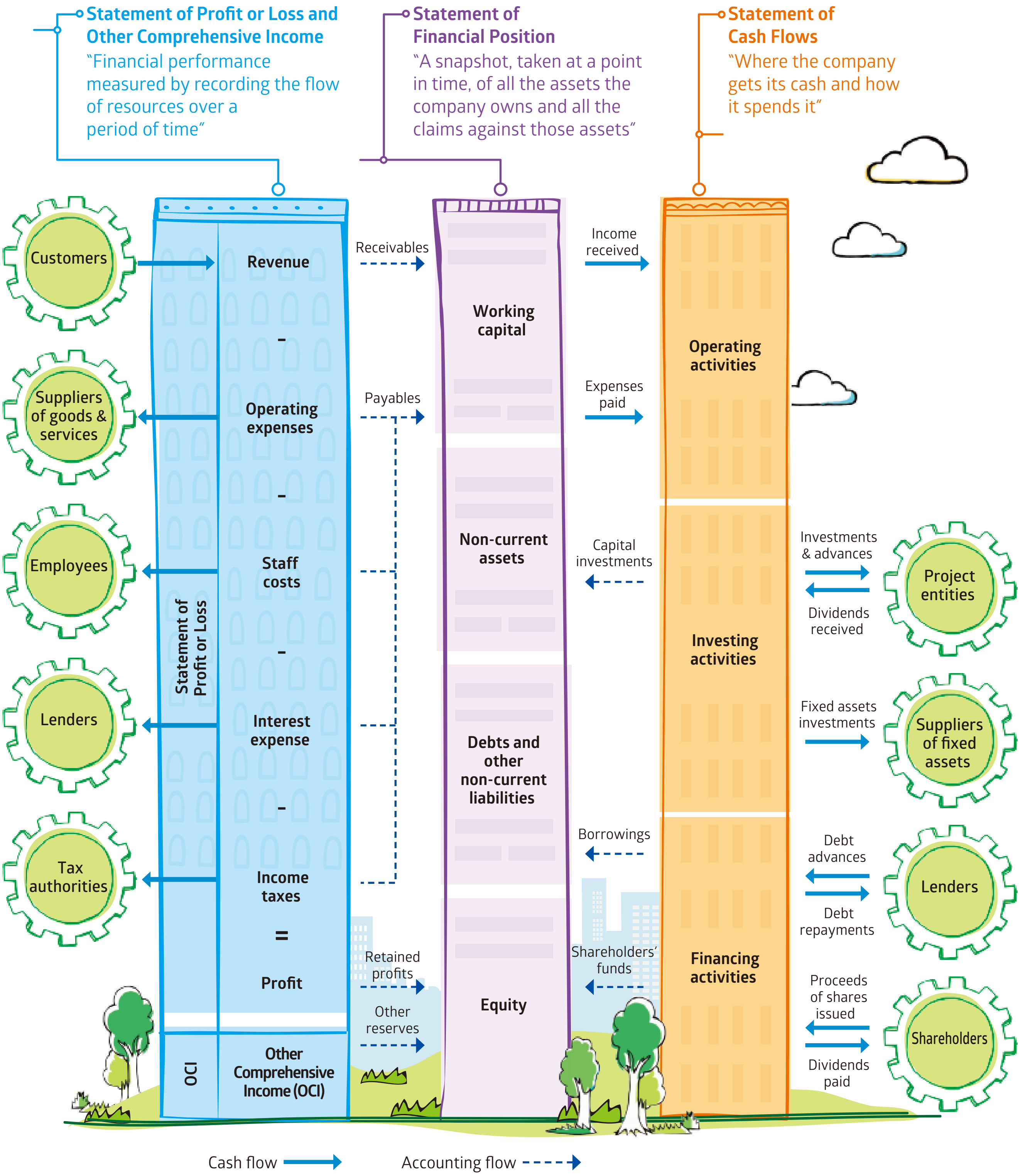
Statement of Profit or Loss and Other Comprehensive Income "Financial performance measured by recording the flow of resources over a period of time"	This statement comprises (a) profit or loss and (b) other comprehensive income ("OCI"). The objective of this statement is to present all income or expenses (transactions with non-owners) in a performance statement. OCI represents certain income and expenses which are not recognised in profit or loss as required or permitted by the relevant accounting standards. An example of OCI in CLP is the exchange losses arising from the translation of our investments in Mainland China in 2016. Transactions with owners such as dividends are presented in the statement of changes in equity.
Statement of Financial Position "A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"	This statement sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2016. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The current name reflects its function more accurately.
Statement of Cash Flows "Where the company gets its cash and how it spends it"	This statement divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders.

Financial Statements Illustrated

The diagram opposite explains the functions and the relationships between the three essential financial statements, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff and interest costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff and interest costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. The Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration



ACCOUNTING MINI-SERIES

HKFRS 9 – New Hedge Accounting Model

In the 2008 Annual Report, our accounting mini-series talked about hedging and how CLP used derivatives to hedge its foreign currency, interest rate and energy price risks. Accounting for these hedging transactions is complicated and has not yet been covered in that accounting mini-series.

Recently, the International Accounting Standard Board issued a new accounting standard, IFRS 9 (equivalent to HKFRS 9) Financial Instruments. HKFRS 9 includes some fundamental changes to HKAS 39 Financial Instruments: Recognition and Measurement which allows an entity to apply hedge accounting where they would not be allowed to do so under HKAS 39. HKFRS 9 has an effective date of 1 January 2018. CLP elects to early adopt this new standard in 2016.

This accounting mini-series will explain hedge accounting and the benefits for early adoption of HKFRS 9.

What is hedging? What benefits can we achieve by applying hedge accounting?

Hedging is a risk management tool with an objective to eliminate or reduce an entity's exposure to a particular risk by entering into a derivative transaction (i.e. a hedging instrument). Risk is reduced because the value or cash flows of the hedging instrument will move inversely and therefore offset, wholly or partly, changes in the value or cash flows of the hedged item. Two hedge accounting models are used in CLP. They are cash flow hedge and fair value hedge.

The accounting standard requires derivatives to be accounted for as if they are trading instruments which have their price movements reported in profit or loss. If the price movements of hedged items do not fall into the same accounting period, this leads to volatility in an entity's profit or loss.

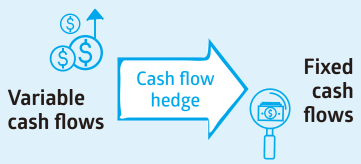
The objective of hedge accounting is to reflect more closely a company's risk management strategies to its financial statements. To achieve this, hedge accounting results in gains or losses arising from the hedging instrument and the hedged item affecting profit or loss in the same accounting period. This reduces volatility in profit or loss and thus, can better reveal the underlying performance of an entity.

Cash Flow Hedge

An entity is exposed to variability in the cash flows of a specific asset or liability, or of a forecasted transaction.

Q: How can I avoid paying more or getting less cash flows in future?

A: Cash flow hedge can lock in the cash flows that you will get or pay.

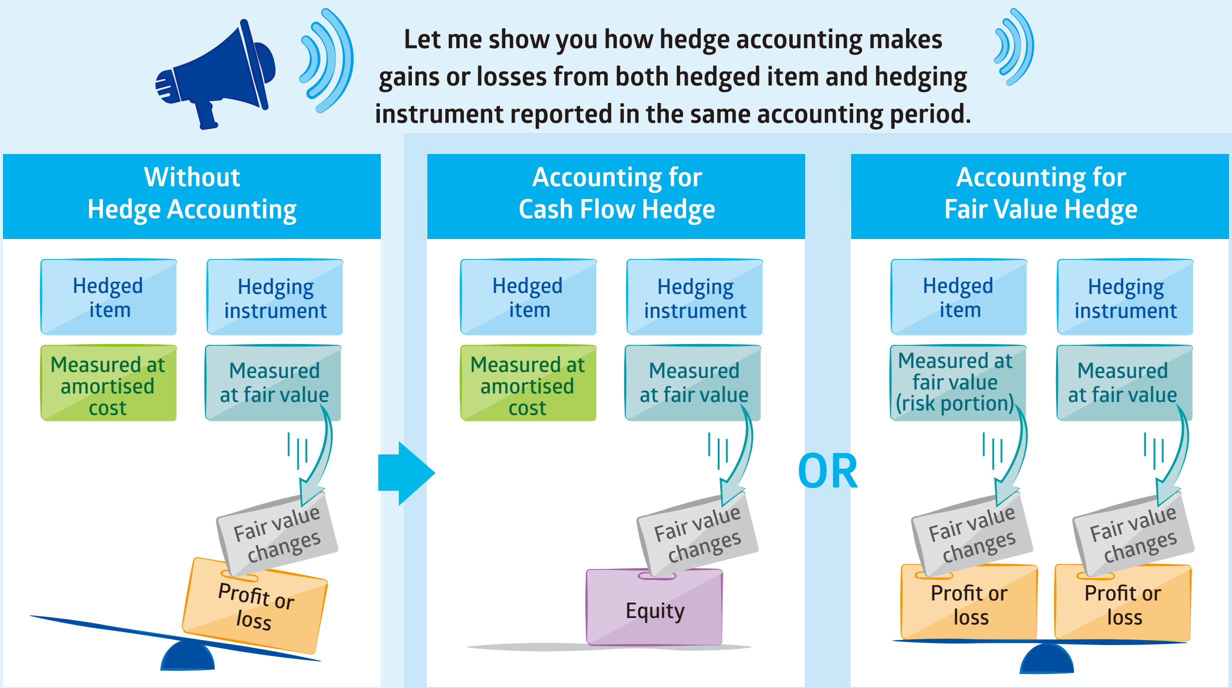


Fair Value Hedge

An entity is exposed to changes in fair market value in relation to recognised asset or liability or unrecognised firm commitment with fixed contractual terms.

Q: How can I avoid paying or receiving a different amount from fair market price in future?

A: Fair value hedge can unlock the fixed terms so as the amount to be paid or received in future is in line with the market.



Hedging instrument is required to have its fair value changes recorded to profit or loss, but not the hedged item. The hedging activity creates volatility in profit or loss due to the timing mismatch.

Fair value gains or losses of hedging instrument are deferred to equity and will affect profit or loss when and only when the hedged item affects profit or loss.

Both hedged item (the risk portion) and hedging instrument have their fair value gains or losses recorded to profit or loss in the same accounting period, therefore the effects offset in profit or loss.

Why do we early adopt HKFRS 9?

Hedge accounting under HKAS 39 is regarded as being complex and ruled-based, thus leading to an entity's risk management activities not qualifying for hedge accounting. The purpose of replacing HKAS 39 by HKFRS 9 is to reflect the effect of an entity's risk management activities to the financial statements. The changes include replacing some of the arbitrary rules by more principle-based requirements. As a result, more risk management activities are now eligible to apply hedge accounting.

CLP has carefully reviewed and assessed the new hedge accounting model and considers it will bring benefits to the Group by applying new hedge accounting on hedging activities. In particular, the introduction of 'costs of hedging' and 'risk component hedge' will bring us the most value.

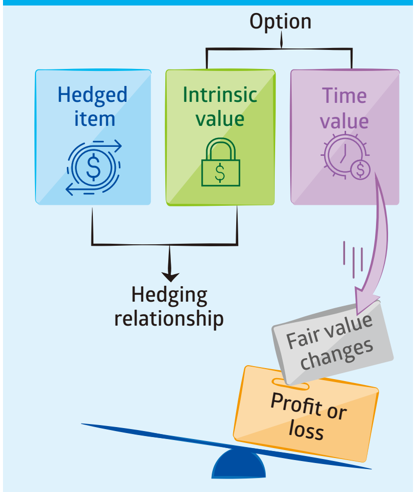
Costs of hedging

Certain components of a hedging instrument bear no economic relationship with a hedged item, which lead to an accounting mismatch in changes in the value or cash flows of the hedging instrument with those of the hedged item. These components include time value of options, forward element of forward contracts and foreign currency basis spread of financial instruments. They result in hedging ineffectiveness or no hedge designation which impact profit or loss.

Let us use an option for illustration. A purchased option can be used to hedge against foreign currency exchange risk of a foreign currency debt. The fair value of an option consists of two elements: the intrinsic value and the time value. The intrinsic value is the difference between the underlying price and the strike price. It limits foreign currency exposure of the foreign currency debt and is qualified for hedge accounting. The time value, however, is unrelated to the hedged risk and therefore, is usually excluded from the hedge designation.

Under HKAS 39, fair value changes of the time value impact profit or loss immediately. This leads to fluctuations in profit or loss. This accounting treatment does not reflect the economic substance of the time value which could be considered as a premium for protection against risk (similar to an insurance premium).

Costs of Hedging Before HKFRS 9



Under the costs of hedging approach set out in HKFRS 9, fair value movements of the time value are recorded in other comprehensive income (part of equity). The initial time value will either be included in the initial cost of the transacted asset or released to profit or loss in a systematic manner depending on the nature of the transaction. The costs of hedging approach can also be applied to forward element of forward contracts and foreign currency basis spread.

Because of the financial market structure and its maturity, option is a more cost effective derivative in hedging foreign currency exposure in India. As at 31 December 2016, CLP India purchased foreign exchange options with a carrying value of HK$37 million to hedge its foreign currency debts. By applying the costs of hedging approach, it will substantially reduce the volatility in profit or loss of CLP India.

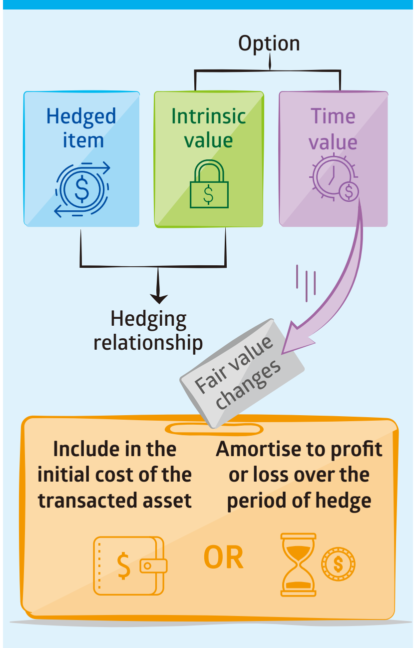
Risk component hedge

HKFRS 9 permits an entity to designate a risk component of a non-financial item as a hedged item in a hedging relationship, provided that it is separately identifiable and reliably measurable.

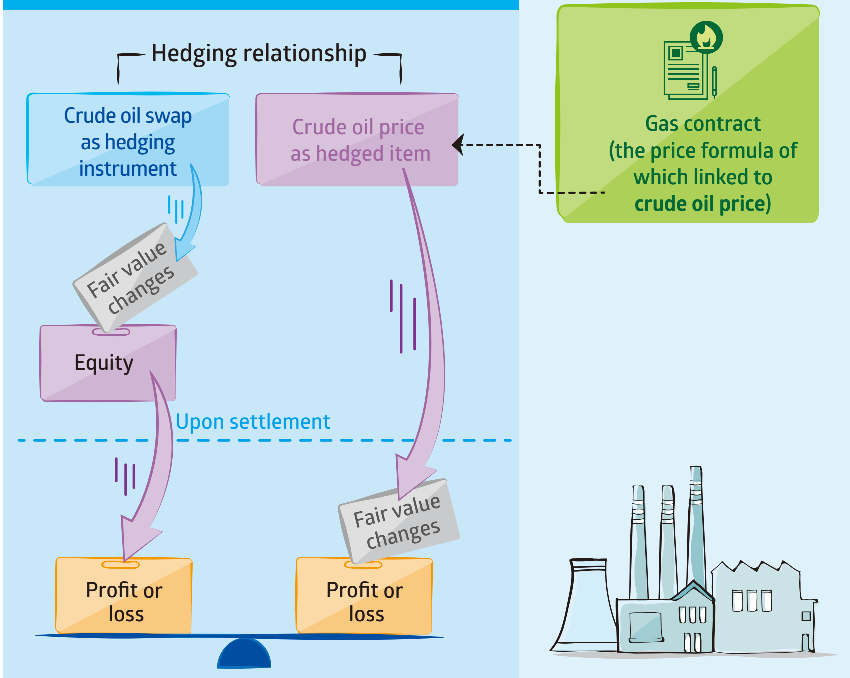
In power industry, purchase or sales agreements of an entity sometimes contain clauses that link the contract price to a benchmark price of a commodity. One typical example is natural gas contract, the price formula of which usually contains a component linked to a crude oil benchmark price. As the crude oil price is identified in the price formula, the exposure is separately identifiable. There is also a market for crude oil and therefore, the crude oil price component can be reliably measured. As such, the crude oil price is a risk component of the natural gas contract and is eligible for designation as a hedged item. The hedging instrument is crude oil swap which fixes the price. Once the hedging activity is qualified for hedge accounting, unrealised fair value movements of the hedging instrument are recorded in other comprehensive income and affect profit or loss when and only when the hedged item affects profit or loss.

In Australia, we operate a retail business supported by our generation portfolio including coal, gas and renewables. To balance the portfolio position between generation and purchases from a central electricity pool and retail sales, we have entered into energy contracts and fuel supply contracts to minimise exposure to fluctuations in the spot prices. HKFRS 9 has given us potential opportunity to hedge designate derivative types that does not qualify for hedge accounting under HKAS 39.

Costs of Hedging Under HKFRS 9



Risk Component Hedge Under HKFRS 9



Independent Auditor's Report

pwc

To the Members of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of CLP Holdings Limited ("the Group Financial Statements") and its subsidiaries ("the Group") set out on pages 172 to 236, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the Group Financial Statements (including financial risk management), which include a summary of significant accounting policies.

In our opinion, the Group Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its 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 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 Group Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group 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.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Group Financial Statements of the current period. These matters were addressed in the context of our audit of the Group Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Fixed asset accounting and the carrying value of EnergyAustralia's generation assets and energy retail business Refer to critical accounting estimates and judgments numbers 1, 2 and 4 and notes 9 and 10 in the Group Financial Statements	
Fixed asset accounting	
Consolidated fixed assets, leasehold land and land use rights were HK$135.6 billion at 31 December 2016. This includes fixed assets relating to CLP Power Hong Kong and CAPCO (together the SoC Companies) which are the base used in the calculation of the permitted return under the Scheme of Control (SoC) Agreement.	Our procedures related to the Group's fixed assets and the SoC included: • Assessing the control environment and testing controls over additions, disposals and depreciation charges and substantively testing these on a sample basis; • Assessing the estimated useful lives of the fixed assets for compliance with the SoC;

Key Audit Matter	***How our audit addressed the Key Audit Matter***
Fixed asset accounting (continued)	
The SoC provides for a permitted return of 11.00% and 9.99% on the average net fixed asset value attributable to renewable energy investments and other energy investments respectively (the SoC fixed assets). Any difference between the actual profit earned by the SoC Companies and the permitted return for the year is transferred to or from the Tariff Stabilisation Fund (TSF) by way of an adjustment to revenue. The TSF was a liability in the Statement of Financial Position at 31 December 2016. The completeness and accuracy of SoC fixed asset additions, disposals and depreciation charges is important to ensure the permitted return is calculated correctly.	• Testing the depreciation charges through reperformance of a sample of depreciation calculations and assessing the useful lives of assets; • Reconciling the fixed asset records from the beginning of the financial year to the end of the financial year; • Recalculating the permitted return for the year; and • Recalculating the adjustment to revenue for the year. Based on the work performed, we found that the Group's fixed asset accounting and the SoC permitted return calculation are supported by the available evidence.
The carrying value of EnergyAustralia's generation assets and energy retail business	
EnergyAustralia has goodwill of HK$15,269 million relating to the energy retail business in Australia and HK$8,746 million of generation fixed assets. Management has assessed the recoverable amount of EnergyAustralia's energy retail business and its generation assets at 31 December 2016 and concluded that the carrying values remain appropriate. These conclusions were based on value in use models requiring significant management judgment over the key assumptions as set out in critical accounting estimates and judgments number 1 and 2 and note 10 in the Group Financial Statements.	Our procedures in respect of management's assessment of the carrying value of the generation assets (where required) and the energy retail business included: • Assessing the appropriateness of the valuation methodology; • Reconciling input data to supporting evidence, such as approved business plans; • Considering the accuracy of the prior year forecasts against past results; • Challenging the reasonableness of the key assumptions based on our knowledge of the business and the industry; • Assessing the potential impact of reasonably possible downside changes in these key assumptions; and • Checking that the key assumptions used in the value in use calculations have been appropriately disclosed. Based on the work performed, we found that the carrying value of EnergyAustralia's energy retail business and generation assets were supported by the available evidence and the key assumptions have been appropriately disclosed in the critical accounting estimates and judgments number 1 and 2 and note 10 in the Group Financial Statements.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Recoverability of trade receivables Refer to critical accounting estimates and judgments number 7 and note 16 in the Group Financial Statements	
CLP Power Hong Kong and EnergyAustralia have significant retail businesses with many individual customers. The offtakers for the Group's other generation businesses are mainly a small number of state grid operators. Provisions are made for expected credit losses when the Group will not collect all amounts due. Management judgment is required in assessing the expected credit losses. Expected credit losses in CLP Power Hong Kong are close to zero as the trade receivables are mostly secured by cash deposits or bank guarantees from customers and have no recent history of default. EnergyAustralia has trade receivables of HK$6,236 million at 31 December 2016 against which provisions for expected credit losses of HK$912 million are held. Management estimated the level of expected losses, with reference to historical observed default rates and forward looking economic factors. CLP India's renewable projects have trade receivables of HK$596 million of which HK$563 million are past due. Management has assessed the recoverability of past-due amounts and concluded no credit loss provision is required.	Our procedures on trade receivables included: • Testing controls on a sample basis over the billing and collection cycle in EnergyAustralia; • Assessing the appropriateness of the credit loss provisioning methodology; • Testing the trade receivables aging analysis; • Challenging the information used to determine the expected credit losses by considering cash collection performance against historical trends and the level of credit loss charges over time; • Reviewing the accuracy of management's judgment by comparing historical provisions against actual write-offs; • Reviewing minutes of the board of directors relating to the recoverability of trade receivables; and • Understanding the nature of trade receivables from the state grid operators of CLP India's renewable projects and reading correspondence with the customers and reviewing Court Orders. We found management's assessment of the recoverability of trade receivables to be supported by the available evidence.
Asset retirement obligations (ARO) Refer to critical accounting estimates and judgments number 3 in the Group Financial Statements	
Provisions of HK$415 million are held for estimated remediation costs, discounted to present value, where the Group has a legal or constructive obligation for remediation. Estimating the amount and timing of the obligation requires significant judgment. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates. Management considers that the land currently used for the transmission and distribution network and generation facilities in Hong Kong will continue to be used for electricity supply for the foreseeable future. As such, no ARO has been recognised. The provisions mainly relate to land remediation of generation assets in Australia, which includes the Group's brown coal mine site in Yallourn. Significant judgment is required in determining the quantum of the provision which reflects the expected remediation method for the mine site.	Our procedures on AROs included: • Assessing the appropriateness of the Group's accounting policy; • Evaluating management's conclusion that it is remote that the Hong Kong transmission and distribution network and power stations would be removed from the existing land sites; • Assessing management's judgments as to whether a contractual or constructive obligation exists based on the respective Power Purchase Agreements, lease agreements, local laws and regulations and past practice; and • Testing the appropriateness of management's estimates of costs, timing and discount rates. Based on the work performed, the provisions recorded and disclosures made are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Legal matters Refer to critical accounting estimates and judgments number 8 and note 30 in the Group Financial Statements	
Provisions are recognised for legal matters when it is probable that a material outflow of resources will be required. When a material outflow of resources is not probable, the matter is disclosed unless the probability of outflow of resources is remote. From time-to-time the Group experiences legal disputes with offtakers, service providers and other third parties. Significant management judgment is required to assess each such matter and based on legal advice whether the probability of a material outflow of economic resources will occur and that a provision should be recognised or a disclosure made. There is a dispute between CLP India and its offtaker — Gujarat Urja Vikas Nigam Limited in relation to the deemed generation incentive payment and interest on deemed loans. The total claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$975 million) at 31 December 2016. On the basis of legal advice obtained, the Directors are of the opinion that CLP India has a strong case and no provision has been made.	Our procedures on management's assessment of legal matters included: • Assessing the processes and controls over legal matters; • Reviewing the Group's significant legal matters and other contractual claims; • Reviewing board of directors' minutes on discussions relating to legal matters; • Obtaining written confirmation from external legal counsel on the status of legal claims; • Challenging management's judgments and assessments whether provisions are required; • Considering management's assessment of those matters that are not disclosed as the probability of material outflow is considered to be remote; and • Reviewing the adequacy and completeness of the Group's disclosures. Based on the work performed, we found the provisions recorded and disclosures made are supported by the available evidence.

Other Information

The directors of the Company are responsible for the Other Information. The Other Information comprises all the information in the Group's 2016 annual report (other than the Group Financial Statements and our auditor's report thereon) ("Other Information").

Our opinion on the Group 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 Group Financial Statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group 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 Directors and the Audit Committee for the Group Financial Statements

The directors of the Company are responsible for the preparation of the Group 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 the Group Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group Financial Statements, the directors are responsible for assessing 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 Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process on behalf of the Board of Directors.

Auditor's Responsibilities for the Audit of the Group Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group 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. We report our opinion solely to you, as a body, 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 Group Financial Statements.

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

- Identify and assess the risks of material misstatement of the Group 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 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 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 Group 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group Financial Statements, including the disclosures, and whether the Group Financial Statements 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 Group to express an opinion on the Group Financial Statements. 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 Committee 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 Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group Financial Statements 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 Sean William Tuckfield.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 February 2017

Consolidated Statement of Profit or Loss

for the year ended 31 December 2016

	Note	2016 HK$M	2015 HK$M (Restated)*
Revenue	3	**79,434**	80,700
Expenses			
Purchases of electricity, gas and distribution services		**(31,743)**	(31,280)
Staff expenses		**(3,892)**	(3,649)
Fuel and other operating expenses		**(19,744)**	(25,886)
Depreciation and amortisation		**(6,909)**	(6,765)
		(62,288)	(67,580)
Other gain		**–**	8,900
Operating profit	4	**17,146**	22,020
Finance costs	5	**(2,261)**	(4,106)
Finance income	5	**137**	170
Share of results, net of income tax			
Joint ventures	11	**737**	1,357
Associates	12	**904**	888
Profit before income tax		**16,663**	20,329
Income tax expense	6	**(2,855)**	(3,580)
Profit for the year		**13,808**	16,749
Earnings attributable to:			
Shareholders		**12,711**	15,656
Perpetual capital securities holders		**247**	247
Other non-controlling interests		**850**	846
		13,808	16,749
Earnings per share, basic and diluted	8	**HK$5.03**	HK$6.20

* Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 (2014) Financial Instruments (HKFRS 9) about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies.

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2016

	2016 HK$M	2015 HK$M (Restated)*
Profit for the year	**13,808**	16,749
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**(1,443)**	(3,728)
Cash flow hedges	**838**	(37)
Costs of hedging	**(187)**	(127)
Fair value changes on equity investments	**–**	(63)
Share of other comprehensive income of joint ventures	**20**	16
	(772)	(3,939)
Items that cannot be reclassified to profit or loss		
Fair value changes on equity investments	**(115)**	–
Share of other comprehensive income of joint ventures	**34**	79
	(81)	79
Other comprehensive income for the year, net of tax	**(853)**	(3,860)
Total comprehensive income for the year	**12,955**	12,889
Total comprehensive income attributable to:		
Shareholders	**11,865**	11,800
Perpetual capital securities holders	**247**	247
Other non-controlling interests	**843**	842
	12,955	12,889

* Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies.

This statement of profit or loss and other comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". The concept of other comprehensive income is explained on page 162. Further details of other comprehensive income attributable to shareholders are presented in Note 24.

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2016

	Note	2016 HK$M	2015 HK$M
Non-current assets			
Fixed assets	*9*	**130,189**	127,801
Leasehold land and land use rights under operating leases	*9*	**5,444**	5,542
Investment properties	*9*	**3,788**	2,669
Goodwill and other intangible assets	*10*	**27,653**	28,257
Interests in and loan to joint ventures	*11*	**9,971**	11,250
Interests in associates	*12*	**813**	785
Finance lease receivables	*13*	**713**	799
Deferred tax assets	*20*	**981**	1,690
Derivative financial instruments	*14*	**1,519**	1,078
Equity investments	*15*	**1,528**	1,644
Other non-current assets		**181**	174
		182,780	181,689
Current assets			
Inventories – stores and fuel		**2,565**	3,110
Renewable energy certificates		**1,424**	902
Trade and other receivables	*16*	**13,799**	13,812
Finance lease receivables	*13*	**51**	52
Derivative financial instruments	*14*	**692**	600
Bank balances, cash and other liquid funds	*17*	**4,667**	3,799
		23,198	22,275
Current liabilities			
Customers' deposits	*16(a)*	**(4,999)**	(4,829)
Trade and other payables	*18*	**(19,921)**	(19,023)
Income tax payable		**(792)**	(651)
Bank loans and other borrowings	*19*	**(10,651)**	(13,189)
Derivative financial instruments	*14*	**(977)**	(595)
		(37,340)	(38,287)
Net current liabilities		**(14,142)**	(16,012)
Total assets less current liabilities		**168,638**	165,677

	Note	2016 HK$M	2015 HK$M
Financed by:			
Equity			
Share capital	*23*	**23,243**	23,243
Reserves	*24*	**74,767**	69,875
Shareholders' funds		**98,010**	93,118
Perpetual capital securities	*25*	**5,791**	5,791
Other non-controlling interests		**1,972**	2,023
		105,773	100,932
Non-current liabilities			
Bank loans and other borrowings	*19*	**40,995**	42,294
Deferred tax liabilities	*20*	**13,819**	13,476
Derivative financial instruments	*14*	**1,580**	2,802
Fuel clause account	*21*	**2,867**	2,226
Scheme of Control (SoC) reserve accounts	*22*	**860**	1,009
Asset decommissioning liabilities	*22(A)*	**916**	1,025
Other non-current liabilities		**1,828**	1,913
		62,865	64,745
Equity and non-current liabilities		**168,638**	165,677

The more familiar name for the Statement of Financial Position is "Balance Sheet".

The Company's statement of financial position is presented in Note 31.

William Mocatta
Vice Chairman
Hong Kong, 27 February 2017

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Attributable to Shareholders					
	Share Capital HK$M	Reserves HK$M	Total HK$M	Perpetual Capital Securities HK$M	Other Non-controlling Interests HK$M	Total Equity HK$M
Balance at 1 January 2015	23,243	64,770	88,013	5,791	2,155	95,959
Profit for the year, as restated*	–	15,656	15,656	247	846	16,749
Other comprehensive income for the year, as restated*	–	(3,856)	(3,856)	–	(4)	(3,860)
Dividends paid						
2014 fourth interim	–	(2,526)	(2,526)	–	–	(2,526)
2015 first to third interim	–	(4,169)	(4,169)	–	–	(4,169)
Distributions to perpetual capital securities holders	–	–	–	(247)	–	(247)
Dividends paid to other non-controlling interests of subsidiaries	–	–	–	–	(974)	(974)
Balance at 31 December 2015	23,243	69,875	93,118	5,791	2,023	100,932
Balance at 1 January 2016	23,243	69,875	93,118	5,791	2,023	100,932
Profit for the year	–	12,711	12,711	247	850	13,808
Other comprehensive income for the year	–	(846)	(846)	–	(7)	(853)
Acquisition of a subsidiary (Note 9(b))	–	–	–	–	53	53
Contribution from other non-controlling interest of a subsidiary	–	–	–	–	9	9
Dividends paid						
2015 fourth interim	–	(2,653)	(2,653)	–	–	(2,653)
2016 first to third interim	–	(4,320)	(4,320)	–	–	(4,320)
Distributions to perpetual capital securities holders	–	–	–	(247)	–	(247)
Dividends paid to other non-controlling interests of subsidiaries	–	–	–	–	(956)	(956)
Balance at 31 December 2016	**23,243**	**74,767**	**98,010**	**5,791**	**1,972**	**105,773**

* Comparative figures have been restated in accordance with the transitional provisions of HKFRS 9 about certain requirements of hedge accounting. Details are set out in Note 3 of Significant Accounting Policies.

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2016

	Note	2016 HK$M	2016 HK$M	2015 HK$M	2015 HK$M
Operating activities					
Net cash inflow from operations	*26(A)*	**25,353**		20,994	
Interest received		**137**		161	
Income tax paid		**(1,814)**		(1,987)	
Net cash inflow from operating activities			**23,676**		19,168
Investing activities					
Capital expenditure		**(9,756)**		(10,871)	
Capitalised interest and other finance costs paid		**(244)**		(278)	
Proceeds from disposal of fixed assets		**848**		46	
Additions of other intangible assets		**(308)**		(166)	
Acquisitions of subsidiaries	*9(b)*	**(236)**		–	
Deposit paid for acquisition of an associate	*28(B)*	**(568)**		–	
Proceeds from sale of subsidiaries	*4(d)*	**–**		9,991	
Proceeds from sale of a joint venture		**–**		202	
Deposits for sale of subsidiaries refunded		**–**		(283)	
Increase in equity investments		**(1)**		(1)	
Repayment of advances from / (investments in and advances to) joint ventures and associates		**2**		(930)	
Dividends received from					
Joint ventures		**1,035**		2,440	
Associates		**889**		796	
Equity investments		**43**		120	
Net cash (outflow) / inflow from investing activities			**(8,296)**		1,066
Net cash inflow before financing activities			**15,380**		20,234
Financing activities					
Proceeds from long-term borrowings		**12,226**		41,405	
Repayment of long-term borrowings		**(15,651)**		(50,384)	
(Decrease) / increase in short-term borrowings		**(764)**		210	
Interest and other finance costs paid		**(1,901)**		(3,841)	
(Decrease) / increase in advances from other non-controlling interests		**(31)**		21	
Contribution from other non-controlling interest of a subsidiary		**9**		–	
Distributions paid to perpetual capital securities holders		**(247)**		(247)	
Dividends paid to shareholders		**(6,973)**		(6,695)	
Dividends paid to other non-controlling interests of subsidiaries		**(956)**		(974)	
Net cash outflow from financing activities			**(14,288)**		(20,505)
Net increase / (decrease) in cash and cash equivalents			**1,092**		(271)
Cash and cash equivalents at beginning of year			**3,565**		4,036
Effect of exchange rate changes			**(190)**		(200)
Cash and cash equivalents at end of year	*26(B)*		**4,467**		3,565

The notes and disclosures on pages 178 to 236 are an integral part of these consolidated financial statements.

Significant Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, other significant accounting policies are set out below.

1. Basis of Preparation

The Company, CLP Holdings Limited, and its subsidiaries are collectively referred to as the Group in the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) and investment properties which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are especially significant to the consolidated financial statements, are disclosed in Critical Accounting Estimates and Judgments on pages 186 to 188.

2. Changes in Accounting Policies

(A) Amended standards effective from 1 January 2016

The Group has adopted the following amendments to standards effective from 1 January 2016. The adoption of these amendments has had no significant impact on the results and financial position of the Group.

- Amendments to HKAS 1 Disclosure Initiative. This is the IASB project to improve presentation and disclosure in the financial statements. The amendments clarify materiality requirements and are explicit that companies have flexibility as to the order in which they present the notes to the financial statements. Line items should be disaggregated on primary statements if this provides helpful information to users and can be aggregated on the statement of financial position if the line items specified by HKAS 1 are immaterial. Shares of other comprehensive income of associates and joint ventures are split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as single line items within those two groups.
- Annual Improvements to HKFRS 2012-2014 Cycle. The improvements include clarifications of changes in method of disposal under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations; continuing involvement for services contracts under HKFRS 7 Financial Instruments: Disclosures; and discount rates applied in HKAS 19 Employee Benefits.

(B) New standard effective after 2016 that has been early adopted in 2016

The Group has early adopted HKFRS 9 with the date of initial application on 1 January 2016 which resulted in changes in accounting policies and adjustments to certain amounts recognised in the financial statements. The new accounting policies replace the provisions of HKAS 39 Financial Instruments: Recognition and Measurement (HKAS 39) in relation to (i) recognition, classification and measurement of financial assets and financial liabilities; (ii) derecognition of financial instruments; (iii) impairment of financial assets; and (iv) hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 Financial Instruments: Disclosures. The new accounting policies provide more reliable and relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

Details of impact on the adoption of HKFRS 9 are set out in Note 3 below.

(C) New and amended standards effective after 2016 and have not yet been adopted

The following new standards and amendments to standards have been issued and are effective after 2016. The Group has not early adopted them for the year ended 31 December 2016.

- HKFRS 15 Revenue from Contracts with Customers establishes a new framework for revenue recognition. It introduces a five-step model in order to determine when and how to recognise revenue. Revenue is recognised when a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. The standard is not expected to have any material impact to the revenue recognition of the Group. The Group is yet to finalise the assessment of the full impact of HKFRS 15. The mandatory effective date is 1 January 2018, with early application allowed.

2. Changes in Accounting Policies (continued)

(C) New and amended standards effective after 2016 and have not yet been adopted (continued)

- HKFRS 16 Leases introduces a substantial change to lease accounting. The standard requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under the current accounting standard. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Recognition for the lessor will remain essentially unchanged. The standard will bring an increase in both assets and liabilities to the Group for lease contracts currently classified as operating leases. As the lease expense is front-loaded, it will also have impact on profit or loss. The Group's operating leases include leases for land and buildings and power purchase contracts. The Group is yet to assess the full impact of HKFRS 16. The mandatory effective date is 1 January 2019, with early application allowed if HKFRS 15 Revenue from Contracts with Customers is also applied.
- Amendments to HKAS 7 Disclosure Initiative require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses clarify that a company needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. These two amendments are not expected to have impact on the results and financial position of the Group. The mandatory effective date is 1 January 2017.

3. Effect on Adoption of HKFRS 9

The general principle of HKFRS 9 is to apply the standard retrospectively in accordance with HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, except for hedge accounting, which is to be applied prospectively apart from certain limited retrospective application. For the new classification and measurement requirements, the Group has elected for the exception from the requirement to restate comparative information as set out in the transitional provisions. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. For hedge accounting, except for the costs of hedging as described in (B)(c) below which are applied retrospectively, the general hedge accounting requirements are applied prospectively. Accordingly, comparative information is adjusted for the retrospective application of costs of hedging.

(A) Changes in accounting policies

The changes in the accounting policies and the effects of the resulting changes are summarised below:

At initial recognition, for financial assets not carried at fair value through profit or loss, the Group measures them at their fair values plus transaction costs that are directly attributable to the acquisition of the financial assets. For financial assets carried at fair value through profit or loss, transaction costs are expensed in profit or loss.

(a) Debt instruments

Debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are subsequently measured at amortised cost. A gain or loss on a debt instrument that is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

(b) Equity investments

Equity investments are subsequently measured at fair value through profit or loss. However, at initial recognition, the Group is permitted to make an irrevocable election (on an instrument-by-instrument basis) to present in other comprehensive income subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination. For those elected equity investments, there is no subsequent reclassification of fair value gains and losses to profit or loss.

3. Effect on Adoption of HKFRS 9 (continued)

(A) Changes in accounting policies (continued)

(c) Impairment of financial assets

The impairment of financial assets has changed from the incurred loss model under HKAS 39 to the expected credit loss model under HKFRS 9. Under the new expected loss approach, it is no longer necessary for a loss event to occur before an impairment loss is recognised. Impairment is made on the expected credit losses, which are the present value of the cash shortfalls over the expected life of the financial assets. The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and finance lease receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) Costs of hedging

When a forward contract is used in a hedge transaction, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains and losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in other comprehensive income if it is designated as a cash flow hedge or are recognised in profit or loss if it is designated as a fair value hedge. The Group may also elect to designate only the change in fair value of the forward contract related to the spot component as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in the spot component of the forward contract are recognised in other comprehensive income if it is designated as a cash flow hedge or are recognised in profit or loss if it is designated as a fair value hedge. The change in fair value of the forward element of the contract that relates to the hedged item (aligned forward element) is recognised in other comprehensive income and is accumulated in a separate component of equity. The aligned forward element at the date of designation of the forward contract as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

When an option contract is used in a time-period related hedge transaction, the Group designates only the intrinsic value of the option contract as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the option contract are recognised in other comprehensive income if it is designated as a cash flow hedge or are recognised in profit or loss if it is designated as a fair value hedge. The change in fair value of the time value of the option contract that relates to the hedged item (aligned time value) is recognised in other comprehensive income and is accumulated in a separate component of equity. The aligned time value at the date of designation of the option as a hedging instrument is amortised on a systematic and rational basis to profit or loss over the period.

When a financial instrument that involves exchanges of cash flows that are denominated in different currencies is used in a hedge transaction, the foreign currency basis spread of the instrument is separated and excluded from the designated hedging instrument. The change in fair value of this excluded portion (to the extent it relates to the hedged item) is recognised in other comprehensive income and is accumulated in a separate component of equity. For time-period related hedged items, the excluded portion at the date of designation (to the extent that it relates to the hedged item) is amortised on a systematic and rational basis to profit or loss over the period. For transaction related hedged items, the cumulative change of excluded portion is included in the initial carrying amount of non-financial asset recognised when the hedged transaction occurs or is recognised in profit or loss if the hedged transaction affects profit or loss.

Effect on adoption of HKFRS 9 by CLP is summarised below:

(1) Classification and measurement – equity investments of the Group are reclassified from available-for-sale to fair value through other comprehensive income;

(2) Impairment on financial assets – the new expected credit loss model has had no material impact to the Group's financial assets; and

(3) Hedge accounting – the retrospective application of costs of hedging has resulted in reclassification of opening balances of reserves of 2015 and 2016 and immaterial adjustments to 2015 profit or loss and other comprehensive income.

3. Effect on Adoption of HKFRS 9 (continued)

(B) Effects of changes in accounting policies

(a) Classification and measurement of financial instruments

All classes of financial assets and financial liabilities had the same carrying amounts in accordance with HKAS 39 and HKFRS 9 on 1 January 2016. The Group elected to present changes in the fair value of all its equity investments (previously classified as available-for-sale investments) in other comprehensive income as they are long-term and strategic investments. As a result, available-for-sale investments with an aggregated fair value of HK$1,644 million were reclassified to equity investments at fair value through other comprehensive income on 1 January 2016. Other than the change in the classification of equity investments, the classification of other financial assets and liabilities remained unchanged.

(b) Impairment of financial assets

The Group's significant financial assets which are subject to the new expected credit loss model include: (i) loan to a joint venture; (ii) trade receivables; and (iii) finance lease receivables.

The Group has revised its impairment methodology in accordance with HKFRS 9 for each of these classes of assets. The results of the revision at 1 January 2016 are described below.

(i) Loan to a joint venture

For loan to a joint venture, management consider that its credit risk has not increased significantly since initial recognition as the joint venture has a low risk of default and a strong capacity to meet contractual cash flows. The impairment provision is determined based on the 12-month expected credit losses which are close to zero.

(ii) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. The adoption of the simplified expected loss approach under HKFRS 9 has not resulted in any material impact to the carrying value of trade receivables as at 1 January 2016.

(iii) Finance lease receivables

Finance lease receivables relate to a power purchase agreement under which CLP India Private Limited (CLP India) sells all of its electricity output to an offtaker are assessed individually and measured at an amount equal to lifetime expected credit losses. By considering both historical and forward looking elements, the Group considers that lifetime expected credit losses are close to zero.

(c) Hedge accounting

The Group applies the new hedge accounting model prospectively from 1 January 2016. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9. The impact of changes in hedge effectiveness testing and in accounting for cash flow hedges was not material.

Under HKAS 39, changes in fair value of the time value of an option are required to be recognised in profit or loss, giving rise to volatility. However, HKFRS 9 allows the change in fair value of the time value to be deferred in other comprehensive income. Retrospective adjustment for the time value of options is required on transition to HKFRS 9, resulting in a reclassification adjustment to the Group's reserves at 1 January 2015.

Upon transition to HKFRS 9, the Group has elected the option to exclude forward elements of forward contracts and foreign currency basis spreads of financial instruments from the designation of hedging relationships. This change in accounting policy is applied retrospectively, resulting in a reclassification adjustment to the Group's reserves at 1 January 2015.

3. Effect on Adoption of HKFRS 9 (continued)

(B) Effects of changes in accounting policies (continued)

(c) Hedge accounting (continued)

The tables below summarise the adjustments made to reflect the adoption of HKFRS 9:

	1 January 2016			1 January 2015		
	Retained Profits HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Retained Profits HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M
As previously reported under HKAS 39 (Note 24)	72,953	360	–	63,994	561	–
Reclassification of costs of hedging						
Time value of options	(4)	–	4	(6)	–	6
Forward element of forward contracts	–	(19)	19	–	29	(29)
Foreign currency basis spread	(66)	(179)	245	(50)	(368)	418
Restated under HKFRS 9 (Note 24)	72,883	162	268	63,938	222	395

	For the year ended 31 December 2015		
	As previously reported under HKAS 39	Adjustments	Restated under HKFRS 9
Consolidated Statement of Profit or Loss			
Finance costs (HK$M)	(4,090)	(16)	(4,106)
Income tax expense (HK$M)	(3,582)	2	(3,580)
Earnings attributable to shareholders (HK$M)	15,670	(14)	15,656
Earnings per share, basic and diluted (HK$)	6.20	–	6.20
Consolidated Statement of Profit or Loss and Other Comprehensive Income			
Cash flow hedges (HK$M)	(178)	141	(37)
Costs of hedging (HK$M)	–	(127)	(127)

4. Consolidation

(A) Basis of consolidation

The consolidated financial statements of the Group incorporate the financial statements of the Company and its subsidiaries made up to 31 December and include the Group's interests in joint ventures and associates on the basis set out in (B) below.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

The financial statements of subsidiaries acquired during the year are included in the consolidated financial statements from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary to ensure consistency with the policies adopted by the Group, adjustments are made to the financial statements of subsidiaries, joint ventures and associates.

(B) Joint ventures and associates

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

4. Consolidation (continued)

(B) Joint ventures and associates (continued)

An associate is an entity over which the Group has significant influence but not control nor joint control over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint ventures / associates are accounted for using the equity method. They are initially recognised at cost. Subsequent to initial recognition, the consolidated financial statements include the Group's share of post-acquisition profit or loss and other comprehensive income, until the date on which joint control or significant influence ceases. Distributions received from an investee reduce the carrying amounts of the investments.

(C) Change in ownership interests

Transactions with non-controlling interests are treated as transactions with equity owners of the Group. For purchases of ownership interests from non-controlling interests, the difference between any consideration paid and the relevant share of the carrying value of net assets of a subsidiary acquired is recorded in equity. For disposal of ownership interests to non-controlling interests that do not result in loss of control, gains or losses on disposals to non-controlling interests are also recorded in equity.

If the ownership interest in a joint venture or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate. Gains or losses on disposals are recognised in profit or loss.

For changes in ownership interests that result in loss of control of subsidiaries, loss of joint control in joint ventures or loss of significant influence in associates, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as a joint venture, associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss.

A quick guide to the classification of different entities:

Control → Subsidiary
Joint Control → Joint Venture
Significant Influence → Associate
Less than Significant Influence → Equity Investment

5. Impairment of Non-Financial Assets

Non-financial assets that have indefinite useful lives are not subject to amortisation. They are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable and, in any case, at least annually. Non-financial assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units (CGUs)). Goodwill arising from a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognised for the amount by which the carrying amount of an asset or a CGU exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset or a CGU less costs of disposal and its value in use.

An impairment loss recognised in prior years for an asset other than goodwill is reversed when there is a favourable change in the estimates used to determine the recoverable amount of an asset. A reversal of the impairment loss is limited to the asset's carrying amount (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

Indefinite useful life ≠ Infinite useful life

An indefinite useful life only means that there is no foreseeable limit to the period over which an asset is expected to generate cash flows to the Group. It does not necessarily mean that it will generate such cash flows forever.

6. Inventory

Inventory comprises stores and fuel and is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for stores, coal and gas. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

7. Renewable Energy Products

Renewable energy and energy efficiency schemes operate through the creation, trade and surrender of energy products. Renewable energy certificates are recognised upon the risks and rewards transferring to the Group and are measured at the lower of cost or net realisable value. Cost is calculated on the weighted average basis. The Group's forward obligations under the contracts are classified as future operating commitments.

8. Employee Benefits

(A) Retirement benefits

The Group operates and / or participates in a number of defined contribution plans. The assets of these plans are held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the participating companies of the Group, and provide benefits linked to contributions and investment returns on the plans. The Group has no further legal or constructive payment obligations if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods, once the contributions have been paid.

Forfeited contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) are not used to offset existing contributions but are credited to a reserve account of that provident fund, and are available for distribution at the discretion of the relevant employers.

Contributions to the defined contribution plans are recognised as expenses in the year to which the contributions relate, except to the extent that they are capitalised as part of the cost of qualifying assets.

(B) Incentive bonus and employee leave entitlement

Provisions are made for the estimated liability for incentive bonus and employee leave entitlement as a result of services rendered by employees up to the end of the reporting period, where there is a contractual obligation or past practice has created a constructive obligation.

9. Foreign Currency Translation

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Hong Kong dollar, which is the Group's presentation currency.

Foreign currency transactions are translated into the relevant functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies by using the exchange rates at the end of the reporting period are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

For subsidiaries, joint ventures and associates that have a functional currency different from the Group's presentation currency for the purpose of consolidation, assets and liabilities for each statement of financial position presented are translated using the closing rate at the end of the reporting period; whilst income and expenses for each statement of profit or loss presented are translated at the average exchange rate for the reporting period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transactions). All resulting exchange differences are recognised in other comprehensive income and as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated using the closing rate at the end of the reporting period.

9. Foreign Currency Translation (continued)

Upon disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary / loss of joint control over a joint venture / loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in a joint venture or associate that do not result in the Group losing joint control or significant influence) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Monetary assets and liabilities are assets to be received and liabilities to be paid in fixed amounts. For example, a trade receivable is a monetary asset (the amount to be received is fixed) but a fixed asset is not a monetary asset because it is uncertain how much you will receive if the fixed asset is to be sold.

A company entity can have both functional currency and presentation currency; however, a consolidation group can only have presentation currency but not functional currency. This is because presentation currency is a matter of choice but functional currency is based on the different primary economic environment in which each group entity is operating.

10. Leases

Leases of assets in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under an operating lease is amortised on a straight-line basis over the term of the lease to profit or loss.

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at their commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments. A fixed asset held under a finance lease is depreciated over the shorter of its useful life or the lease term. The corresponding rental obligations, net of finance charges, are included as obligations under finance leases in current and non-current liabilities. Where assets are leased out under a finance lease, the present value of the lease receipts is recognised as a receivable.

For a finance lease, each lease receipt / payment is allocated between the receivable / liability and finance income / charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease receipt / payment is recognised in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable / liability for each period.

CLP believes that understanding financial statements is a right, not a privilege. To help those unfamiliar with accounting terms read our financial statements, we have developed an accounting "mini-series" to explain various accounting concepts which are applicable to the operations of the Group over the years. Readers who are interested in our expanded discussions on the following topics are encouraged to visit our website:

- Lease accounting
- Fair value, derivatives, hedging and CLP
- Impairment
- Provision and contingent liability
- Business combinations
- Deferred tax
- Revenue recognition
- Liability or equity
- Foreign currency transaction and translation
- HKFRS 9 – New hedge accounting model

Critical Accounting Estimates and Judgments

In preparing the consolidated financial statements, management are required to exercise significant judgments in the selection and application of accounting principles, as well as in making key estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods are addressed below.

1. Asset Impairment

The Group has made substantial investments in fixed assets, joint ventures and associates. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Group also tests annually or more frequently if events / changes in circumstances indicate that goodwill may have suffered any impairment in accordance with the relevant accounting standards.

Determining whether an asset or a CGU is impaired requires an estimation of the recoverable amount, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2016, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there were impairment for Beijing Yire Power Station of CSEC Guohua International Power Company Limited (CSEC Guohua) of HK$58 million (2015: HK$243 million) and CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) of HK$199 million (2015: impairment for EnergyAustralia Holdings Limited (EnergyAustralia)'s generation assets of HK$1,984 million).

Apart from the assets impaired, the latest annual impairment models for other relevant assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management believe that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2016 year end.

2. Assessment of the Carrying Value of Generation Assets and Energy Retail Business in Australia

The Group has assessed that the energy retail business (including goodwill) and generation assets in Australia are separate CGUs, requiring their own independent impairment assessment.

Given the continued structural changes in the National Energy Market (NEM) in Australia and changes in the supply and demand equilibrium, risk is introduced in market modelling which heightens the criticality of this judgment area. As part of making these critical judgments, risks do exist in the assumptions made around supply and demand in regards to the Group's generation assets and energy retail business in Australia. In certain circumstances, where contraction of demand and supply side response vary substantially from the assumptions made, significant changes in the value of the assets could eventuate.

Key estimates and assumptions for the generation assets assessment are as follows:

- Critical judgment exists in estimating forward electricity pool prices (the forward curve), generation volumes, retail volumes and gas prices. The forward curve has a significant impact on the accounting for certain items including value in use calculations for impairment purposes.
- Operating costs are escalated by relevant cost drivers using activity-based costing principles. Non-contracted fuel costs are based on estimate of future fuel prices made by EnergyAustralia's management.

Key estimates and assumptions for the energy retail business (which mainly includes goodwill) impairment assessment are outlined in Note 10. These relate to assumptions around operating the energy retail business, including forecast demand (including the number of customer accounts), forecast pool prices, retail tariffs and costs (including network) and an assessment of future growth within the market.

Changes to the estimates and assumptions and other inputs could impact the assessed recoverable value of assets and CGUs and consequently impact the Group's financial performance and financial position. The Group believes that no reasonably foreseeable change would result in an impairment of generation assets or the energy retail business, in view of the long-term nature of the key assumptions and the margin by which the estimated fair value exceeds the carrying amount.

3. Asset Retirement Obligations

Provisions for asset retirement obligations are recorded for estimated remediation costs when the Group has a legal and / or constructive obligation for remediation. A provision for asset retirement costs is determined by estimating the expected costs associated to remediate the site based on the current legal requirements and technologies and is discounted to its present value with an unwind adjustment recognised in finance costs. An asset is recognised on initial recognition of the provision and is depreciated over the useful life of the facility. The asset retirement costs are reviewed annually and adjustments are made to the carrying amount of the assets to reflect changes made to these estimated discount rates or future costs. Estimating the amount and timing of the obligation to be recorded requires significant judgment. Management have assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates.

CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO) have been investing in the transmission and distribution network and power stations respectively to supply electricity to the customers in its supply area in Hong Kong. CLP Power Hong Kong and CAPCO expect that the land currently used for its transmission and distribution network and generation facilities will continue to be used for generation and distribution of electricity supply in order to maintain the electricity supply to customers for the foreseeable future. It is considered remote that the transmission and distribution network and the power stations would be removed from the existing land sites. As such, an asset retirement obligation has not been recognised upfront in the respective accounts of CLP Power Hong Kong and CAPCO in accordance with the requirements of accounting standards.

Asset retirement obligations of EnergyAustralia amounted to HK$415 million (2015: HK$367 million) which mainly related to the provision for land remediation of generation assets. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives.

As part of the Board of Inquiry into the Hazelwood Mine (non-CLP mine) Fire undertaken towards the end of 2015, the matters considered included a broad review by EnergyAustralia's Board, the mine operators and the Victorian Government of the cost to remediate brown coal mines in the Latrobe Valley (including the Yallourn mine) and an assessment of the adequacy of the current financial assurance held by the Victorian Government in respect of those remediation costs.

While there is currently limited visibility over the calculations and assumptions behind the remediation provisions of the other mine operators within the Latrobe Valley, the Group recognises that there are points of difference between these sites which are likely to drive significant variations in the costs estimated to rehabilitate, including the size and condition of the mine. The review of the quantum of rehabilitation liability assessments as part of the Victorian Government's implementation of the Board of Inquiry's recommendations is expected to be finalised in the first half of 2017. The view remains that its assessment of the rehabilitation liability for the approved remediation plan is appropriate, and the provision in the financial statements reflects this.

4. SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. CLP Power Hong Kong also has the obligation to maintain the Fuel Clause Account, which represents the difference between an agreed standard cost of fuel and the actual fuel costs. The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement to customers such that these account balances meet the definition of a financial liability.

5. Lease Accounting

The application of HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" has resulted in finance lease accounting being applied to CLP India as lessor for the Power Purchase Agreement (PPA) with its offtaker. In determining whether an arrangement contains a lease, the Group considers the right to use an asset is conveyed if the purchaser has the ability or right to operate the asset or to control physical access to the underlying assets while obtaining or controlling more than an insignificant amount of the output of the asset, or that it is remote that parties other than the purchaser will take more than an insignificant amount of the output and the price paid is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery. In addition, to apply finance lease accounting, a number of assumptions in the lease models have been made, such as the determination of minimum lease payments, implicit interest rates and residual values of the power plants at the end of contract periods. Any future changes to these assumptions will affect the value of the lease assets and liabilities recognised and the corresponding lease income and expenses.

6. Revenue Recognition

The Group records revenue for retail and wholesale energy sales under the accrual method. Retail electricity and gas revenues are recognised when the commodity is provided to customers on the basis of periodic cycle meter readings and include an estimated accrual for the value of the commodity consumed from the meter reading date to the end of the reporting period. The unbilled revenue is calculated at the end of the reporting period based on estimated daily consumption after the meter reading date to the end of the reporting period. Estimated daily consumption is derived using historical customer profiles adjusted for weather, long unbilled customers and other measurable factors affecting consumption. Unbilled revenue of the Group (included in trade and other receivables) totalled HK$4,039 million at 31 December 2016 (2015: HK$4,376 million).

7. Recoverability of Trade Receivables

Provision for expected credit loss is made when the Group will not collect all amounts due. The provision is determined by grouping together trade debtors with similar risk characteristics and collectively or individually assessing them for likelihood of recovery. The provision reflects lifetime expected credit losses i.e. possible default events over the expected life of the trade receivable, weighted by the probability of that default occurring. Judgment has been applied in determining the level of provision for expected credit losses, taking into account the credit risk characteristics of customers and the likelihood of recovery assessed on a combination of collective and individual bases as relevant. While provisions are considered to be appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provisions recorded and consequently on the charge or credit to profit or loss. Key judgments on provisions made across businesses are disclosed in Note 16.

8. Contingent Liabilities

The Group is exposed to the risk of litigation, regulatory judgments and contractual disputes in the course of its normal operations. The Group considers each instance separately in accordance with legal advice and will make provision and / or disclose information as appropriate. Changes in the assumptions around the likelihood of an outflow of economic resources or the estimation of any obligation would change the values recognised in the financial statements. Please refer to Note 30 for the Group's contingent liabilities and the judgments made.

9. Fair Value Estimation of Derivative Financial Instruments and Investment Properties

Please refer to Note 3 of "Financial Risk Management" on pages 233 and 234 for fair value estimation of derivative financial instruments. For fair value estimation of investment properties, please refer to Note 9.

Notes to the Financial Statements

1. General Information

The Company is a limited liability company incorporated in Hong Kong and listed on the Stock Exchange of Hong Kong. The principal activity of the Company is investment holding, whilst the principal activities of the subsidiaries are the generation and supply of electricity in Hong Kong, India and Australia, and investment holding of power projects in Mainland China, Southeast Asia and Taiwan.

The financial operations of the Company's major subsidiaries, CLP Power Hong Kong and CAPCO (collectively referred as SoC Companies), are governed by a SoC entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the SoC Agreement are summarised on pages 237 and 238. The SoC Statement on page 239 is unaudited.

These financial statements have been approved for issue by the Board of Directors on 27 February 2017.

2. Segment Information

Accounting Policy

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer, who is the chief operating decision-maker of the Group. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions.

Segment revenue is based on the geographical region in which the electricity is generated and / or services are rendered. Segment capital additions represent the total costs incurred during the year to acquire fixed assets and other segment assets that are expected to be used for more than one year. Unallocated items comprise mainly corporate expenses, corporate assets, and the Company's liquid funds and borrowings.

The Group operates, through its subsidiaries, joint ventures and associates, in five major geographical regions – Hong Kong, Mainland China, India, Southeast Asia and Taiwan, and Australia. In accordance with the Group's internal organisation and reporting structure, the operating segments are based on geographical regions. Substantially all the principal activities of the Group in each region are for the generation and supply of electricity which are managed and operated on an integrated basis.

2. Segment Information (continued)

Information about the Group's operations by geographical region is as follows:

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2016							
Revenue	37,968	1,197	3,808	13	36,441	7	79,434
EBITDAF of subsidiaries	17,703	951	1,954	(12)	3,796	(678)	23,714
Share of results, net of income tax							
Joint ventures	(12)	461	–	283	5	–	737
Associates	–	907	–	–	(3)	–	904
EBITDAF of the Group	17,691	2,319	1,954	271	3,798	(678)	25,355
Depreciation and amortisation	(4,432)	(583)	(571)	–	(1,284)	(39)	(6,909)
Fair value adjustments	(26)	–	–	–	367	–	341
Finance costs	(1,020)	(200)	(802)	–	(215)	(24)	(2,261)
Finance income	–	44	25	3	8	57	137
Profit / (loss) before income tax	12,213	1,580	606	274	2,674	(684)	16,663
Income tax expense	(1,880)	(67)	(137)	–	(771)	–	(2,855)
Profit / (loss) for the year	10,333	1,513	469	274	1,903	(684)	13,808
Earnings attributable to							
Perpetual capital securities holders	(247)	–	–	–	–	–	(247)
Other non-controlling interests	(831)	(19)	–	–	–	–	(850)
Earnings / (loss) attributable to shareholders	9,255	1,494	469	274	1,903	(684)	12,711
Excluding: Items affecting comparability	(497)	174	–	–	(54)	–	(377)
Operating earnings	8,758	1,668	469	274	1,849	(684)	12,334
Capital additions	8,498	918	115	–	943	27	10,501
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	–	–	–	38	–	38
Receivables and others	3	–	20	–	336	–	359
At 31 December 2016							
Fixed assets, leasehold land and land use rights and investment properties	112,014	7,679	10,854	–	8,746	128	139,421
Goodwill and other intangible assets	5,545	4,945	28	–	17,135	–	27,653
Interests in and loan to joint ventures	50	8,127	–	1,764	30	–	9,971
Interests in associates	–	786	–	–	27	–	813
Deferred tax assets	–	86	–	–	895	–	981
Other assets	4,846	5,528	4,839	100	9,584	2,242	27,139
Total assets	122,455	27,151	15,721	1,864	36,417	2,370	205,978
Bank loans and other borrowings	37,814	4,973	7,591	–	1,268	–	51,646
Current and deferred tax liabilities	12,895	1,270	182	–	264	–	14,611
Other liabilities	24,892	1,454	377	2	6,913	310	33,948
Total liabilities	75,601	7,697	8,150	2	8,445	310	100,205

EBITDAF = Earnings before interest, taxes, depreciation and amortisation, and fair value adjustments. For this purpose, fair value adjustments include fair value gains or losses on derivative financial instruments relating to transactions not qualifying as hedges and ineffectiveness of cash flow hedges.

Items affecting comparability refer to significant unusual and infrequent events such as acquisition / disposal, impairment of non-current assets, property valuation gain / loss, and change in law or natural catastrophe. They are considered irrelevant for assessing the underlying performance of the Group and are separately disclosed to allow a better understanding and comparison of the financial results. Details of the items affecting comparability can be found on page 29.

2. Segment Information (continued)

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2015, as restated							
Revenue	38,937	937	5,104	9	35,707	6	80,700
EBITDAF of subsidiaries	16,548	786	1,985	(12)	10,315	(600)	29,022
Share of results, net of income tax							
Joint ventures	1	1,031	–	322	3	–	1,357
An associate	–	888	–	–	–	–	888
EBITDAF of the Group	16,549	2,705	1,985	310	10,318	(600)	31,267
Depreciation and amortisation	(4,201)	(517)	(556)	–	(1,448)	(43)	(6,765)
Fair value adjustments	4	–	–	–	(241)	–	(237)
Finance costs	(1,110)	(206)	(827)	–	(1,928)	(35)	(4,106)
Finance income	2	59	35	2	20	52	170
Profit / (loss) before income tax	11,244	2,041	637	312	6,721	(626)	20,329
Income tax expense	(1,806)	(147)	(23)	–	(1,604)	–	(3,580)
Profit / (loss) for the year	9,438	1,894	614	312	5,117	(626)	16,749
Earnings attributable to							
Perpetual capital securities holders	(247)	–	–	–	–	–	(247)
Other non-controlling interests	(837)	(9)	–	–	–	–	(846)
Earnings / (loss) attributable to shareholders	8,354	1,885	614	312	5,117	(626)	15,656
Excluding: Items affecting comparability	(99)	243	–	–	(4,281)	–	(4,137)
Operating earnings	8,255	2,128	614	312	836	(626)	11,519
Capital additions	7,588	1,648	1,396	–	825	26	11,483
Impairment provisions							
Fixed assets and leasehold land and land use rights under operating leases	–	–	–	–	1,865	–	1,865
Goodwill and other intangible assets	–	–	–	–	138	–	138
Receivables and others	4	–	37	–	418	–	459
At 31 December 2015							
Fixed assets, leasehold land and land use rights and investment properties	108,586	6,576	11,572	–	9,139	139	136,012
Goodwill and other intangible assets	5,545	5,208	28	–	17,476	–	28,257
Interests in and loan to joint ventures	18	9,498	–	1,709	25	–	11,250
Interest in an associate	–	785	–	–	–	–	785
Deferred tax assets	–	90	–	–	1,600	–	1,690
Other assets	5,938	4,496	5,177	71	8,311	1,977	25,970
Total assets	120,087	26,653	16,777	1,780	36,551	2,116	203,964
Bank loans and other borrowings	40,976	4,402	8,835	–	964	306	55,483
Current and deferred tax liabilities	12,408	1,452	215	–	52	–	14,127
Other liabilities	24,232	1,411	540	3	7,005	231	33,422
Total liabilities	77,616	7,265	9,590	3	8,021	537	103,032

Our investments in Mainland China are mainly through joint ventures and an associate, whereby under equity method of accounting, CLP shares its proportionate earnings but not the revenues and expenses.

The difference between total assets and total liabilities represents shareholders' financing.

3. Revenue

Accounting Policy

Revenue primarily represents sales of electricity and gas, engineering and maintenance service fees, other electricity-related revenue such as temporary electricity supply works and reconnection fees and adjustments stipulated under the SoC. It is measured at the fair value of the consideration received or receivable, net of applicable tax, discounts and rebates.

Sales of electricity and gas are based on actual and accrued consumption or the amount billed in accordance with the terms of the contractual agreements where applicable during the year. Other revenue is recognised when services are rendered or sales are completed.

Lease service income comprises servicing income and fuel costs received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receipts on lease receivables and is recognised over the lease period using the effective interest method. Operating lease income is recognised on a straight-line basis over the term of the lease. Interest income is recognised on a time proportion basis using the effective interest method.

An analysis of the Group's revenue is as follows:

	2016 HK$M	2015 HK$M
Sales of electricity	**68,053**	68,566
Sales of gas	**7,382**	6,490
Operating lease income under PPA	**2,138**	3,409
Finance lease income under PPA	**117**	134
Lease service income under PPA	**533**	631
Other revenue	**951**	1,289
	79,174	80,519
Transfer for SoC to revenue (Note 22)	**260**	181
	79,434	80,700

The operating lease income under PPA relates to Jhajjar, whose PPA has been accounted for as an operating lease.

The finance lease income and lease service income under PPA relate to Paguthan. In accordance with HK(IFRIC)-Int 4 and HKAS 17, servicing income and fuel costs received by Paguthan from the lessee with respect to the leased assets are not part of the minimum lease payments and are recognised as lease service income.

4. Operating Profit

Operating profit is stated after charging / (crediting) the following:

	2016 HK$M	2015 HK$M
Charging		
Retirement benefits costs [(a)]	**334**	302
Auditor's remuneration		
Audit services	**39**	39
Permissible audit related and non-audit services [(b)]	**9**	8
Operating lease expenditure on the agreement with Ecogen	**204**	230
Impairment of		
Fixed assets, leasehold land and land use rights under operating leases [(c)]	**38**	1,865
Goodwill and other intangible asset [(c)]	**–**	138
Inventories – stores and fuel	**10**	7
(Reversal of provision) / provision for onerous contract [(c)]	**(78)**	74
Loss on sale of a joint venture	**–**	42
Net exchange loss	**228**	101
Revaluation losses / (gain) on investment properties	**146**	(99)
Crediting		
Net (gain) / loss on disposal of fixed assets	**(386)**	343
Net fair value (gains) / losses on non-debt related derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserves to		
Purchases of electricity, gas and distribution services	**(267)**	(261)
Fuel and other operating expenses	**(36)**	(176)
Transactions not qualifying as hedges	**(341)**	237
Rental income from investment properties	**(35)**	(4)
Dividends from equity investments	**(43)**	(46)
Gain on sale of subsidiaries [(d)]	**–**	8,900

Notes:

(a) Retirement benefits costs for the year amounted to HK$440 million (2015: HK$384 million), of which HK$106 million (2015: HK$82 million) was capitalised.

(b) Permissible audit-related and non-audit services comprised Sustainability Report assurance, Continuing Connected Transactions limited assurance, audits of CLP's provident funds, auditor's attestation and accounting / tax advisory services.

(c) In 2015, the wholesale electricity market in Australia was significantly oversupplied with prices well below the level required to provide adequate long-term returns on generation investments. Therefore, the Group recognised impairments across three of its generation assets in Australia (Yallourn Power Station, Mount Piper Power Station and Tallawarra Power Station) and a provision for onerous contract with respect to Ecogen Master Hedge Agreement (Ecogen), totalling A$363 million (HK$2,058 million) (after tax: A$261 million (HK$1,480 million)). The onerous provision was reversed in 2016 after reassessment.

(d) On 1 December 2015, the Group completed the sale of its interests in EnergyAustralia Gas Storage Holdings Pty Ltd and EnergyAustralia Gas Storage Pty Ltd for a consideration of A$1,780 million (HK$9,991 million) and recognised a gain of A$1,586 million (HK$8,900 million) (after tax and transaction costs: A$1,180 million (HK$6,619 million)).

5. Finance Costs and Income

Accounting Policy

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised when they 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.

	2016 HK$M	2015 HK$M (Restated)
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**924**	1,196
Other borrowings	**893**	1,096
Tariff Stabilisation Fund [(a)]	**2**	2
Customers' deposits and fuel clause over-recovery	**151**	116
Finance charges under finance leases	**2**	2
Costs associated with the early termination of debt in Australia [(b)]	**–**	1,226
Other finance charges	**281**	259
Net fair value loss / (gain) on debt related derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserves	**34**	(221)
Fair value hedges	**(9)**	(110)
Transactions not qualifying as hedges	**(70)**	45
Ineffectiveness of cash flow hedges	**7**	(16)
Ineffectiveness of fair value hedges	**6**	(7)
Loss on hedged items in fair value hedges	**9**	110
Other net exchange loss on financing activities	**268**	710
	2,498	4,408
Less: amount capitalised [(c)]	**(237)**	(302)
	2,261	4,106
Finance income		
Interest income on short-term investments, bank deposits and loan to a joint venture	**137**	170

Notes:

(a) In accordance with the provisions of the SoC Agreement, CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund (Note 22).

(b) In 2015, following receipt of the sale proceeds of Iona Gas Plant (Note 4(d)), EnergyAustralia reduced its debt. The termination costs of debt together with the costs required to close out associated hedging derivatives (including fair value loss on cash flow hedges reclassified from equity of A$84 million (HK$462 million)) totalled A$222 million (HK$1,226 million) (after tax: A$155 million (HK$858 million)).

(c) Finance costs have been capitalised at average interest rates of 1.13% – 3.03% (2015: 1.13% – 3.22%) per annum.

6. Income Tax Expense

Income tax in the consolidated statement of profit or loss represents the income tax of the Company and subsidiaries and is analysed below:

	2016 HK$M	2015 HK$M (Restated)
Current income tax	**2,032**	1,818
Deferred tax	**823**	1,762
	2,855	3,580

6. Income Tax Expense (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2016 **HK$M**	2015 HK$M (Restated)
Profit before income tax	**16,663**	20,329
Less: Share of results of joint ventures and associates, net of income tax	**(1,641)**	(2,245)
	15,022	18,084
Calculated at an income tax rate of 16.5% (2015: 16.5%)	**2,479**	2,984
Effect of different income tax rates in other countries	**460**	718
Income not subject to tax	**(184)**	(70)
Expenses not deductible for tax purposes	**238**	264
Revenue adjustment for SoC not subject to tax (Note 22)	**(43)**	(30)
Over-provision in prior years	**(98)**	(12)
Utilisation of previously unrecognised tax losses	**–**	(276)
Tax losses not recognised	**3**	2
Income tax expense	**2,855**	3,580

7. Dividends

	2016 **HK$** **per Share**	**2016** **HK$M**	2015 HK$ per Share	2015 HK$M
First to third interim dividends paid	**1.71**	**4,320**	1.65	4,169
Fourth interim dividend declared	**1.09**	**2,754**	1.05	2,653
	2.80	**7,074**	2.70	6,822

At the Board meeting held on 27 February 2017, the Directors declared the fourth interim dividend of HK$1.09 per share (2015: HK$1.05 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements.

8. Earnings per Share

The earnings per share are computed as follows:

	2016	2015 (Restated)
Earnings attributable to shareholders (HK$M)	**12,711**	15,656
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**5.03**	6.20

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2016 (2015: nil).

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Properties

Accounting Policy

(A) Fixed assets and leasehold land and land use rights under operating leases

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the fixed asset. Cost may also include transfer from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of fixed assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. For any asset replacement, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in the period in which they are incurred.

Amortisation of leasehold land and depreciation of fixed assets are calculated, using the straight-line method, to allocate their costs to their estimated residual values over the unexpired term of the lease or their estimated useful lives, as appropriate. The estimated useful lives of the fixed assets are set out below:

	SoC fixed assets	Non-SoC fixed assets
Freehold land	not applicable	not depreciable
Leasehold land	unexpired term of the lease	unexpired term of the lease
Cable tunnels	100 years	30 years
Buildings and civil structures at power stations	35 years	4 – 50 years
Ash lagoon	35 years	4 – 40 years
Other buildings and civil structures	60 years	4 – 60 years
Generating plants	25 years	15 – 40 years
Overhead lines (33 kV and above)	60 years	20 years
Overhead lines (below 33 kV)	45 years	18 – 20 years
Cables	60 years	10 – 30 years
Switchgear and transformers	50 years	15 – 45 years
Substation miscellaneous	25 years	10 – 20 years
Meters	15 years	10 – 15 years
Other equipment, furniture and fittings, motor vehicles and marine crafts	5 – 10 years	3 – 30 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. For plant under construction, no depreciation is provided until the construction is completed and the assets are ready for their intended use. Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(B) Investment Properties

Investment properties include properties that are being constructed or developed for future use as investment properties. Land held under operating leases is accounted for as an investment property when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment properties are measured initially at cost, including related transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Any gains and losses arising from changes in the fair value or from the retirement or disposal of an investment property are recognised in profit or loss in the period in which they arise.

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Properties (continued)

Accounting Policy (continued)

(B) Investment Properties (continued)

If an item of owner occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised directly in revaluation reserve within equity.

Fixed assets, leasehold land and land use rights under operating leases and investment properties totalled HK$139,421 million (2015: HK$136,012 million) which included assets under construction with book value of HK$12,966 million (2015: HK$14,364 million). Movements in the accounts are as follows:

	Fixed Assets					Leasehold Land and Land Use Rights under Operating Leases	Investment Properties [a]
	Land			Plant, Machinery and Equipment			
	Freehold HK$M	Leased HK$M	Buildings HK$M	HK$M	Total HK$M	HK$M	HK$M
Net book value at 1 January 2015	712	486	19,652	107,283	128,133	5,696	2,554
Additions	–	–	955	10,324	11,279	22	16
Revaluation surplus	–	–	–	–	–	–	99
Transfers and disposals	10	–	(107)	(328)	(425)	–	–
Sale of subsidiaries	(10)	–	(15)	(1,109)	(1,134)	–	–
Depreciation / amortisation	–	(13)	(612)	(5,230)	(5,855)	(170)	–
Impairment charge	(19)	–	(60)	(1,786)	(1,865)	–	–
Exchange differences	(51)	–	(207)	(2,074)	(2,332)	(6)	–
Net book value at 31 December 2015	642	473	19,606	107,080	127,801	5,542	2,669
Cost / valuation	741	592	31,258	189,112	221,703	6,272	2,669
Accumulated depreciation / amortisation and impairment	(99)	(119)	(11,652)	(82,032)	(93,902)	(730)	–
Net book value at 31 December 2015	642	473	19,606	107,080	127,801	5,542	2,669
Net book value at 1 January 2016	642	473	19,606	107,080	127,801	5,542	2,669
Acquisition of subsidiaries [b]	31	–	1	1,025	1,057	2	–
Additions	11	–	838	7,910	8,759	81	1,265
Revaluation losses	–	–	–	–	–	–	(146)
Transfers and disposals	77	(43)	(121)	(411)	(498)	–	–
Depreciation / amortisation	–	(13)	(622)	(5,338)	(5,973)	(174)	–
Impairment charge	–	–	–	(38)	(38)	–	–
Exchange differences	(16)	–	(201)	(702)	(919)	(7)	–
Net book value at 31 December 2016	**745**	**417**	**19,501**	**109,526**	**130,189**	**5,444**	**3,788**
Cost / valuation	842	539	31,629	195,507	228,517	6,344	3,788
Accumulated depreciation / amortisation and impairment	(97)	(122)	(12,128)	(85,981)	(98,328)	(900)	–
Net book value at 31 December 2016	**745**	**417**	**19,501**	**109,526**	**130,189**	**5,444**	**3,788**

9. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Properties (continued)

Notes:

(a) During the year, the Group acquired the commercial interest of the retail portion of the Laguna Mall. The acquisition was completed at the end of April 2016. The Group's another investment property is located at Argyle Street, Kowloon. The investment properties were revalued at 31 December 2016 by Knight Frank Petty Limited (Knight Frank). Details of the fair value estimation of the properties are as follows:

- Knight Frank has valued the retail portion of Laguna Mall by using the income capitalisation approach, cross-referenced with comparable market transactions. The income capitalisation approach is based on the capitalisation of the existing rental / licence income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate capitalisation rates that by reference to the yields achieved in analysed market sales transactions and as expected by investors. The significant unobservable input is the capitalisation rate adopted for the valuation which is 4.25% in 2016. The fair value measurement is negatively correlated to the capitalisation rate.
- In formulating the optimal development of the Argyle Street site, Knight Frank has taken into account the development constraints stipulated on the covenants of the Government Leases and subsequent modifications as at the valuation date. Knight Frank has adopted the residual valuation method by making reference to the development potential of the property after deduction of costs for completion of development. Comparable transactions of similar development in the locality were gathered for gross development value assessment. The significant unobservable inputs are discount rate, cost of development and estimated return in the future for the property. The discount rate used is 5% (2015: 5%) and the higher the rate, the lower the fair value of the properties.

The recurring fair value measurement of the Group's investment properties is categorised within Level 3 of the fair value hierarchy at 31 December 2016 and 2015.

(b) In June 2016, the Group acquired 49% interest in SE Solar Limited, with an option to acquire the remaining 51% interest one year after commissioning, to develop a 100MW solar farm in Telangana, India. SE Solar Limited is treated as a subsidiary because the Group has control over the company.

In July 2016, the Group acquired the remaining 49% interest in Sihong Tianganghu PV Power Co., Ltd. (Sihong Solar), which owns and operates a 93MW solar farm in Jiangsu, China, from its joint venture partner for a consideration of HK$234 million (RMB201 million). Sihong Solar became the wholly-owned subsidiary of the Group since then.

10. Goodwill and Other Intangible Assets

Accounting Policy

(A) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken at least annually or if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(B) Other intangible assets

Intangible assets other than goodwill are measured initially at cost or, if acquired in a business combination, fair value at the acquisition date. An intangible asset with a finite useful life is amortised on a straight-line basis over its useful life and carried at cost less accumulated amortisation and accumulated impairment losses.

10. Goodwill and Other Intangible Assets (continued)

	Goodwill [(a)] HK$M	Capacity Right [(b)] HK$M	Others [(c)] HK$M	Total HK$M
Net carrying value at 1 January 2015	23,104	5,434	2,591	31,129
Additions	–	11	155	166
Amortisation	–	(272)	(468)	(740)
Impairment charge	(129)	–	(9)	(138)
Exchange differences	(1,888)	–	(272)	(2,160)
Net carrying value at 31 December 2015	21,087	5,173	1,997	28,257
Cost	21,218	5,626	7,569	34,413
Accumulated amortisation and impairment	(131)	(453)	(5,572)	(6,156)
Net carrying value at 31 December 2015	21,087	5,173	1,997	28,257
Net carrying value at 1 January 2016	21,087	5,173	1,997	28,257
Additions	–	13	383	396
Amortisation	–	(273)	(489)	(762)
Disposals	–	–	(1)	(1)
Exchange differences	(213)	–	(24)	(237)
Net carrying value at 31 December 2016	**20,874**	**4,913**	**1,866**	**27,653**
Cost	21,003	5,639	7,845	34,487
Accumulated amortisation and impairment	(129)	(726)	(5,979)	(6,834)
Net carrying value at 31 December 2016	**20,874**	**4,913**	**1,866**	**27,653**

Notes:

(a) Goodwill mostly arose from the previous acquisitions of energy retail business in Australia of HK$15,269 million (2015: HK$15,480 million) and the acquisition of CAPCO under Hong Kong electricity business of HK$5,545 million (2015: HK$5,545 million) in 2014. In accordance with the Group's accounting policies, the Group has assessed the recoverable amount of goodwill for the corresponding CGUs and determined that such goodwill has not been impaired. The recoverable amount of the CGUs tested for impairment has been determined based on value in use calculations. The value in use calculations use cash flow projections as at 31 December 2016 based on an approved Business Plan which has a forecast covering a period of ten years and necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long dated nature of our generation and electricity supply assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry. The long term price curve used at EnergyAustralia's Business Plan was adjusted to incorporate the announcement of Hazelwood closure on 3 November 2016 in assessing the recoverable amount.

The key assumptions used in the value in use calculations are as follows:

Energy retail business in Australia

- Retail prices are sensitive to regulatory changes including regulation and deregulation of retail tariffs. In the absence of any known or expected changes to the current pricing structure, the retail price path assumptions are based on management estimates and expectations on current market conditions and the Group's expectation of regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the EnergyAustralia Business Plan. External information is used to verify and align internal estimates.
- The number of customer accounts for electricity and gas aligns with the EnergyAustralia Business Plan.
- Electricity and gas network (distribution) cost assumptions are based on published regulated price paths. When no estimates are available, network costs are assumed to escalate by the relevant consumer price index.
- Electricity pool prices, generation volumes, dispatch levels and gas prices were derived using modelling of the electricity wholesales market. NEM modelling is prepared internally, where possible, using observable inputs. The modelling used for the electricity wholesale and gas markets is based on past experience and observable market activity.
- The cash flow projections are discounted using a pre-tax discount rate of 11.8% (2015: 12.6%). The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.
- A terminal growth rate has been used in estimating cash flows beyond a period of ten years. A nominal rate of 0.4% has been used, reflective of long term growth rates.

It is considered that there are no reasonably possible changes that could occur in any of the key assumptions above that would cause the recoverable amount to be less than its carrying value at 31 December 2016.

10. Goodwill and Other Intangible Assets (continued)

Notes (continued):

Hong Kong electricity business

- Goodwill arising from the CAPCO acquisition has been allocated to the CLP Power Hong Kong and CAPCO combined CGU as the acquisition is considered beneficial to the whole SoC business.
- The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the SoC.
- The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
- Expenditures for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the periods to 2018 aligned with those forecasted in the approved development plan.
- Terminal value of the CGU is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2026.
- The cash flow projections are discounted using a pre-tax discount rate of 11.87% (2015: 11.92%), or a post-tax discount rate of 9.99% which reflects the SoC return rate applicable to the electricity business in Hong Kong.

(b) Capacity right represents the right to use 50% of the pumped storage capacity of Phase 1 of the Guangzhou Pumped Storage Power Station in Conghua, Guangzhou and the corresponding right to use the associated transmission facilities until 2034.

(c) The balance includes contracted customers and other identifiable intangible assets from EnergyAustralia.

11. Interests in and Loan to Joint Ventures

Accounting Policy No. 4(B)

The table below lists the material joint ventures of the Group at 31 December 2016:

Name	% of Ownership Interest at 31 December 2015 and 2016	Place of Incorporation / Business	Principal Activity
CSEC Guohua International Power Company Limited [a]	30	Mainland China	Generation of Electricity
CLP Guangxi Fangchenggang Power Company Limited [b]	70 [c]	Mainland China	Generation of Electricity
ShenGang Natural Gas Pipeline Company Limited (SNGPC) [b]	40	Mainland China	Natural Gas Transportation
OneEnergy Taiwan Ltd (OneEnergy Taiwan) [d]	50	British Virgin Islands / Taiwan	Investment Holding
Shandong Zhonghua Power Company, Ltd. (SZPC) [e]	29.4	Mainland China	Generation of Electricity

Notes:

(a) Registered as Sino-Foreign Joint Stock Company under People's Republic of China (PRC) law

(b) Registered as Sino-Foreign Equity Joint Ventures under PRC law

(c) Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of Fangchenggang and hence, the Group's interest is accounted for as a joint venture.

(d) OneEnergy Taiwan indirectly owns a 40% interest in Ho-Ping Power Company.

(e) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

More details information of our joint ventures can be found on page 6 of the Annual Report.

11. Interests in and Loan to Joint Ventures (continued)

Summarised financial information of significant joint ventures and the Group's share of results and net assets are as follows:

	CSEC Guohua [(a)] HK$M	Fang-chenggang [(b)] HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
For the year ended 31 December 2016							
Revenue	**11,409**	**1,148**	**979**	**–**	**6,770**	**1,695**	**22,001**
Depreciation and amortisation	**(1,506)**	**(178)**	**(130)**	**–**	**(923)**	**(564)**	**(3,301)**
Interest income	**2**	**3**	**4**	**–**	**3**	**10**	**22**
Interest expense	**(375)**	**(127)**	**(89)**	**–**	**(194)**	**(226)**	**(1,011)**
Other expenses	**(8,235)**	**(1,098)**	**(209)**	**(2)**	**(4,424)**	**(447)**	**(14,415)**
Share of results of joint ventures	**–**	**–**	**–**	**497**	**–**	**(11)**	**486**
Profit / (loss) before income tax	**1,295**	**(252)**	**555**	**495**	**1,232**	**457**	**3,782**
Income tax expense	**(425)**	**(7)**	**(142)**	**–**	**(358)**	**(88)**	**(1,020)**
Profit / (loss) for the year	**870**	**(259)**	**413**	**495**	**874**	**369**	**2,762**
Non-controlling interests	**(480)**	**–**	**–**	**–**	**–**	**–**	**(480)**
Profit / (loss) for the year attributable to shareholders	**390**	**(259)**	**413**	**495**	**874**	**369**	**2,282**
Profit / (loss) for the year	**870**	**(259)**	**413**	**495**	**874**	**369**	**2,762**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**70**	**70**
Total comprehensive income	**870**	**(259)**	**413**	**495**	**874**	**439**	**2,832**
Group's share							
Profit / (loss) for the year attributable to shareholders	**117**	**(181)**	**165**	**247**	**257**	**132**	**737**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**35**	**35**
Total comprehensive income	**117**	**(181)**	**165**	**247**	**257**	**167**	**772**
Dividends from joint ventures	**39**	**–**	**131**	**212**	**541**	**148**	**1,071**
For the year ended 31 December 2015							
Revenue	13,115	1,396	947	–	7,931	1,937	25,326
Depreciation and amortisation	(2,045)	(183)	(137)	–	(964)	(604)	(3,933)
Interest income	1	2	4	–	4	14	25
Interest expense	(499)	(154)	(124)	–	(257)	(312)	(1,346)
Other expenses	(9,320)	(880)	(206)	(2)	(4,024)	(486)	(14,918)
Share of results of joint ventures	–	–	–	549	–	(7)	542
Profit before income tax	1,252	181	484	547	2,690	542	5,696
Income tax expense	(384)	(49)	(122)	–	(710)	(60)	(1,325)
Profit for the year	868	132	362	547	1,980	482	4,371
Non-controlling interests	(627)	–	–	–	–	–	(627)
Profit for the year attributable to shareholders	241	132	362	547	1,980	482	3,744
Profit for the year	868	132	362	547	1,980	482	4,371
Other comprehensive income	–	–	–	(1)	–	159	158
Total comprehensive income	868	132	362	546	1,980	641	4,529
Group's share							
Profit for the year attributable to shareholders	73	93	144	273	582	192	1,357
Other comprehensive income	–	–	–	(1)	–	79	78
Total comprehensive income	73	93	144	272	582	271	1,435
Dividends from joint ventures	144	316	–	200	579	154	1,393

Notes:

(a) The Group's share of results of CSEC Guohua included its share of impairment provision for Beijing Yire Power Station of HK$58 million (2015: HK$243 million).

(b) Due to the impact of several factors including the economic slowdown, discounted tariff of direct sale and oversupplied market in Guangxi Province, Fangchenggang performed below management's expectation. Its carrying value was reassessed and an impairment provision of HK$199 million was included in the share of results in 2016.

11. Interests in and Loan to Joint Ventures (continued)

	CSEC Guohua HK$M	Fang-chenggang HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
At 31 December 2016							
Non-current assets	**22,691**	**8,098**	**3,329**	**3,102**	**6,685**	**8,822**	**52,727**
Current assets							
Cash and cash equivalents	**450**	**158**	**224**	**2**	**147**	**384**	**1,365**
Other current assets	**3,169**	**679**	**49**	**1**	**604**	**578**	**5,080**
	3,619	**837**	**273**	**3**	**751**	**962**	**6,445**
Current liabilities							
Financial liabilities	**(7,471)**	**(477)**	**(376)**	**–**	**(2,327)**	**(873)**	**(11,524)**
Other current liabilities (c)	**(1,358)**	**(1,233)**	**(80)**	**–**	**(1,077)**	**(438)**	**(4,186)**
	(8,829)	**(1,710)**	**(456)**	**–**	**(3,404)**	**(1,311)**	**(15,710)**
Non-current liabilities							
Financial liabilities	**(1,983)**	**(4,587)**	**–**	**–**	**(1,867)**	**(3,073)**	**(11,510)**
Shareholders' loans	**–**	**–**	**(1,355)**	**–**	**–**	**(60)**	**(1,415)**
Other non-current liabilities (c)	**(1,467)**	**(43)**	**(17)**	**–**	**(38)**	**(57)**	**(1,622)**
	(3,450)	**(4,630)**	**(1,372)**	**–**	**(1,905)**	**(3,190)**	**(14,547)**
Non-controlling interests	**(5,858)**	**–**	**–**	**–**	**–**	**–**	**(5,858)**
Net assets	**8,173**	**2,595**	**1,774**	**3,105**	**2,127**	**5,283**	**23,057**
Group's share of net assets	**2,452**	**1,817**	**710**	**1,553**	**625**	**2,231**	**9,388**
Goodwill	**–**	**–**	**–**	**–**	**–**	**41**	**41**
Interests in joint ventures	**2,452**	**1,817**	**710**	**1,553**	**625**	**2,272**	**9,429**
Loan (d)	**–**	**–**	**542**	**–**	**–**	**–**	**542**
	2,452	**1,817**	**1,252**	**1,553**	**625**	**2,272**	**9,971**
At 31 December 2015							
Non-current assets	25,509	7,361	3,704	2,978	7,964	11,257	58,773
Current assets							
Cash and cash equivalents	72	153	254	3	406	688	1,576
Other current assets	4,207	302	56	1	893	806	6,265
	4,279	455	310	4	1,299	1,494	7,841
Current liabilities							
Financial liabilities	(8,919)	(419)	(305)	–	(1,855)	(1,265)	(12,763)
Other current liabilities (c)	(2,067)	(718)	(39)	–	(1,139)	(728)	(4,691)
	(10,986)	(1,137)	(344)	–	(2,994)	(1,993)	(17,454)
Non-current liabilities							
Financial liabilities	(2,523)	(3,599)	–	–	(2,914)	(4,631)	(13,667)
Shareholders' loans	–	–	(1,857)	–	–	(59)	(1,916)
Other non-current liabilities (c)	(1,421)	(37)	(5)	(1)	(44)	(59)	(1,567)
	(3,944)	(3,636)	(1,862)	(1)	(2,958)	(4,749)	(17,150)
Non-controlling interests	(6,356)	–	–	–	–	–	(6,356)
Net assets	8,502	3,043	1,808	2,981	3,311	6,009	25,654
Group's share of net assets	2,551	2,131	723	1,491	973	2,594	10,463
Goodwill	–	–	–	–	–	44	44
Interests in joint ventures	2,551	2,131	723	1,491	973	2,638	10,507
Loan (d)	–	–	743	–	–	–	743
	2,551	2,131	1,466	1,491	973	2,638	11,250

Notes:

(c) Including trade and other payables and provisions

(d) Loan to a joint venture is unsecured, carries interest at 90% (2015: 90%) of the over five years Renminbi benchmark lending rate of the People's Bank of China and with final maturity in June 2022. The current portion of the loan of HK$151 million (2015: HK$122 million) was included in the Group's other receivables. There was no impairment recognised on the loan at 31 December 2016 and 2015.

11. Interests in and Loan to Joint Ventures (continued)

	2016 **HK$M**	2015 HK$M
Share of capital commitments	**490**	1,587
Share of contingent liabilities	**55**	58

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 28(B).

12. Interests in Associates

Accounting Policy No. 4(B)

The balance represents the Group's share of net assets of Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) and Redback Technologies Limited in Australia at the end of the reporting period.

GNPJVC is unlisted, incorporated and operates in Mainland China, and its registered capital is 25% owned by the Group and 75% owned by Guangdong Nuclear Investment Company, Limited (GNIC). GNPJVC constructed and operates the Guangdong Daya Bay Nuclear Power Station and its principal activity is the generation of electricity for supply to Hong Kong and Guangdong Province.

Summarised financial information of GNPJVC and the Group's share of its results and net assets are as follows:

	2016 **HK$M**	2015 HK$M
Revenue	**7,722**	7,552
Profit and total comprehensive income	**3,628**	3,552
Group's share of profit and total comprehensive income	**907**	888
Dividends	**905**	889
Non-current assets	**3,308**	3,283
Current assets	**8,662**	8,572
Current liabilities	**(5,535)**	(5,369)
Non-current liabilities	**(3,292)**	(3,346)
Net assets	**3,143**	3,140
Group's share of net assets	**786**	785

At 31 December 2016, the Group's share of capital commitments of its associates was HK$101 million (2015: HK$96 million).

The Group's capital commitments in relation to its interest in an associate are disclosed in Note 28(B).

13. Finance Lease Receivables

Accounting Policy No. 10

	Minimum Lease Payments		**Present Value of Minimum Lease Payments**	
	2016 **HK$M**	2015 HK$M	**2016** **HK$M**	2015 HK$M
Amounts receivable under finance leases				
Within one year	**153**	166	**51**	52
After one year but within five years	**808**	1,005	**713**	799
	961	1,171	**764**	851
Less: unearned finance income	**(197)**	(320)		
Present value of minimum lease payments receivable	**764**	851		

The finance lease receivables, accounted for as finance lease in accordance with HK(IFRIC) Int 4 and HKAS 17, relate to the 20-year power purchase agreement under which CLP India sells all of its electricity output of Paguthan Plant (Paguthan) to its offtaker, Gujarat Urja Vikas Nigam Limited (GUVNL). The effective interest rate implicit in the finance lease was approximately 13.4% for both 2016 and 2015.

14. Derivative Financial Instruments

Accounting Policy

A derivative is initially recognised at fair value on the date a derivative contract is entered into and is subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either fair value hedges, which are hedges of the fair value of recognised financial assets or financial liabilities or firm commitments (e.g. fixed interest rate loans and foreign currency trade receivables) or cash flow hedges, which are hedges of the cash flows of recognised financial assets or financial liabilities or highly probable forecast transactions (e.g. floating interest rate loans, future purchases of fuels denominated in US dollar).

The Group documents at the inception of the transaction the intended relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(A) Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, which offset any changes in the fair values recognised in profit or loss of the corresponding hedged asset or liability that are attributable to the hedged risk and achieve the overall hedging result.

(B) Cash flow hedges

The effective portion of changes in the fair values of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss. Such reclassification from equity will offset the effect on profit or loss of the corresponding hedged item to achieve the overall hedging result. However, when the highly probable forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset at the time of acquisition. The deferred amounts are ultimately recognised in fuel costs in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified from equity to profit or loss in the same period as the hedged forecast cash flows ultimately affect profit and loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been reported in equity is reclassified to profit or loss immediately.

(C) Derivatives not qualifying for hedge accounting or held for trading purposes

Certain derivative financial instruments do not qualify for hedge accounting or are held for trading purposes. Changes in the fair values of these derivative financial instruments are recognised immediately in profit or loss.

14. Derivative Financial Instruments (continued)

Accounting Policy (continued)

Additional policies relating to HKFRS 9 which are applicable from 1 January 2016 are:

(D) Costs of hedging

Time value of options, forward element of forward contracts and foreign currency basis spread of financial instruments may be separated and excluded from the designated hedging instruments. In such case, the Group treats the excluded elements as costs of hedging. The fair value changes of these elements are recognised in a separate component of equity to the extent that the contract terms are aligned with the attributes of the hedged exposure. For time-period related hedged items, these elements at the date of designation (to the extent that it relates to the hedged item) are amortised on a systematic and rational basis to profit or loss over the period. For transaction related hedged items, the cumulative change of these elements is included in the initial carrying amount of any non-financial asset recognised when the hedged transaction occurs or is recognised in profit or loss if the hedged transaction affects profit or loss.

(E) Rebalancing of hedge relationships

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

	2016		2015	
	Assets HK$M	**Liabilities HK$M**	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**180**	**34**	595	135
Foreign exchange options	**37**	**–**	83	–
Cross currency interest rate swaps	**462**	**973**	529	1,544
Interest rate swaps	**127**	**92**	18	195
Energy contracts	**507**	**94**	27	11
Fair value hedges				
Cross currency interest rate swaps	**31**	**407**	94	424
Interest rate swaps	**–**	**118**	13	78
Held for trading or not qualifying as accounting hedges				
Forward foreign exchange contracts	**299**	**45**	60	115
Foreign exchange options	**1**	**–**	–	–
Interest rate swaps	**34**	**9**	31	9
Energy contracts	**533**	**785**	228	886
	2,211	**2,557**	1,678	3,397
Current	**692**	**977**	600	595
Non-current	**1,519**	**1,580**	1,078	2,802
	2,211	**2,557**	1,678	3,397

Although termed "held for trading or not qualifying as accounting hedges" above, these derivatives are used as "economic hedges" or for the purpose of understanding energy price movements.

CLP has early adopted HKFRS 9. The resulted changes in accounting policies are discussed in Note 3 of Significant Accounting Policies. If you want to learn more about hedge accounting, please read this year's accounting "mini-series".

14. Derivative Financial Instruments (continued)

At 31 December 2016, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 8 years
Foreign exchange options	Up to 6 years
Cross currency interest rate swaps	Up to 14 years
Interest rate swaps	Up to 11 years
Energy contracts	Up to 12 years

The maturities of the derivative financial instruments used for hedging correlate to the timing of the cash flows associated with the corresponding hedged items. As for the energy contracts that are hedges of anticipated future purchases and sales of electricity (cash flow hedge), any unrealised gains or losses on the contracts recognised are deferred in the cash flow hedge reserve (through other comprehensive income) and reclassified to profit or loss, as an adjustment to purchased electricity expense or the billed electricity revenue, when the hedged purchase or sale is recognised.

15. Equity Investments

Accounting Policy

(i) Policy relating to HKFRS 9 which is applicable from 1 January 2016

Equity investments are initially recognised at fair value and are subsequently measured at fair value through profit or loss. However, at initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to present in other comprehensive income subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination.

Where an equity investment is elected to present subsequent changes in the fair value in other comprehensive income, the gains or losses on such equity investments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends on equity investments are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an equity investment.

(ii) Policy which is applicable before 1 January 2016

Available-for-sale investments are non-derivative financial assets that are either designated in that category or not classified in any of the other categories of financial instruments. They are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Changes in the fair value of available-for-sales equity investments are recognised in other comprehensive income. When an available-for-sale equity investment is sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss. Dividends on available-for-sale equity investments are recognised in profit or loss when the Group's right to receive payments is established.

15. Equity Investments (continued)

	Investments at Fair Value Through Other Comprehensive Income 2016 HK$M	Available-for-sale Investments 2015 HK$M
CGN Wind Power Company Limited	**1,190**	1,190
Others	**338**	454
	1,528	1,644

At 1 January 2016, the Group made an irrevocable election to present all changes in the fair value of the equity investments through other comprehensive income, as explained in Note 3 of the Significant Accounting Policies.

16. Trade and Other Receivables

Accounting Policy

(i) Policy relating to HKFRS 9 which is applicable from 1 January 2016

Trade and other receivables are recognised initially at transaction price and are subsequently stated at amortised cost using the effective interest method, less allowances for expected credit losses. The Group measures the loss allowance for its trade receivables at an amount equal to the lifetime expected credit losses. The amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to its recognised amount is recognised in profit or loss, as an impairment loss or a reversal of an impairment loss. Trade and other receivables are written off (either partially or in full) when there is no reasonable expectation of recovery.

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the trade receivables. Expected credit losses on trade receivables are calculated by using the provision matrix approach. Trade receivables are categorised by common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix is determined based on historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

(ii) Policy applicable before 1 January 2016

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are recognised in profit or loss.

16. Trade and Other Receivables (continued)

	2016 HK$M	2015 HK$M
Trade receivables [(a)]	**9,772**	10,061
Deposits, prepayments and other receivables	**2,814**	2,613
Dividend receivables from		
Joint ventures	**105**	80
Associates	**895**	877
Loan to and current accounts with [(b)]		
Joint ventures	**212**	180
Associates	**1**	1
	13,799	13,812

Notes:

(a) Trade receivables

Credit risk management

The Group has no significant concentrations of credit risk with respect to the trade receivables in Hong Kong and Australia as their customer bases are widely dispersed in different sectors and industries. The Group has established credit policy for customers in each of its retail business.

In Hong Kong, customers are allowed to settle their electricity bills within two weeks after issue. To limit the credit risk exposure, customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount not exceeding the highest expected charge for 60 days of consumption. At 31 December 2016, such cash deposits amounted to HK$4,998 million (2015: HK$4,829 million) and the bank guarantees stood at HK$818 million (2015: HK$843 million). The customer deposits are repayable on demand and bear interest at the HSBC bank savings rate.

In Australia, customers are allowed to settle their electricity bills within 7 to 45 days after issue. EnergyAustralia has policies in place to ensure that sales of products and services are made to major retail customers of an appropriate credit quality and collectability is reviewed on an ongoing basis.

Trade receivables arising from sales of electricity to the offtakers in India and Mainland China are due for settlement within 15 to 60 days and 30 to 90 days after bills issue respectively. The offtakers of these regions are mainly state-owned enterprises. Management has closely monitored the credit qualities and the collectability of these trade receivables and considers that the expected credit risks of them are close to zero. At 31 December 2016, trade receivables of HK$563 million relating to CLP India's renewable projects were past due and not considered impaired as there are no recent history of default and continuous payment received. Trade receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. Further information about disputed trade receivables of CLP India is disclosed in Note 30.

Expected credit losses

CLP Power Hong Kong and EnergyAustralia determine the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade receivables 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 following tables summarise the expected credit losses on the trade receivables of CLP Power Hong Kong and EnergyAustralia at 31 December 2016.

<u>CLP Power Hong Kong</u>

CLP Power Hong Kong classifies its trade receivables by nature of customer accounts. These include active accounts and terminated accounts.

	Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
Active accounts				
Provision on individual basis	100%	1	(1)	–
Provision on collective basis	0%*	1,949	–	1,949
Terminated accounts				
Provision on individual basis	100%	5	(5)	–
Provision on collective basis	26%	7	(2)	5
		1,962	(8)	1,954

* Expected credit loss is close to zero as these trade receivables are mostly secured by cash deposits or bank guarantees from customers and have no recent history of default.

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

EnergyAustralia

EnergyAustralia categories its trade receivables based on the ageing. EnergyAustralia recognises lifetime expected credit losses for receivables by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on twelve month rolling historical credit loss experience by customer segment, geographical region, tenure and type of customer and applying to the receivables held at year end. The determining factor impacting collectability is customer attributes. The impact of economic factors both current and future is considered in assessing the likelihood of recovery from customers.

	Weighted Average Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
Current	1%	4,076	(35)	4,041
1 – 30 days	9%	510	(45)	465
31 – 60 days	20%	234	(48)	186
61 – 90 days	20%	223	(44)	179
Over 90 days	62%	1,193	(740)	453
		6,236	(912)	5,324

The ageing analysis of trade receivables at 31 December 2015 based on the recognition and measurement criteria of HKAS 39 is as follows:

	Not Impaired HK$M	Subject to Impairment HK$M	Provision for Impairment HK$M	Total HK$M
Not yet due	7,024	671	(58)	7,637
Overdue				
1 – 30 days	135	540	(55)	620
31 – 90 days	215	450	(107)	558
Over 90 days	778	1,722	(1,254)	1,246
	8,152	3,383	(1,474)	10,061

The ageing analysis of the trade receivables at 31 December based on invoice date is as follows:

	2016 HK$M	2015 HK$M
30 days or below	**6,832**	7,788
31–90 days	**763**	744
Over 90 days	**2,177**	1,529
	9,772	10,061

"Ageing analysis based on invoice date" is presented to meet the reporting requirements under the Listing Rules of the Hong Kong Stock Exchange.

Invoice date = Date of issue of an invoice

Due date = Invoice date + credit period granted to customers

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Movements in the provision for impairment are as follows:

	2016 HK$M	2015 HK$M
Balance at 1 January	**1,474**	1,409
Provision for impairment	**350**	455
Receivables written off during the year as uncollectable	**(516)**	(254)
Amounts reversed	**(1)**	(3)
Exchange differences	**(19)**	(133)
Balance at 31 December	**1,288**	1,474

(b) The current accounts with joint ventures and associates are unsecured, interest free and have no fixed repayment terms.

17. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, short-term highly liquid investments that are readily convertible to cash, subjected to insignificant risk of change in value and with a maturity of three months or less from date of investment, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

	2016 HK$M	2015 HK$M
Trust accounts restricted under TRAA (note)	**198**	232
Bank deposits	**2,789**	2,220
Bank balances and cash	**1,680**	1,347
	4,667	3,799

Note: Pursuant to Trust and Retention Account Agreements (TRAA) of CLP India and its subsidiaries with their corresponding lenders, various trust accounts are set up for designated purposes.

The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currency of the respective entities amounted to HK$1,374 million (2015: HK$2,162 million) which was mostly denominated in Renminbi (2015: Renminbi).

18. Trade and Other Payables

Accounting Policy

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2016 HK$M	2015 HK$M
Trade payables [(a)]	**6,019**	5,904
Other payables and accruals	**6,512**	5,599
Advances from non-controlling interests [(b)]	**6,692**	6,720
Current accounts with [(c)]		
Joint ventures	**1**	1
Associates	**606**	577
Deferred revenue [(d)]	**91**	222
	19,921	19,023

Notes:

(a) The ageing analysis of trade payables at 31 December based on invoice date is as follows:

	2016 HK$M	2015 HK$M
30 days or below	**5,632**	5,759
31–90 days	**188**	106
Over 90 days	**199**	39
	6,019	5,904

At 31 December 2016, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$704 million (2015: HK$778 million), which were mostly denominated in US dollar of HK$532 million (2015: HK$571 million) and Renminbi of HK$63 million (2015: HK$66 million).

(b) The advances from non-controlling interests represented the advances from China Southern Power Grid International (HK) Co., Limited (CSG HK) to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power Hong Kong and CSG HK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. The advances are unsecured, interest free and have no fixed repayment terms. The advances are mainly denominated in US dollar.

(c) The amounts payable to joint ventures and associates are unsecured, interest free and have no fixed repayment terms.

(d) Non-current deferred revenue of HK$1,239 million (2015: HK$1,193 million) was included under other non-current liabilities.

19. Bank Loans and Other Borrowings

Accounting Policy

Borrowings are recognised initially at fair value of proceeds received, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or issue of a financial liability. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is amortised to profit or loss or capitalised as cost of the qualifying assets over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

At 31 December 2016, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings *		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
Within one year	**9,123**	12,189	**1,528**	1,000	**10,651**	13,189
Between one and two years	**4,563**	4,790	**231**	1,450	**4,794**	6,240
Between two to five years	**6,516**	6,562	**8,972**	5,898	**15,488**	12,460
Over five years	**4,699**	5,071	**16,014**	18,523	**20,713**	23,594
	24,901	28,612	**26,745**	26,871	**51,646**	55,483

* Other borrowings mainly included Medium Term Notes of HK$24,955 million (2015: HK$25,387 million) and bonds (INR) of HK$1,469 million (2015: HK$1,252 million).

Another presentation of the Group's liquidity risk is set out on page 230.

Total borrowings included secured liabilities of HK$12,275 million (2015: HK$13,039 million), analysed as follows:

	2016 HK$M	2015 HK$M
CLP India and its subsidiaries [(a)]	**7,589**	8,835
Subsidiaries in Mainland China [(b)]	**4,686**	4,204
	12,275	13,039

Notes:

(a) Bank loans and bonds for CLP India and its subsidiaries are secured by fixed and floating charges over their immovable and moveable properties and current assets with total carrying amounts of HK$13,854 million (2015: HK$14,845 million).

(b) Bank loans for subsidiaries in Mainland China are secured by rights of receipt of tariff, fixed assets and land use rights, with the carrying amounts of these fixed assets and land use rights of HK$7,397 million (2015: HK$4,571 million).

Bank loans and other borrowings totalling HK$13,832 million (2015: HK$14,201 million) were attributed to overseas subsidiaries and are non-recourse to the Company.

At 31 December 2016 and 2015, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

At 31 December 2016, the Group had undrawn bank loans and overdraft facilities of HK$23,986 million (2015: HK$29,685 million).

20. Deferred Tax

Accounting Policy

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax is also provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated statement of financial position:

	2016 **HK$M**	2015 HK$M
Deferred tax assets	**981**	1,690
Deferred tax liabilities	**(13,819)**	(13,476)
	(12,838)	(11,786)

Deferred tax asset = income tax recoverable in the future
Deferred tax liability = income tax payable in the future

Substantially all deferred tax balances are to be recovered or settled after more than 12 months.

The gross movement on the deferred tax account is as follows:

	2016 **HK$M**	2015 HK$M (Restated)
At 1 January	**(11,786)**	(9,590)
Charged to profit or loss (Note 6)	**(823)**	(1,762)
Charged to other comprehensive income	**(230)**	(86)
Acquisition of subsidiaries	**(1)**	–
Withholding tax	**–**	44
Exchange differences	**2**	(392)
At 31 December	**(12,838)**	(11,786)

20. Deferred Tax (continued)

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the year is as follows:

Deferred tax assets (prior to offset)

	Tax Losses [a]		Accruals and Provisions		Others [b]		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M
At 1 January	**730**	2,913	**860**	1,291	**453**	880	**2,043**	5,084
Credited / (charged) to profit or loss	**114**	(1,881)	**(43)**	(276)	**129**	(365)	**200**	(2,522)
(Charged) / credited to other comprehensive income	**–**	–	**(14)**	(34)	**(20)**	1	**(34)**	(33)
Acquisition of subsidiaries	**–**	–	**–**	–	**4**	–	**4**	–
Exchange differences	**(20)**	(302)	**(16)**	(121)	**(8)**	(63)	**(44)**	(486)
At 31 December	**824**	730	**787**	860	**558**	453	**2,169**	2,043

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Intangibles		Others [b]		Total	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M	**2016 HK$M**	2015 HK$M (Restated)	**2016 HK$M**	2015 HK$M (Restated)
At 1 January	**(12,202)**	(12,064)	**(72)**	(279)	**(1,215)**	(1,365)	**(340)**	(966)	**(13,829)**	(14,674)
(Charged) / credited to profit or loss	**(910)**	(100)	**8**	160	**93**	117	**(214)**	583	**(1,023)**	760
Charged to other comprehensive income	**–**	–	**–**	–	**–**	–	**(196)**	(53)	**(196)**	(53)
Acquisition of subsidiaries	**–**	–	**(5)**	–	**–**	–	**–**	–	**(5)**	–
Withholding tax	**–**	–	**–**	44	**–**	–	**–**	–	**–**	44
Exchange differences	**23**	(38)	**1**	3	**2**	33	**20**	96	**46**	94
At 31 December	**(13,089)**	(12,202)	**(68)**	(72)	**(1,120)**	(1,215)	**(730)**	(340)	**(15,007)**	(13,829)

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity businesses in India of HK$823 million (2015: HK$723 million). The expiry of tax losses ranged from eight years to no expiry.

(b) Others mainly relate to temporary differences arising from derivative financial instruments and lease accounting adjustments.

21. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to the customers. The variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, whilst interest is credited to customers at prime rate on the amount over-recovered.

22. SoC Reserve Accounts

The Tariff Stabilisation Fund, Rate Reduction Reserve and Rent and Rates Interim Refunds of the Group's major subsidiary, CLP Power Hong Kong, are collectively referred to as SoC reserve accounts. The respective balances at the end of the year are:

	2016 HK$M	2015 HK$M
Tariff Stabilisation Fund (A)	**786**	935
Rate Reduction Reserve (B)	**2**	2
Rent and Rates Interim Refunds (C)	**72**	72
	860	1,009

The movements in SoC reserve accounts during the year are shown as follows:

(A) Tariff Stabilisation Fund

	2016 HK$M	2015 HK$M
At 1 January	**935**	1,058
Transfer from Rate Reduction Reserve	**2**	1
Transfer under the SoC [(a)]		
– transfer for SoC to revenue (Note 3)	**(260)**	(181)
– charge for asset decommissioning [(b)]	**109**	57
At 31 December	**786**	935

Notes:

(a) Under the SoC Agreement, if the gross tariff revenue in Hong Kong in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund. In any period, the amount of deduction from or addition to the Tariff Stabilisation Fund is recognised as revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).

(b) Under the SoC, a periodic charge for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. The balance of the asset decommissioning liabilities account of HK$916 million (2015: HK$1,025 million) recognised under the SoC represents a liability of the Group.

(B) Rate Reduction Reserve

	2016 HK$M	2015 HK$M
At 1 January	**2**	1
Transfer to Tariff Stabilisation Fund	**(2)**	(1)
Interest expense charged to profit or loss (Note 5)	**2**	2
	2	2

(C) Rent and Rates Interim Refunds

CLP Power Hong Kong is challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. While the original Lands Tribunal judgment, and the subsequent judgment on the review of valuation matters, as well as the Court of Appeal judgment on a point of law were received in CLP Power Hong Kong's favour, the final resolution of the case will be subject to the outcome of a further appeal to the Court of Final Appeal by the Hong Kong Government against the Court of Appeal judgment.

Interim refunds totalling HK$1,713 million were received by CLP Power Hong Kong from the Hong Kong Government during 2012 to 2014. These interim refunds were made by the Hong Kong Government without prejudice to the final outcome of the appeals which means that these amounts will be adjusted by reference to the decisions of the Lands Tribunal and the subsequent appeals.

Based on the latest development of the case, CLP Power Hong Kong maintains that it would recover no less than the interim refunds received to date in the final outcome of these appeals. The interim refunds continued to be classified within the SoC reserve accounts. The Rent and Rates Special Rebate provided to customers during 2012 and 2013 with the amounts of interim refunds received in 2012 and 2013 of HK$1,641 million had been offset against the interim refunds received.

22. SoC Reserve Accounts (continued)

(C) Rent and Rates Interim Refunds (continued)

In the event that the final amount recovered on conclusion of these appeals is less than the total amount rebated to customers, CLP Power Hong Kong will seek to recover any shortfall in the amounts of Rent and Rates Special Rebate already paid to customers. Similarly, if the final amount recovered exceeds the special rebates paid out, these additional amounts will be returned to customers.

23. Share Capital

	2016 Number of Ordinary Shares	**2016 Amount HK$M**	2015 Number of Ordinary Shares	2015 Amount HK$M
Issued and fully paid, at 31 December	**2,526,450,570**	**23,243**	2,526,450,570	23,243

24. Reserves

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2015	(2,536)	561	–	2,751	63,994	64,770
Effect on adoption of HKFRS 9 (net of tax) (Note 3 of Significant Accounting Policies)	–	(339)	395	–	(56)	–
Balance at 1 January 2015, as restated	(2,536)	222	395	2,751	63,938	64,770
Earnings attributable to shareholders	–	–	–	–	15,656	15,656
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(3,200)	–	–	–	–	(3,200)
Joint ventures	(523)	–	–	–	–	(523)
An associate	(1)	–	–	–	–	(1)
Cash flow hedges						
Net fair value gains	–	223	–	–	–	223
Reclassification to profit or loss	–	(197)	–	–	–	(197)
Tax on the above items	–	(63)	–	–	–	(63)
Costs of hedging						
Net fair value losses	–	–	(138)	–	–	(138)
Amortisation / reclassification to profit or loss	–	–	1	–	–	1
Tax on the above items	–	–	10	–	–	10
Fair value loss on equity investments	–	–	–	(63)	–	(63)
Share of other comprehensive income of joint ventures	39	(23)	–	79	–	95
Total comprehensive income attributable to shareholders	(3,685)	(60)	(127)	16	15,656	11,800
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves	–	–	–	18	(18)	–
Dividends paid						
2014 fourth interim	–	–	–	–	(2,526)	(2,526)
2015 first to third interim	–	–	–	–	(4,169)	(4,169)
Balance at 31 December 2015	(6,221)	162	268	2,783	72,883 [(a)]	69,875

24. Reserves (continued)

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2016	(6,221)	360	–	2,783	72,953	69,875
Effect on adoption of HKFRS 9 (net of tax)						
(Note 3 of Significant Accounting Policies)	–	(198)	268	–	(70)	–
Balance at 1 January 2016, as restated	(6,221)	162	268	2,783	72,883	69,875
Earnings attributable to shareholders	–	–	–	–	12,711	12,711
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(857)	–	–	–	–	(857)
Joint ventures	(577)	–	–	–	–	(577)
Associates	(2)	–	–	–	–	(2)
Cash flow hedges						
Net fair value gains	–	1,388	–	–	–	1,388
Reclassification to profit or loss	–	(289)	–	–	–	(289)
Tax on the above items	–	(261)	–	–	–	(261)
Costs of hedging						
Net fair value losses	–	–	(251)	–	–	(251)
Amortisation / reclassification to profit or loss	–	–	20	–	–	20
Tax on the above items	–	–	44	–	–	44
Fair value loss on equity investments	–	–	–	(115)	–	(115)
Share of other comprehensive income						
of joint ventures	19	1	–	34	–	54
Total comprehensive income						
attributable to shareholders	(1,417)	839	(187)	(81)	12,711	11,865
Revaluation reserve realised due to						
depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves	–	–	–	76	(76)	–
Dividends paid						
2015 fourth interim	–	–	–	–	(2,653)	(2,653)
2016 first to third interim	–	–	–	–	(4,320)	(4,320)
Balance at 31 December 2016	**(7,638)**	**1,001**	**81**	**2,776**	**78,547** [(a)]	**74,767**

Note:

(a) The fourth interim dividend declared for the year ended 31 December 2016 was HK$2,754 million (2015: HK$2,653 million). The balance of retained profits after the fourth interim dividend of the Group was HK$75,793 million (2015: HK$70,230 million, as restated).

25. Perpetual Capital Securities

A total of US$750 million perpetual capital securities was issued by the wholly owned subsidiary, CLP Power HK Finance Ltd. in 2014. The securities are perpetual, non-callable in the first 5.5 years and entitle the holders to receive distributions at a distribution rate of 4.25% per annum in the first 5.5 years, floating thereafter and with fixed step up margins at year 10.5 and at year 25.5, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and CLP Power Hong Kong, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capitals within each distribution payment period. As the perpetual capital securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

26. Notes to the Consolidated Statement of Cash Flows

(A) Reconciliation of profit before income tax to net cash inflow from operations

	2016 HK$M	2015 HK$M (Restated)
Profit before income tax	**16,663**	20,329
Adjustments for:		
Finance costs	**2,261**	4,106
Finance income	**(137)**	(170)
Dividend income from equity investments	**(43)**	(46)
Share of results of joint ventures and associates, net of income tax	**(1,641)**	(2,245)
Depreciation and amortisation	**6,909**	6,765
Impairment charge	**397**	2,462
(Reversal of provision) / provision for onerous contract	**(78)**	74
Net (gain) / loss on disposal of fixed assets	**(386)**	343
Revaluation losses / (gain) on investment properties	**146**	(99)
Gain on sale of subsidiaries	**–**	(8,900)
Loss on sale of a joint venture	**–**	42
Fair value (gain) / loss of derivative financial instruments and net exchange difference	**(211)**	362
SoC items		
Increase in customers' deposits	**169**	177
Increase in fuel clause account	**1,275**	408
Special fuel rebate to customers	**–**	(1,264)
Transfer for SoC	**(260)**	(181)
	1,184	(860)
Decrease / (increase) in trade and other receivables	**145**	(135)
Decrease in finance lease receivables	**45**	54
Decrease in cash restricted for specific purposes	**34**	123
Decrease in derivative financial instruments net liabilities	**(30)**	(168)
Increase / (decrease) in trade and other payables	**63**	(1,470)
Increase in current accounts due to joint ventures and associates	**32**	427
Net cash inflow from operations	**25,353**	20,994

(B) Analysis of balances of cash and cash equivalents

	2016 HK$M	2015 HK$M
Deposits with banks	**2,955**	2,444
Cash at banks and on hand	**1,712**	1,355
Bank balances, cash and other liquid funds (Note 17)	**4,667**	3,799
Excluding:		
Cash restricted for specific purposes	**(198)**	(232)
Bank deposits with maturity of over three months	**(2)**	(2)
	4,467	3,565

27. Subsidiaries

The table below lists the principal subsidiaries of the Group at 31 December 2016:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2015 and 2016	Place of Incorporation / Business	Principal Activity
CLP Power Hong Kong Limited	HK$20,400,007,269.65 divided into 2,488,320,000 ordinary shares	100	Hong Kong	Generation and Supply of Electricity
Castle Peak Power Company Limited	HK$50,000,000 divided into 500,000 ordinary shares	70 [(a)]	Hong Kong	Generation and Sale of Electricity
Hong Kong Pumped Storage Development Company, Limited (PSDC)	HK$10,000,000 divided into 100,000 ordinary shares	100 [(a)]	Hong Kong / Mainland China	Provision of Pumped Storage Services
Hong Kong Nuclear Investment Company Limited	HK$300,000,000 divided into 300,000 ordinary shares	100	Hong Kong / Mainland China	Power Projects Investment Holding
CLP Engineering Limited	HK$49,950,000 divided into 4,995 ordinary shares	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / International and Mainland China	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 [(a)]	British Virgin Islands / International	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100 [(a)]	British Virgin Islands / Mainland China and Hong Kong	Power Projects Investment Holding
CLP Properties Limited	HK$150,000,000 divided into 15,000,000 ordinary shares	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US$1 each	100	British Virgin Islands / Hong Kong	Research and Development
CLP Innovation Enterprises Limited [(b)]	1 ordinary share of HK$1 each	100	Hong Kong	Innovation Projects Investment Holding
EnergyAustralia Holdings Limited	533,676,005 ordinary shares of A$1 each	100 [(a)]	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 [(a)]	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd	3,368,686,988 ordinary shares of A$1 each	100 [(a)]	Australia	Retailing of Electricity and Gas
EnergyAustralia NSW Pty Ltd	2 ordinary shares of A$1 each	100 [(a)]	Australia	Generation of Electricity
CLP India Private Limited	2,842,691,612 equity shares of Rs.10 each	100 [(a)]	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited	20,000,000 equity shares of Rs.10 each; 2,324,882,458 compulsory convertible preference shares of Rs.10 each	100 [(a)]	India	Generation of Electricity

27. Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2015 and 2016	Place of Incorporation / Business	Principal Activity
CLP Sichuan (Jiangbian) Power Company Limited [c]	RMB496,380,000	100 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [d]	RMB69,098,976	84.9 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [d]	RMB249,430,049	84.9 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [d]	US$13,266,667	84.9 [a]	Mainland China	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [d]	RMB141,475,383	84.9 [a]	Mainland China	Generation of Electricity

Notes:

(a) Indirectly held through subsidiaries of the Company

(b) Incorporated in 2016

(c) Registered as a wholly foreign owned enterprise under PRC law

(d) Registered as Sino-Foreign Cooperative Joint Ventures under PRC law

Summarised financial information of CAPCO, which has material non-controlling interests, is set out below:

	2016 HK$M	2015 HK$M
Results for the year		
Revenue	**15,176**	16,963
Profit for the year	**3,149**	3,168
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**3,149**	3,168
Dividends paid to non-controlling interests	**942**	959
Net assets		
Non-current assets	**29,122**	29,380
Current assets	**5,238**	5,656
Current liabilities	**(28,139)**	(27,395)
Non-current liabilities	**(5,275)**	(6,702)
	946	939
Cash flows		
Net cash inflow from operating activities	**4,099**	3,327
Net cash outflow from investing activities	**(198)**	(253)
Net cash outflow from financing activities	**(3,901)**	(3,074)
Net change in cash and cash equivalents	**–**	–

28. Commitments and Operating Lease Arrangements

(A) Capital expenditure contracted for at the end of the year but not yet incurred is as follows:

	2016 HK$M	2015 HK$M
Fixed assets	**5,099**	4,560
Investment properties	**3**	26
Intangible assets	**14**	–
	5,116	4,586

(B) On 30 November 2016, the Group entered into the conditional Equity Transfer Agreement to acquire a 17% equity stake in Yangjiang Nuclear Power Co., Ltd. (Yangjiang Nuclear) from CGN Power Co., Ltd. and GNIC (collectively known as "CGN Power") for a consideration which included the bid price of HK$5.6 billion (RMB5 billion) and an audited Completion Payment as defined under the Agreement. HK$568 million (RMB0.5 billion) has been paid as refundable deposit and outstanding commitment of HK$5.0 billion (RMB4.5 billion) is payable upon completion. Yangjiang Nuclear owns and operates the Yangjiang Nuclear Power Station located in Guangdong Province. It comprises six 1,086MW generating units: three are in commercial operation and the other three are currently under construction with sequential targeted commissioning dates spread over the period from 2017 to 2019. The completion of this acquisition is subject to all necessary regulatory approvals and filing and approvals from Yangjiang Nuclear's lenders and shareholders. The latest date for completion is 31 December 2017 and the Group and CGN Power are targeting to achieve the completion in the first half of 2017.

Except for the above, equity contribution required to be made for its joint ventures and an associate at 31 December 2016 was HK$24 million (2015: HK$106 million).

(C) The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 HK$M	2015 HK$M
Within one year	**440**	472
Later than one year but not later than five years	**914**	1,401
Over five years	**1,344**	1,490
	2,698	3,363

Of the above amount, HK$1,792 million (2015: HK$1,892 million) relates to a Capacity Purchase Contract between PSDC and Guangdong Pumped Storage Company, Limited with fixed annual payments for 26 years up to 2034 for the use of the land, other resources and infrastructural facilities at Guangzhou Pumped Storage Power Station in Conghua, Guangzhou; and HK$551 million (2015: HK$798 million) relates to a 20-year Master Hedge Agreement between EnergyAustralia and Ecogen which ends in 2019. Under the latter Agreement, EnergyAustralia has the right to call upon electricity from the power stations at predetermined charging rates over the life of the Agreement.

(D) The 25-year power purchase arrangements between Jhajjar and its offtakers are accounted for as operating leases. Under the agreements, the offtakers are obliged to purchase the output of Jhajjar power plant at predetermined prices. The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	2016 HK$M	2015 HK$M
Within one year	**723**	739
Later than one year but not later than five years	**2,842**	2,999
Over five years	**6,230**	7,055
	9,795	10,793

29. Related Party Transactions

Accounting Policy

Related parties are individuals and companies, including subsidiaries, fellow subsidiaries, joint ventures, associates and key management personnel, where the individual or company has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. A close family member of any such individual is considered to be a related party.

Related Parties ≠ Connected Parties

They sometimes overlap but should not be confused. Accounting standards define related parties, while the Listing Rules of the Hong Kong Stock Exchange define connected parties.

Below are the more significant transactions with related parties for the year:

(A) CLP Power Hong Kong is obliged to purchase 70% of the output from Guangdong Daya Bay Nuclear Power Station (GNPS). The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the power purchase agreements is determined by a formula based on GNPS's operating costs and a calculation of profits with reference to the capacity factor for year. The purchase of nuclear electricity under the arrangement was HK$5,198 million for the year ended 31 December 2016 (2015: HK$5,203 million).

Under a separate purchase arrangement with GNIC and GNPJVC, CLP Power Hong Kong would purchase an approximately 10% of additional nuclear electricity from GNPS on a best endeavour basis from October 2014 to end of 2018, at the same unit price as that under the above purchase arrangement which amounted to HK$742 million for the year ended 31 December 2016 (2015: HK$703 million).

(B) The loan to a joint venture is disclosed under Note 11. Other amounts due from and to the related parties at 31 December 2016 are disclosed in Notes 16 and 18 respectively. At 31 December 2016, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2015: nil).

(C) Emoluments of key management personnel

Under HKAS 24 Related Party Disclosures, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include two (2015: one) Executive Directors and nine (2015: ten) senior management personnel.

	2016 HK$M	2015 HK$M
Fees	**11**	11
Recurring remuneration items [(a)]		
Base compensation, allowances & benefits in kind [(b)]	**61**	55
Performance bonus		
Annual incentive	**59**	57
Long-term incentive	**13**	13
Provident fund contribution	**9**	5
Non-recurring remuneration items [(a)]		
Other payments	**7**	8
	160	149

Notes:

(a) Refer to recurring and non-recurring remuneration items on page 135 of Human Resources & Remuneration Committee Report.

(b) The nature of these benefits in kind includes electricity allowance, the availability of a company vehicle for personal use, any approved personal club memberships entered into primarily for business entertainment purposes and consequently paid by the Company, life insurance and medical benefits.

29. Related Party Transactions (continued)

(C) Emoluments of key management personnel (continued)

At 31 December 2016, the CLP Holdings' Board was composed of twelve Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$46 million (2015: HK$32 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2015: one Director) and three members (2015: four members) of Senior Management. The total remuneration of these five highest paid individuals amounted to HK$92 million (2015: HK$86 million). Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in highlighted sections of the Human Resources & Remuneration Committee Report on pages 134 to 137 and 142 to 144. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

(D) Interest of Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2015: nil).

During the year and at the year end, no director of the Company had or has a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group's business to which the Group was or is a party (2015: nil).

30. Contingent Liabilities

Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. 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.

(A) CLP India – Deemed Generation Incentive Payment and Interest on Deemed Loans

This is a dispute between CLP India and its offtaker GUVNL under the power purchase agreement for Paguthan. GUVNL is required to make a "deemed generation incentive" payment to CLP India when plant availability is above a set threshold. GUVNL has been making such payments since December 1997.

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the "deemed generation incentive" payment should not be paid for periods when Paguthan is declared with availability to generate on "naphtha" as fuel rather than on "gas". GUVNL's contention is based on a 1995 Government of India notification which disallowed "deemed generation incentive" for naphtha-based power plants. The total amount of the claim plus interest calculated up to June 2005 amounts to about Rs.7,260 million (HK$828 million). CLP India's position, amongst other arguments, is that Paguthan is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the "deemed generation incentive".

30. Contingent Liabilities (continued)

(A) CLP India – Deemed Generation Incentive Payment and Interest on Deemed Loans (continued)

GUVNL also claimed that CLP India has wrongly received interest on "deemed loans" under the existing power purchase agreement. GUVNL's claim rests on two main grounds: (i) CLP India had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the "deemed loans" amounts to a further Rs.830 million (HK$95 million) (2015: Rs.830 million (HK$97 million)).

In February 2009, the GERC found in favour of GUVNL on the "deemed generation incentive" but held that GUVNL's claim up to 14 September 2002 was time-barred under the Limitations Act of India. The GERC also dismissed GUVNL's claim to recover interest on the "deemed loans". CLP India appealed the GERC's decision to the Appellate Tribunal for Electricity (APTEL). GUVNL also filed an appeal against the orders of the GERC which went against GUVNL. In January 2010, the APTEL upheld the decisions of the GERC. Both CLP India and GUVNL have filed further appeals in the Supreme Court of India. The appeal petitions have been admitted but the next date of hearing has not yet been fixed by the court.

At 31 December 2016, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$975 million) (2015: Rs.8,543 million (HK$1,000 million)). On the basis of legal advice obtained, the Directors are of the opinion that CLP India has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of these matters.

(B) Indian Wind Power Projects – WWIL's Contracts

CLP Wind Farms (India) Private Limited, CLP India and its subsidiaries (CLP India group) have invested (or are committed to invest) in around 681MW of wind power projects to be developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, has commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2016, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

(C) Jhajjar – Disputed Charges with Offtakers

Jhajjar Power Limited (JPL) has disputes with its offtakers over applicable tariff of capacity charges and energy charges relating to transit loss. Total disputed amounts were Rs.1,917 million (HK$219 million) at 31 December 2016 (2015: Rs.1,860 million (HK$218 million)). The Group considers that JPL has a strong case and hence, no provision has been made.

JPL has filed a petition to Central Electricity Regulatory Commission (CERC) against its offtakers in September 2013. On 25 January 2016, CERC pronounced its judgment in favour of JPL, which supports the Group's decision that no provision should be made. JPL and its offtakers have filed appeals to APTEL. The next hearing date is expected on 2 March 2017.

31. Statement of Financial Position of the Company

	2016 HK$M	2015 HK$M
Non-current assets		
Fixed assets	**128**	139
Investments in subsidiaries	**51,695**	51,786
Advance to a subsidiary	**39**	39
Other non-current assets	**4**	3
	51,866	51,967
Current assets		
Trade and other receivables	**63**	53
Bank balances and cash	**4**	3
	67	56
Current liabilities		
Trade and other payables	**(350)**	(310)
Advance from a subsidiary	**–**	(26)
Bank loans and other borrowings	**–**	(306)
	(350)	(642)
Net current liabilities	**(283)**	(586)
Total assets less current liabilities	**51,583**	51,381
Financed by:		
Equity		
Share capital	**23,243**	23,243
Retained profits	**28,340**	28,138
	51,583	51,381
The movement of retained profits is as follows:		
Balance at 1 January	**28,138**	28,026
Profit and total comprehensive income for the year	**7,175**	6,807
Dividends paid		
2015 / 2014 fourth interim	**(2,653)**	(2,526)
2016 / 2015 first to third interim	**(4,320)**	(4,169)
Balance at 31 December	**28,340**	28,138

The balance of retained profits after the fourth interim dividend of the Company was HK$25,586 million (2015: HK$25,485 million).

William Mocatta
Vice Chairman
Hong Kong, 27 February 2017

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

Financial Risk Management

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risks, and energy portfolio risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the impact of exchange rate, interest rate and energy price fluctuations on the Group's financial performance. The Group uses different derivative financial instruments to manage its exposure in these areas. Other than limited energy trading activities engaged by EnergyAustralia for the purpose of understanding price movements, all derivative financial instruments are employed solely for hedging purposes.

Risk management for Hong Kong operations, predominantly the Company and its major subsidiary CLP Power Hong Kong, is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance and General Committee of those companies. Overseas subsidiaries conduct their risk management activities in accordance with policies approved by their respective Boards. Group Treasury identifies, evaluates and monitors financial risks in close co-operation with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

Foreign currency risk

The Group operates in the Asia-Pacific region and is exposed to foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities and net investments in foreign operations. This is primarily with respect to Australian dollar, Renminbi and Indian rupee. Additionally, CLP Power Hong Kong has significant foreign currency obligations relating to its foreign currency denominated debts, US dollar denominated nuclear power purchase offtake commitments and other fuel-related payments. The Group uses forward contracts and currency swaps to manage its foreign exchange risk arising from future commercial transactions, and from recognised assets and liabilities which are denominated in a currency that is not the functional currency of the respective Group entity. Hedging is only considered for firm commitments and highly probable forecast transactions.

CLP Power Hong Kong

Under the SoC, CLP Power Hong Kong is allowed to pass-through foreign exchange gains and losses arising from future commercial transactions and recognised liabilities which are denominated in a currency other than Hong Kong dollar, thus retaining no significant foreign exchange risk over the long term. CLP Power Hong Kong uses forward contracts and currency swaps to hedge all its debt repayment obligations denominated in foreign currencies for the full tenor, and a significant portion of its US dollar obligations on fuel and nuclear power purchases, provided that for US dollar the hedging can be accomplished at rates below the Hong Kong Government's historical target peg rate of HK$7.8: US$1. The objective is to reduce the potential impact of foreign exchange movement on electricity tariffs.

At the end of the reporting period, the fair value movement of the derivative financial instrument in a cash flow hedge relationship is recorded in equity. The extent of the impact to the cash flow hedge reserve under equity due to exchange rate movements, with all other variables held constant, is as follows:

	2016 HK$M	2015 HK$M
Increase / (decrease) in the cash flow hedge reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2015: 0.6%)	**118**	196
If Hong Kong dollar strengthened by 0.6% (2015: 0.6%)	**(118)**	(196)
Hong Kong dollar against Japanese yen		
If Hong Kong dollar weakened by 5% (2015: 4%)	**2**	31
If Hong Kong dollar strengthened by 5% (2015: 4%)	**(2)**	(29)

This fluctuation in equity is a timing difference as when the exchange gain or loss is realised in profit or loss, the amount is recoverable under the SoC.

1. Financial Risk Factors (continued)

Foreign currency risk (continued)

The Group's Asia-Pacific Investments

With respect to the power project investments in the Asia-Pacific region, the Group is exposed to both foreign currency translation and transaction risks.

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2016, the Group's net investment subject to translation exposure was HK$56,859 million (2015: HK$56,882 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2015: 1%) average foreign currency movement, our translation exposure will vary by about HK$569 million (2015: HK$569 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

We consider that the non-functional currency transaction exposures at the individual project company level, if not managed properly, can lead to significant financial distress. Our primary risk mitigation is therefore to ensure that project-level debt financings are implemented on a local currency basis to the maximum extent possible. Each overseas subsidiary and project company has developed its own hedging programme into local currency taking into consideration any indexing provision in project agreements, tariff reset mechanisms, lender requirements and tax and accounting implications.

Most foreign currency exposures of the Group entities are hedged and / or their transactions are predominantly conducted through the functional currency of the respective entity. The following analysis presents the Group's (apart from CLP Power Hong Kong) sensitivity to a reasonably possible change in the functional currencies of the Group entities against the US dollar and Renminbi, with all other variables held constant. The sensitivity rates in US dollar and Renminbi used are considered reasonable given the current level of exchange rates and the volatility observed in the different functional currencies of the Group entities. These are both on a historical basis and market expectations for future movement at the end of the reporting period and under the economic environments in which the Group operates. The extent of the impact to post-tax profit or equity due to exchange rate movements of US dollar and Renminbi against different functional currencies of Group entities, with all other variables held constant, is as follows:

	2016 HK$M	2015 HK$M
US dollar		
If US dollar strengthened by 5% (2015: 5%)		
Post-tax profit for the year	**60**	58
Equity – cash flow hedge reserve	**70**	91
If US dollar weakened by 5% (2015: 5%)		
Post-tax profit for the year	**(60)**	(51)
Equity – cash flow hedge reserve	**(70)**	(91)
Renminbi		
If Renminbi strengthened by 4% (2015: 4%)		
Post-tax profit for the year	**101**	126
Equity – cash flow hedge reserve	**–**	–
If Renminbi weakened by 4% (2015: 4%)		
Post-tax profit for the year	**(101)**	(126)
Equity – cash flow hedge reserve	**–**	–

1. Financial Risk Factors (continued)

Energy portfolio risk

EnergyAustralia's two key energy portfolios are electricity and gas.

For electricity, EnergyAustralia's wholesale purchase and sale of electricity operates through a competitive power pool at spot (half-hour) market prices. For gas there is a gas balancing market with daily prices. EnergyAustralia operates in these markets through its retail customer demand requirements and through its supply which is a combination of physical supply from its power stations, gas agreements for supply, transportation and storage, and derivative hedges linked to market prices.

EnergyAustralia is exposed to wholesale energy portfolio risk from the variability of prices in these markets and the variability of demand and supply volumes exposed to these market prices. EnergyAustralia manages its wholesale energy portfolio exposure through an established risk management framework. The framework consists of policies which place appropriate limits on overall energy market exposures, delegations of authority on contracting, hedging strategies, and requirements for regular risk monitoring. Risk monitoring includes physical position reporting, stress testing of the portfolios and analyses of earnings (Earnings-at-Risk, EaR). The EaR is derived from modelling, through Monte Carlo simulations and scenarios, potential variability in spot and forward market prices and supply and demand volumes across the wholesale energy portfolio. The EaR measure is drawn from the resulting earnings distribution and is chosen at a 1 in 4 probability downside (2015: 1 in 20 probability downside). The updated probability level is in alignment with internal reporting and better reflects recognisable scenarios. The corporate governance process also includes oversight by an Audit & Risk Committee which acts on behalf of EnergyAustralia's Board.

Based on the methods explained above, the energy portfolio risk exposure for EnergyAustralia at 31 December 2016 was HK$247 million (2015: HK$317 million). The change in the risk measure is a combination of changes in the probability level and the inclusion of the gas portfolio.

Interest rate risk

The Group's interest rate risk arises from debt borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk, whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. The risks are managed by monitoring an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swaps.

The appropriate level of the fixed / floating mix is determined for each operating company subject to a regular review. For instance, CLP Power Hong Kong conducts an annual review to determine a preferred fixed / floating interest rate mix appropriate for its business profile. Each overseas subsidiary and project company has developed its own hedging programme taking into consideration project debt service sensitivities to interest rate movements, lender requirements, tax and accounting implications.

The sensitivity analysis below presents the effects on the Group's post-tax profit for the year (as a result of change in interest expense on floating rate borrowings and impact of shift in yield curve on energy contracts) and equity (as a result of change in the fair value of derivative instruments which qualify as cash flow hedges). Such amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged items affect profit or loss, and offset one another in the profit or loss.

The analysis has been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the end of the reporting period. For floating rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. The sensitivity to interest rates used is considered reasonable given the market forecasts available at the end of the reporting period and under the economic environments in which the Group operates, with all other variables held constant.

1. Financial Risk Factors (continued)

Interest rate risk (continued)

	2016 HK$M	2015 HK$M
Hong Kong dollar		
If interest rates were 0.4% (2015: 0.7%) higher		
Post-tax profit for the year	**(49)**	(92)
Equity – cash flow hedge reserve	**–**	2
If interest rates were 0.4% (2015: 0.7%) lower		
Post-tax profit for the year	**49**	92
Equity – cash flow hedge reserve	**–**	(2)
Indian rupee		
If interest rates were 1% (2015: 1%) higher		
Post-tax profit for the year	**(16)**	(16)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 1% (2015: 1%) lower		
Post-tax profit for the year	**16**	16
Equity – cash flow hedge reserve	**–**	–
US dollar		
If interest rates were 0.2% (2015: 0.1%) higher		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**17**	–
If interest rates were 0.2% (2015: 0.1%) lower		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**(17)**	–

Credit risk

The Group's approach to managing credit risk for trade receivables is discussed in Note 16.

On the treasury side, all finance-related hedging transactions and deposits of the Group entities are made with counterparties with good credit quality in conformance to the Group treasury policies to minimise credit exposure. Good credit ratings from reputable credit rating agencies and scrutiny of the financial position of non-rated counterparties are two important criteria in the selection of counterparties. The credit quality of counterparties will be closely monitored over the life of the transaction. The Group further assigns mark-to-market limits to its financial counterparties to reduce credit risk concentrations relative to the underlying size and credit strength of each counterparty. In an attempt to forestall adverse market movement, the Group also monitors potential exposures to each financial institution counterparty, using VaR methodology. All derivatives transactions are entered into at the sole credit of the respective subsidiaries, joint ventures and associates without recourse to the Company.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and making available an adequate amount of committed credit facilities with staggered maturities to reduce refinancing risk in any year and to fund working capital, debt servicing, dividend payments, new investments and close out market positions if required. The Group maintains significant flexibility to respond to opportunities and events by ensuring that committed credit lines are available to meet future funding requirements. Management also monitor rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

1. Financial Risk Factors (continued)

Liquidity risk (continued)

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities (both net settled and gross settled), which are based on contractual undiscounted cash flows.

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2016					
Non-derivative financial liabilities					
Bank loans	**9,897**	**5,213**	**7,656**	**5,605**	**28,371**
Other borrowings	**2,558**	**1,209**	**11,544**	**19,163**	**34,474**
Customers' deposits	**4,999**	**–**	**–**	**–**	**4,999**
Trade and other payables	**19,921**	**–**	**–**	**–**	**19,921**
Fuel clause account	**–**	**2,867**	**–**	**–**	**2,867**
SoC reserve accounts	**–**	**860**	**–**	**–**	**860**
Asset decommissioning liabilities	**–**	**916**	**–**	**–**	**916**
	37,375	**11,065**	**19,200**	**24,768**	**92,408**
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	**3**	**–**	**–**	**–**	**3**
Interest rate swaps	**68**	**38**	**82**	**70**	**258**
Energy contracts	**690**	**167**	**209**	**265**	**1,331**
Gross settled					
Forward foreign exchange contracts	**21,263**	**9,640**	**7,465**	**496**	**38,864**
Cross currency interest rate swaps	**2,649**	**1,667**	**8,954**	**11,558**	**24,828**
	24,673	**11,512**	**16,710**	**12,389**	**65,284**
At 31 December 2015					
Non-derivative financial liabilities					
Bank loans	12,872	5,439	7,628	6,100	32,039
Other borrowings	2,044	2,442	8,541	21,701	34,728
Customers' deposits	4,829	–	–	–	4,829
Trade and other payables	19,023	–	–	–	19,023
Fuel clause account	–	–	2,226	–	2,226
SoC reserve accounts	–	–	1,009	–	1,009
Asset decommissioning liabilities	–	–	1,025	–	1,025
	38,768	7,881	20,429	27,801	94,879
Derivative financial liabilities					
Net settled					
Forward foreign exchange contracts	2	–	–	–	2
Interest rate swaps	110	52	91	57	310
Energy contracts	359	225	267	513	1,364
Gross settled					
Forward foreign exchange contracts	33,438	19,666	15,460	792	69,356
Cross currency interest rate swaps	1,586	2,641	6,696	15,216	26,139
	35,495	22,584	22,514	16,578	97,171

2. Hedge Accounting

The Group seeks to apply, wherever possible, hedge accounting to present its financial statements in accordance with the economic purpose of the hedging activity. The Group determines the economic relationship between the hedged items and the hedging instruments by reviewing their critical terms. As a result the Group concludes that the risk being hedged for the hedged items and the risk inherent in the hedging instruments are sufficiently aligned. There is no inherent mismatch in the hedging relationships. Certain ineffectiveness can arise during the hedging process. The main sources of hedge ineffectiveness are considered to be the effects of re-designation of the hedging relationships, overhedging and the counterparty credit risks on the hedging instruments.

Hedges on debt related transactions

The Group applies various types of derivative financial instruments (forward foreign currency contracts, foreign currency options, cross currency interest rate swaps and interest rate swaps) to mitigate exposures arising from the fluctuations in foreign currencies and / or interest rates of debts. In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items. In view of the nature of the hedging activities, no significant ineffectiveness is expected at inception.

Hedges on non-debt related transactions

CLP Power Hong Kong uses forward contracts to manage its foreign exchange risk arising from fuel and nuclear purchases obligations. CLP Power Hong Kong hedges a high portion of committed and highly probable forecast transactions.

EnergyAustralia purchases and sells the majority of its electricity through a competitive power pool at spot (half-hour) market prices. EnergyAustralia enters into forward electricity contracts to manage the spot electricity price risk against forecast retail and generation exposures. The gas market is a balancing market. To meet retail demand EnergyAustralia procures gas supply agreements from various gas producers. Increasingly these agreements are not at a fixed price but rather have the supply price linked to oil spot prices on the global markets. EnergyAustralia enters into oil-price-linked derivative financial instruments (forward contracts) to manage this oil price risk component.

Effects of hedge accounting

The tables below summarise the effect of the hedge accounting on the financial position and performance of the Group for the year ended 31 December 2016.

			Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness				Amount reclassified from cash flow hedge reserve and credited / (charged) to profit or loss	
Cash Flow Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedging instrument assets / (liabilities) HK$M	Hedging instruments HK$M	Hedged items HK$M	Hedging (gains) / losses recognised in cash flow hedge reserve HK$M	Hedge ineffectiveness charged to profit or loss [a] HK$M	Hedged items affected profit or loss [a] HK$M	Hedged future cash flows no longer expected to occur [a] HK$M
Debt related transactions								
Interest rate risk [b]	27,242	(476)	591	(599)	(594)	3	116	(5)
Foreign currency risk	336	37	(40)	36	36	4	(27)	–
Non-debt related transactions								
Foreign currency risk	26,778	205	143	(145)	(143)	–	(21)	–
Energy portfolio risk – electricity	1,083	136	402	(402)	(402)	–	226	–
Energy portfolio risk – gas	2,682	277	285	(285)	(285)	–	–	–

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

Fair Value Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedged items (included accumulated fair value hedge adjustments) HK$M	Accumulated fair value hedge adjustments: Continuing hedges HK$M	Accumulated fair value hedge adjustments: Discontinued hedges HK$M	Favourable/(Unfavourable) changes in fair value used for measuring ineffectiveness: Hedging instruments HK$M	Favourable/(Unfavourable) changes in fair value used for measuring ineffectiveness: Hedged items HK$M	Hedge ineffectiveness charged to finance costs HK$M
Debt related transactions							
Interest rate risk [b]	6,131	(10,532)	214	(25)	3	(9)	6

Notes:

(a) Hedge ineffectiveness and amounts reclassified from cash flow hedge reserve on non-debt and debt related transactions were recognised in fuel and other operating expenses and finance costs respectively.

(b) Also include foreign currency risk in case of foreign currency debts

An analysis of other comprehensive income by risk category and the reconciliation of the components in equity that arises in connection with hedge accounting are as follows:

Cash Flow Hedge Reserve	Interest rate risk [b] HK$M	Foreign currency risk HK$M	Energy portfolio risk HK$M	Total HK$M
Balance at 1 January 2016	41	(1)	256	296
Effect on adoption of HKFRS 9 (net of tax)	(80)	(118)	–	(198)
Balance at 1 January 2016, as restated	(39)	(119)	256	98
Hedging gains	594	107	687	1,388
Reclassification to profit or loss				
Hedged items affected profit or loss	(116)	48	(226)	(294)
Hedged items were no longer expected to occur	5	–	–	5
Related deferred tax	(87)	(35)	(139)	(261)
Balance at 31 December 2016	**357**	**1**	**578**	**936**

Costs of Hedging Reserves	Time value of options reserve HK$M	Forward element reserve HK$M	Foreign currency basis spread reserve HK$M	Total HK$M
Balance at 1 January 2016	–	–	–	–
Effect of adoption of HKFRS 9 (net of tax)	4	19	245	268
Balance at 1 January 2016, as restated	4	19	245	268
Changes due to transaction related hedged items				
Fair value losses	–	–	(13)	(13)
Amount reclassified to the costs of the hedged items	–	–	(99)	(99)
Changes due to time-period related hedged items				
Fair value losses	(23)	(83)	(132)	(238)
Amount reclassified to profit or loss for amortisation	20	71	28	119
Related deferred tax	2	7	35	44
Balance at 31 December 2016	**3**	**14**	**64**	**81**

3. Fair Value Estimation and Hierarchy of Financial Instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period.

For the Group's financial instruments that are not measured at fair value, their carrying values approximate their fair values.

Financial instruments measured at fair value are analysed into the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial instruments that are measured at fair value at 31 December:

	Level 1 HK$M	Level 2 [a] HK$M	Level 3 [a], [b] HK$M	Total HK$M
At 31 December 2016				
Financial assets				
Equity investments	**303**	**–**	**1,225**	**1,528**
Forward foreign exchange contracts	**–**	**479**	**–**	**479**
Foreign exchange options	**–**	**38**	**–**	**38**
Cross currency interest rate swaps	**–**	**493**	**–**	**493**
Interest rate swaps	**–**	**161**	**–**	**161**
Energy contracts	**–**	**910**	**130**	**1,040**
	303	**2,081**	**1,355**	**3,739**
Financial liabilities				
Forward foreign exchange contracts	**–**	**79**	**–**	**79**
Cross currency interest rate swaps	**–**	**1,380**	**–**	**1,380**
Interest rate swaps	**–**	**219**	**–**	**219**
Energy contracts	**–**	**690**	**189**	**879**
	–	**2,368**	**189**	**2,557**
At 31 December 2015				
Financial assets				
Equity investments	417	–	1,227	1,644
Forward foreign exchange contracts	–	655	–	655
Foreign exchange options	–	83	–	83
Cross currency interest rate swaps	–	623	–	623
Interest rate swaps	–	62	–	62
Energy contracts	–	135	120	255
	417	1,558	1,347	3,322
Financial liabilities				
Forward foreign exchange contracts	–	250	–	250
Cross currency interest rate swaps	–	1,968	–	1,968
Interest rate swaps	–	282	–	282
Energy contracts	–	146	751	897
	–	2,646	751	3,397

The Group's policy is to recognise transfers into / out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3. Fair Value Estimation and Hierarchy of Financial Instruments (continued)

During 2016 and 2015, there were no transfers between Level 1 and Level 2, or into Level 3.

Notes:

(a) The valuation technique and inputs used in the fair value measurements within Level 2 and Level 3 are as follows:

Financial Instruments	Valuation Technique	Significant Inputs
Equity investments	Discounted cash flow	Discount rate
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Foreign exchange options	Garman Kohlhagen Model	Observable exchange rates, interest rates and volatility levels
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency
Energy contracts	Discounted cash flow	Brokers' quotes and observable exchange traded swap and cap rates

(b) Additional information about fair value measurements using significant unobservable inputs (Level 3):

Financial Instruments	Significant Unobservable Inputs
Equity investments (i)	Discount rate
Energy contracts (ii)	Long term forward electricity price and cap price curve

(i) The valuations are performed and reported twice each year, in line with the Group's reporting dates, to Group management.

(ii) The finance department of EnergyAustralia includes a team that performs the valuations of non-property assets required for financial reporting purposes, including Level 3 fair values. This team reports directly to EnergyAustralia's Chief Financial Officer (CFO – EA) and Audit & Risk Committee (ARC – EA). The valuation of Level 3 forward energy contracts involves the use of a short term forward curve which is observable in the liquid market and a long term forward curve which is derived using unobservable inputs. This short term forward curve is reviewed at least once every six months, in line with the Group's half-yearly reporting dates. Review of the long term forward curve is performed between the CFO – EA and ARC – EA annually due to the lack of market liquidity. Fair value changes analyses are performed on a monthly basis for reasonableness.

The movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2016			2015		
	Equity Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Equity Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	**1,227**	**(631)**	**596**	1,227	(592)	635
Total gains / (losses) recognised in						
Profit or loss and presented in fuel and other operating expenses	**–**	**656**	**656**	–	(81)	(81)
Other comprehensive income	**–**	**(29)**	**(29)**	–	146	146
Settlements	**–**	**(18)**	**(18)**	–	30	30
Transfer out of Level 3 (note)	**(2)**	**(37)**	**(39)**	–	(134)	(134)
Closing balance	**1,225**	**(59)**	**1,166**	1,227	(631)	596
Unrealised gains / (losses) recognised in profit or loss relating to the assets and liabilities held at the end of the reporting period, and presented in fuel and other operating expenses	**–**	**617**	**617**	–	(81)	(81)

Note: During 2016 and 2015, the transfer of certain energy contracts out of Level 3 is because certain observable significant inputs are used in the fair value measurement instead of those unobservable ones used previously.

At 31 December 2016 and 2015, the valuation of long tenure energy contracts is sensitive to electricity pool price assumptions. A favourable and unfavourable change of 15% would cause the fair values to rise by HK$511 million (2015: HK$438 million) and decline by HK$509 million (2015: HK$432 million) respectively, with all other variables held constant.

4. Offsetting Financial Assets and Financial Liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements or similar agreements:

	Effect of offsetting in the consolidated statement of financial position			Related amounts not offset in the consolidated statement of financial position [a]		
	Gross amounts recognised HK$M	Gross amounts offset HK$M	Net amounts included in the respective line HK$M	Financial instruments HK$M	Financial collateral received / pledged HK$M	Net amount HK$M
At 31 December 2016						
Financial assets						
Bank balances, cash and other liquid funds	**198**	**–**	**198**	**(198)**	**–**	**–**
Trade and other receivables	**4,337**	**–**	**4,337**	**(2,431)**	**(1,906)**	**–**
Derivative financial instruments	**1,893**	**(367)**	**1,526**	**(438)** [b]	**–**	**1,088**
	6,428	**(367)**	**6,061**	**(3,067)**	**(1,906)**	**1,088**
Financial liabilities						
Customers' deposits	**4,998**	**–**	**4,998**	**(1,906)**	**–**	**3,092**
Bank loans and other borrowings	**11,487**	**–**	**11,487**	**–**	**(2,629)**	**8,858**
Derivative financial instruments	**2,851**	**(367)**	**2,484**	**(438)** [b]	**–**	**2,046**
	19,336	**(367)**	**18,969**	**(2,344)**	**(2,629)**	**13,996**
At 31 December 2015						
Financial assets						
Bank balances, cash and other liquid funds	232	–	232	(232)	–	–
Trade and other receivables	4,414	–	4,414	(2,365)	(2,049)	–
Derivative financial instruments	1,062	(340)	722	(398) [b]	–	324
	5,708	(340)	5,368	(2,995)	(2,049)	324
Financial liabilities						
Customers' deposits	4,829	–	4,829	(2,049)	–	2,780
Bank loans and other borrowings	10,910	–	10,910	–	(2,597)	8,313
Derivative financial instruments	3,426	(340)	3,086	(398) [b]	–	2,688
	19,165	(340)	18,825	(2,447)	(2,597)	13,781

Notes:

(a) Under HKFRS, amounts cannot be offset if the rights of set-off are conditional on a future event e.g. default of payment.

(b) For derivative financial instruments, the Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master agreements in which there is a set-off provision. Under certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, a termination value is then assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the consolidated statement of financial position since the Group does not have any currently legally enforceable right to offset recognised amounts. The right to offset is enforceable only on the occurrence of future events such as a default on the bank transactions or other credit events.

4. Offsetting Financial Assets and Financial Liabilities (continued)

The table on page 235 presents the financial instruments that are either subject to offset, or subject to enforceable master netting arrangements or other similar arrangements but not offset as at the end of the reporting period. They are disclosed correspondingly as follows:

- "Net amounts included in the respective line" column which presents the net amounts of financial assets / liabilities after offset, where the Group currently has a legally enforceable right and intention to set off. Such amounts were included in the respective line of the consolidated statement of financial position.
- "Net amount" column which presents what the net impact would be on the consolidated statement of financial position if all set-off rights (e.g. master netting arrangements, collateral arrangements, etc.) were exercised. These items include
  - restricted cash of CLP India disclosed under Note 17 to the financial statements;
  - trade receivables related to Hong Kong electricity business where customers' deposits are served as security for payments, and trade receivables of subsidiaries in Mainland China and India which are pledged against their bank loans and other borrowings (as noted below); and
  - bank loans and other borrowings of subsidiaries in Mainland China and India which are secured by charges over certain assets or rights to income.

5. Capital Management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or raise and repay debts. The Group's capital management objectives, policies or processes were unchanged during 2016 and 2015.

The Group monitors capital using "total debt to total capital" and "net debt to total capital" ratios. These ratios are as follows:

	2016 **HK$M**	2015 HK$M
Total debt [a]	**51,646**	55,483
Net debt [b]	**46,979**	51,684
Total equity [c]	**112,465**	107,652
Total capital (based on total debt) [d]	**164,111**	163,135
Total capital (based on net debt) [e]	**159,444**	159,336
Total debt to total capital (based on total debt) ratio (%)	**31.5**	34.0
Net debt to total capital (based on net debt) ratio (%)	**29.5**	32.4

The reduction in total debt to total capital and net debt to total capital ratios were mainly due to robust operating cash flow enabling significant amount of debt repayments and higher shareholders' funds resulting from earnings for the year.

Certain entities of the Group are subject to certain loan covenants. For both 2016 and 2015, there is no material non-compliance with those loan covenants.

Notes:

(a) Total debt equals bank loans and other borrowings.

(b) Net debt equals total debt less bank balances, cash and other liquid funds.

(c) Total equity equals equity plus advances from non-controlling interests.

(d) Total capital (based on total debt) equals total debt plus total equity.

(e) Total capital (based on net debt) equals net debt plus total equity.

Scheme of Control Statement

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

In Hong Kong, CLP Power Hong Kong Limited (CLP Power Hong Kong) operates a vertically integrated electricity generation, transmission and distribution business. The generating plants in Hong Kong are owned by Castle Peak Power Company Limited (CAPCO), in which CLP Power Hong Kong originally owned 40% and was further increased to 70% since May 2014. CLP Power Hong Kong builds and operates CAPCO's power stations under contract and is the sole customer for CAPCO's electricity which CLP Power Hong Kong transmits and distributes to its customers in Kowloon and the New Territories. CLP Power Hong Kong owns the transmission and distribution network.

Since financial year 1964, the electricity-related operations of CLP Power Hong Kong and CAPCO (the SoC Companies) have been governed by a Scheme of Control Agreement (SoC) with the Hong Kong Government. The SoC specifies the SoC Companies' obligations to supply adequate and reliable electricity supplies to customers at the lowest reasonable cost and the mechanism for Hong Kong Government to monitor their financial affairs and operating performance. In return, CLP Power Hong Kong is allowed to charge tariffs designed to recover the operating costs (including tax) and allowed net return of the SoC Companies.

The current SoC took effect from 1 October 2008. The SoC covers a period of 10 years to 30 September 2018, and provides that the SoC Companies will continue to earn the permitted return until 30 September 2023 on all approved investments.

The current SoC includes a provision to give the SoC Companies protection for stranded costs, which may arise as a result of future changes to the market structure which adversely impact on the SoC Companies' ability to recover and to earn returns on existing investments made in good faith in accordance with the SoC. These costs will include the costs of investments, fuel and power purchase agreements previously approved by the Hong Kong Government. If stranded costs arise after the SoC Companies have implemented mitigation measures reasonably required by the Hong Kong Government, the SoC Companies are entitled to recover them from the market, consistent with international practice. Three years before market changes are introduced, the SoC Companies and the Hong Kong Government will agree on the amount of stranded costs and the mechanism for their recovery by the SoC Companies.

Tariff Setting Mechanism

For each year, CLP Power Hong Kong designs the net tariff it charges to cover the SoC Companies' operating costs and allowed net return. The net tariff consists of the following components:

(i) basic tariff rate which is derived by taking into account the annual forecast of (a), (b) and (c) below, using the formula "(a-b) / c":

   (a) the allowed net return and operating costs including the standard cost of fuel; generation, transmission, distribution and administration expenses; depreciation; interest expenses; and taxes;

   (b) 80% of the profit on electricity sale to Mainland China; and

   (c) local unit sales as determined by the load forecast.

(ii) fuel clause charge or rebate (Fuel Cost Adjustment) which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate.

Any difference between the actual profit for SoC operations and the permitted return for the year is transferred to or from a Tariff Stabilisation Fund. The Tariff Stabilisation Fund does not form part of distributable shareholders' funds and represents a liability in the accounts of CLP Power Hong Kong. A charge on the average balance of the Tariff Stabilisation Fund is credited to the Rate Reduction Reserve in the accounts of CLP Power Hong Kong, which balance as at the end of each year is to be transferred to the Tariff Stabilisation Fund in the following year.

Permitted and Net Return

The permitted and net return that the SoC Companies are allowed under the SoC are calculated as follows:

- The annual permitted return under the SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments.
- The net return is the permitted return after the deduction or adjustment of the following items:
  - (a) interest up to a maximum of 8% per annum on borrowed capital arranged for financing fixed assets;
  - (b) a charge of the average one-month Hong Kong interbank offered rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;
  - (c) an excess capacity adjustment of 9.99% under the SoC on the average excess capacity expenditure less an allowed interest charge up to 8% per annum on the average excess capacity expenditure;
  - (d) interest up to 8% per annum on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998; and
  - (e) performance related incentives / penalties adjustments are in the range of -0.03% to +0.1% on the average net fixed assets with respect to customer performance, energy efficiency and renewables performance applicable to each full calendar year under the SoC.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2016 was 9.14% (2015: 9.15%).

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements. In year 2016, 68% (2015: 67%) of the net return was allocated to CLP Power Hong Kong and 32% (2015: 33%) to CAPCO.

The calculations shown on next page are in accordance with the SoC and the agreements between the SoC Companies.

For the year ended 31 December

	2016 HK$M	2015 HK$M
SoC revenue	**37,223**	38,205
Expenses		
Operating costs	**4,312**	4,068
Fuel	**10,978**	12,682
Purchases of nuclear electricity	**5,198**	5,203
Provision for asset decommissioning	**(109)**	(57)
Depreciation	**4,375**	4,143
Operating interest	**997**	940
Taxation	**1,895**	1,865
	27,646	28,844
Profit after taxation	**9,577**	9,361
Interest on borrowed capital	**952**	920
Adjustment for performance incentives	**(53)**	(51)
Adjustments required under the SoC (being share of profit on sale of electricity to Mainland China attributable to the SoC Companies)	**(69)**	(68)
Profit for SoC	**10,407**	10,162
Transfer from Tariff Stabilisation Fund	**151**	124
Permitted return	**10,558**	10,286
Deduct interest on / Adjustment for		
Borrowed capital as above	**952**	920
Performance incentives as above	**(53)**	(51)
Tariff Stabilisation Fund to Rate Reduction Reserve	**2**	2
	901	871
Net return	**9,657**	9,415
Divisible as follows:		
CLP Power Hong Kong	**6,547**	6,319
CAPCO	**3,110**	3,096
	9,657	9,415
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	**6,547**	6,319
Interest in CAPCO	**2,177**	2,167
	8,724	8,486

Five-year Summary: CLP Group Statistics

Economic

	2016	2015	2014	2013	2012
Consolidated Operating Results, HK$M					
Revenue					
Electricity business in Hong Kong	**37,615**	38,488	35,303	33,840	33,643
Energy businesses outside Hong Kong	**41,459**	41,757	56,633	70,352	70,983
Others	**360**	455	323	338	235
Total	**79,434**	80,700	92,259	104,530	104,861
Operating profit	**17,146**	22,020	14,895	8,906	13,101
Earnings*					
Hong Kong	**8,640**	8,260	7,777	6,966	6,654
Other investments / operations	**4,378**	3,885	2,907	2,790	3,316
Gains / (losses) on acquisitions / sales of investments and assets	**643**	6,619	1,953	(75)	–
Impairment and provision reversal	**(203)**	(1,723)	(1,736)	(3,696)	(409)
Revaluation (losses) / gains on investment properties	**(146)**	99	245	–	–
Reversal of over-provision of tax and tax consolidation benefit	**83**	–	545	–	105
Other items affecting comparability from Australia	**–**	(858)	152	524	(790)
Unallocated net finance income / (costs)	**33**	17	(36)	(26)	(74)
Unallocated Group expenses	**(717)**	(643)	(586)	(423)	(490)
Total	**12,711**	15,656	11,221	6,060	8,312
Dividends	**7,074**	6,822	6,619	6,493	6,301
Capital expenditure, owned and leased assets	**10,105**	11,317	9,446	12,052	11,230
Depreciation & amortisation, owned and leased assets	**6,909**	6,765	6,791	7,592	7,021
Consolidated Statement of Cash Flows, HK$M					
Net cash inflow from operating activities	**23,676**	19,168	21,966	21,021	23,915
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**106,886**	104,479	101,420	67,057	63,599
Other fixed assets	**32,535**	31,533	34,963	63,846	70,730
Goodwill and other intangible assets	**27,653**	28,257	31,129	23,847	28,479
Interests in joint ventures	**9,971**	11,250	11,176	19,940	19,197
Interests in associates	**813**	785	786	1,675	1,856
Other non-current assets	**4,922**	5,385	9,664	8,601	7,742
Current assets	**23,198**	22,275	25,525	26,719	37,153
Total assets	**205,978**	203,964	214,663	211,685	228,756
Shareholders' funds	**98,010**	93,118	88,013	87,361	91,127
Perpetual capital securities	**5,791**	5,791	5,791	–	–
Other non-controlling interests	**1,972**	2,023	2,155	120	74
Equity	**105,773**	100,932	95,959	87,481	91,201
Bank loans and other borrowings	**51,646**	55,483	67,435	56,051	66,198
Obligations under finance leases	**–**	–	27	27,976	27,055
SoC reserve accounts	**860**	1,009	1,131	28	1,245
Other current liabilities	**26,689**	25,098	27,771	25,251	28,147
Other non-current liabilities	**21,010**	21,442	22,340	14,898	14,910
Total liabilities	**100,205**	103,032	118,704	124,204	137,555
Equity and total liabilities	**205,978**	203,964	214,663	211,685	228,756
Per Share Data, HK$					
Shareholders' funds per share	**38.79**	36.86	34.84	34.58	36.07
Earnings per share	**5.03**	6.20	4.44	2.40	3.45
Dividends per share	**2.80**	2.70	2.62	2.57	2.57

* The 2015 figures have been restated in accordance with the transitional provision of HKFRS 9 (2014) Financial Instruments about certain requirements of hedge accounting.

A ten-year summary is on our website

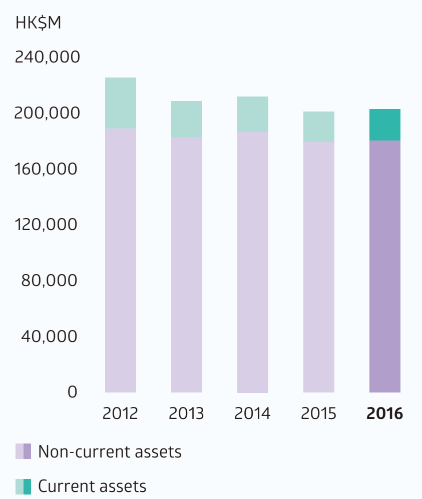
	2016	2015	2014	2013	2012
Per Share Data, HK$ (continued)					
Closing share price					
Highest	**83.90**	69.75	68.00	69.85	68.95
Lowest	**62.45**	62.20	56.30	60.35	62.30
As at year-end	**71.25**	65.85	67.25	61.30	64.85
Ratios					
Return on equity, %	**13.3**	17.3	12.8	6.8	10.1[1]
Total debt to total capital, %	**31.5**	34.0	39.6	39.1	42.1
Net debt to total capital, %	**29.5**	32.4	38.0	36.7	36.8
EBIT interest cover, times	**10**	10	6	3	4
Price / Earnings, times	**14**	11	15	26	19
Dividend yield, %	**3.9**	4.1	3.9	4.2	4.0
Dividend pay-out (total earnings), %	**55.7**	43.5	59.0	107.1	74.5
Dividend pay-out (operating earnings), %	**57.4**	59.2	65.8	69.8	65.9
Group Generating Capacity					
(owned / operated / under construction) [2], MW					
– by region					
Hong Kong	**7,483**	6,908	6,908	6,908	6,908
Mainland China	**7,181**	7,072	6,740	5,760	5,911
India	**2,978**	3,048	3,056	3,026	2,947
Southeast Asia & Taiwan	**285**	285	285	285	285
Australia	**4,505**	4,505	4,533	5,533	5,616
	22,432	21,818	21,522	21,512	21,667
– by status					
Operational	**21,560**	20,336	20,176	20,974	21,175
Construction	**872**	1,482	1,346	538	492
	22,432	21,818	21,522	21,512	21,667

Notes:

1 The 2012 figure excluded the effect of the 5% share placement on 20 December 2012 to give a more accurate average shareholders' funds in 2012.

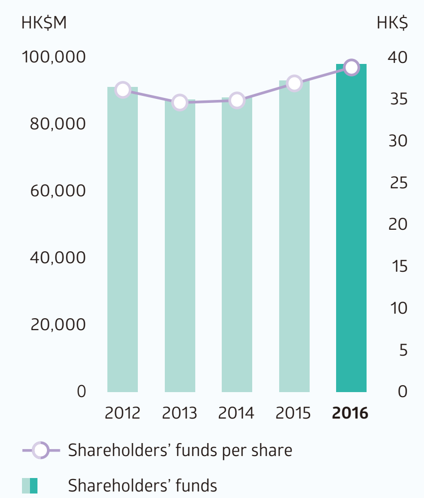
2 Group generating capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) PSDC (during 2012 and 2013) and Ecogen on 100% as having right to use; and (c) other stations (including PSDC from 2014) on the proportion of the Group's equity interests.

Total Assets



Earnings

Shareholders' Funds



Environmental

Performance Indicators	Units	2016	2015	2014	2013	2012	GRI Standard	HKEx ESG Reporting Guide Reference
Resource Use & Emissions [1]								
Coal consumed (for power generation)	TJ	**453,904**	450,937	541,865	433,763	361,819	302-1	A2.1
Gas consumed (for power generation)	TJ	**86,787**	95,591	63,268	73,510	86,200	302-1	A2.1
Oil consumed (for power generation)	TJ	**4,162**	2,892	2,345	1,973	8,200	302-1	A2.1
CO_2e emissions from power generation (Scopes 1 & 2)	kT	**46,681**	46,723	53,258	44,258	38,464	305-1, 305-2	A1.2
CO_2 emissions from power generation (Scopes 1 & 2) [2]	kT	**46,518**	46,553	53,044	44,076	38,319		
Nitrogen oxides emissions (NO_x)	kT	**58.1**	56.3	74.6	50.2	42.9	305-7	A1.1
Sulphur dioxide emissions (SO_2)	kT	**71.2**	63.4	93.0	50.5	35.1	305-7	A1.1
Total particulates emissions	kT	**8.5**	9.8	11.5	5.5	4.7	305-7	A1.1
Water withdrawal							303-1	A2.2
from marine water resources	Mm^3	**4,202.3**	4,447.6	4,774.5	4,987.9	4,648.6		
from freshwater resources	Mm^3	**48.2**	48.8	52.9	37.2 [3]	35.4		
from municipal sources	Mm^3	**6.5**	6.6	6.6	6.2 [3]	5.8		
Total	Mm^3	**4,257.0**	4,503.0	4,834.0	5,031.0	4,689.6		
Water discharged							306-1	
cooling water to marine water bodies	Mm^3	**4,202.3**	4,447.6	4,774.5	4,987.9	4,648.6		
treated wastewater to marine water bodies	Mm^3	**1.5**	1.1	1.3	1.2	1.1		
treated wastewater to freshwater bodies	Mm^3	**13.6**	12.6	14.5	10.1	14.0		
wastewater to sewerage	Mm^3	**1.6**	1.6	1.8	1.5	1.7		
wastewater to other destinations	Mm^3	**0.2**	0.1	0.1	0.1	0.3		
Total	Mm^3	**4,219.2**	4,463.0	4,792.2	5,000.8	4,665.7		
Hazardous waste produced [4]	T (solid) / kl (liquid)	**1,302 / 1,251**	641 / 2,832	484 / 2,783	337 / 1,228	262 / 1,500	306-2	A1.3
Hazardous waste recycled [4]	T (solid) / kl (liquid)	**260 / 1,149**	203 / 1,176	89 / 1,463	34 / 981	25 / 1,023	306-2	
Non-hazardous waste produced [4]	T (solid) / kl (liquid)	**8,317 / 84**	11,455 / 199	21,142 / 78	7,700 / 0	10,830 / 21	306-2	A1.4
Non-hazardous waste recycled [4]	T (solid) / kl (liquid)	**2,963 / 84**	4,414 / 199	4,172 / 78	1,853 / 0	2,719 / 4	306-2	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	**0**	1	1	0	0	307-1	
Environmental licence limit exceedances & other non-compliances	number	**2**	13	3	4	1	307-1	
Climate Vision 2050 Target Performance (Equity Basis) [5]								
Total renewable energy generation capacity	% (MW)	**16.6 (3,090)**	16.8 (3,051)	14.1 (2,660)	16.3 (2,579)	20.2 (2,734)		
Non-carbon emitting generation capacity	% (MW)	**19.2 (3,582)**	19.5 (3,543)	16.7 (3,152)	19.4 (3,071)	23.8 (3,226)		
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	**0.82** [6]	0.81 [6]	0.84 [6]	0.82 [6]	0.77	305-4	A1.2

Notes:
1 Covers operating facilities where CLP has operational control for the full calendar reporting year.
2 Includes CO_2e emissions of Yallourn and Hallett facilities as CO_2 emissions data were not available.
3 Data updated to align with reporting definition.
4 Waste categorised in accordance with local regulations.
5 "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.
6 CGN Wind not included as per the Greenhouse Gas Protocol due to its accounting categorisation.

*All 2016 data above have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

Packaging Material and Product Recalls:
At CLP, our primary product is electricity, which requires no packaging for delivery to customers. Packaging material used for auxiliary products only accounts for an immaterial amount. The nature of electricity also does not allow recalls of our primary product.

Social

Performance Indicators	Units	2016	2015	2014	2013	2012	GRI Standard	HKEx ESG Reporting Guide Reference
Employees								
Employees based on geographical location							102-7	B1.1
Hong Kong	number	**4,450**	4,438	4,405	4,394	4,345		
Mainland China	number	**560**	527	480	469	539		
Australia	number	**1,983**	1,998	2,143	1,745	1,302		
India	number	**435**	397	359	360	391		
Other locations (Southeast Asia & Macau)	number	**–**	–	–	–	4		
Total	number	**7,428**	7,360	7,387	6,968	6,581		
Employees eligible to retire within the next five years[7]							EU15	
Hong Kong	%	**17.3%**	16.2%	15.4%	15.2%	14.0%		
Mainland China	%	**12.1%**	11.9%	11.1%	12.2%	11.9%		
Australia	%	**11.4%**	10.9%	9.2%	10.9%	11.9%		
India	%	**0.9%**	0.8%	1.4%	0.8%	0.8%		
Other locations (Southeast Asia & Macau)[8]	%	**N/A**	N/A	N/A	N/A	N/A		
Total	%	**14.1%**	13.3%	12.4%	13.0%	12.6%		
Voluntary staff turnover rate[9, 10]							401-1	B1.2
Hong Kong	%	**2.3%**	2.8%	2.6%	1.9%	–		
Mainland China	%	**3.4%**	2.6%	2.5%	2.6%	–		
Australia	%	**12.6%**	13.7%	11.6%	9.4%	–		
India	%	**8.4%**	9.8%	13.2%	10.1%	–		
Other locations (Southeast Asia & Macau)	%	**N/A**	N/A	N/A	N/A	–		
Training per employee	average hours	**49.2**	57.2	43.4[11]	5.5	5.6	404-1	B3.2
Safety[12]								
Fatalities (employees only)[13]	number	**0**	0	0	0	0	403-2	B2.1
Fatalities (contractors only)[13]	number	**3**	0	1	1	N/A	403-2	B2.1
Fatality Rate (employees only)[14]	rate	**0.00**	0.00	0.00	0.00	N/A	403-2	B2.1
Fatality Rate (contractors only)[14]	rate	**0.02**	0.00	0.01	0.01	N/A	403-2	B2.1
Lost Time Injury (employees only)[15]	number	**3**	8	4	5	N/A	403-2	
Lost Time Injury (contractors only)[15]	number	**10**	8	19	28	N/A	403-2	
Lost Time Injury Rate (employees only)[14, 15]	rate	**0.04**	0.10	0.05	0.06	N/A	403-2	
Lost Time Injury Rate (contractors only)[14, 15]	rate	**0.07**	0.06	0.15	0.22	N/A	403-2	
Total Recordable Injury Rate (employees only)[14, 16]	rate	**0.11**	0.18	0.26	0.23	N/A	403-2	
Total Recordable Injury Rate (contractors only)[14, 16]	rate	**0.18**	0.28	0.51	0.50	N/A	403-2	
Days lost (employees only)[15, 17]	number	**9**	199	105	29	240	403-2	B2.2
Governance								
Convicted cases of corruption	cases	**0**	0	0	0	0	205-3	B7.1
Breaches of Code of Conduct	cases	**21**	6	7	12	14		

Notes:
7 The percentages given refer to full-time permanent staff within each location, who are eligible to retire within the next five years.
8 There have been no permanent staff in "Other locations (Southeast Asia & Macau)" since 2012.
9 Voluntary turnover is employees leaving the organisation voluntarily and does not include dismissal, retirement, separation under a separation scheme or end of contract.
10 In Mainland China, voluntary staff turnover rates refer to both permanent and short-term employees. In all other regions, voluntary staff turnover rates refer to permanent employees only.
11 Training per employee has been reported in average hours of training since 2014. Prior to 2014, training per employee is reported in average days of training.
12 The system of rules applied in recording and reporting accident statistics complies with the International Labour Organization (ILO) Code of Practice on Recording and Notification of Occupational Accidents and Diseases. Each year's safety data cover the incidents that happened in that calendar year and are based on the latest information available at the time of publication.
13 A fatality is the death of an employee or contractor personnel as a result of an occupational illness / injury / disease incident in the course of employment.
14 All rates are normalised to 200,000 worked hours, which approximately equals the number of hours worked by 100 people in one year.
15 An occupational illness / injury / disease sustained by an employee or contractor personnel causing him / her to miss one scheduled workday / shift or more after the day of the injury (including fatalities). A lost time injury does not include the day the injury incident occurred or any days that the injured person was not scheduled to work and it does not include restricted work injuries.
16 Total recordable injuries count all occupational injury incidents and illness other than first aid cases. They include fatalities, lost time injuries, restricted work injuries and medical treatment.
17 It refers to the number of working days lost when workers are unable to perform their usual work because of an occupational accident or disease. A return to limited duty or alternative work for the same organisation does not count as lost days.

*All 2016 data on this page have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

Five-year Summary: Scheme of Control Financial & Operating Statistics

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

	2016	2015	2014	2013	2012
SoC Financial Statistics					
Combined Profit & Loss Statement, HK$M					
Profit for SoC	**10,407**	10,162	10,988	8,945	9,388
Transfer from/(to) Tariff Stabilisation Fund	**151**	124	(1,030)	693	(75)
Permitted return	**10,558**	10,286	9,958	9,638	9,313
Less: Interest on/Adjustment for					
Borrowed capital	**952**	920	856	887	859
Performance (incentives)/penalties	**(53)**	(51)	(49)	(48)	(47)
Tariff Stabilisation Fund	**2**	2	1	1	2
Net return	**9,657**	9,415	9,150	8,798	8,499
Combined Balance Sheet, HK$M					
Net assets employed					
Fixed assets	**106,886**	104,479	101,420	97,918	95,243
Non-current assets	**440**	382	684	1,091	1,904
Current assets	**4,061**	5,327	6,770	6,778	11,530
	111,387	110,188	108,874	105,787	108,677
Less: current liabilities	**21,474**	18,565	18,518	17,142	22,248
Net assets	**89,913**	91,623	90,356	88,645	86,429
Exchange fluctuation account	**(279)**	113	(565)	(939)	(907)
	89,634	91,736	89,791	87,706	85,522
Represented by					
Equity	**42,147**	42,307	42,456	45,067	43,070
Long-term loans and other borrowings	**28,885**	30,730	28,340	26,873	28,254
Deferred liabilities	**17,816**	17,764	17,937	15,747	13,486
Tariff Stabilisation Fund	**786**	935	1,058	19	712
	89,634	91,736	89,791	87,706	85,522
Other SoC Information, HK$M					
Total electricity sales	**37,120**	38,087	35,969	33,064	33,842
Capital expenditure	**7,292**	7,630	7,800	7,479	8,621
Depreciation	**4,375**	4,143	3,901	4,475	4,146
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,524**	2,485	2,460	2,429	2,400
Sales analysis, millions of kWh					
Commercial	**13,234**	13,209	13,099	12,935	12,917
Manufacturing	**1,751**	1,791	1,791	1,832	1,890
Residential	**9,394**	9,228	9,450	8,658	8,900
Infrastructure and Public Services	**8,858**	8,805	8,585	8,358	8,288
Local	**33,237**	33,033	32,925	31,783	31,995
Export	**1,205**	1,187	1,226	1,650	1,838
Total Electricity Sales	**34,442**	34,220	34,151	33,433	33,833
Annual change, %	**0.6**	0.2	2.1	(1.2)	(0.9)
Local consumption, kWh per person	**5,451**	5,466	5,516	5,379	5,466
Local sales, HK¢ per kWh (average)					
Basic Tariff	**88.9**	87.1	88.6	84.0	84.2
Fuel Cost Adjustment [1]	**24.3**	27.0	22.4	22.4	17.8
Total Tariff	**113.2**	114.1	111.0	106.4	102.0
Rent and Rates Special Rebate [2]	**–**	–	–	(1.7)	(3.3)
Net Tariff [3]	**113.2**	114.1	111.0	104.7	98.7
Annual change in Basic Tariff, %	**2.1**	(1.7)	5.5	(0.2)	5.1
Annual change in Total Tariff, %	**(0.8)**	2.8	4.3	4.3	8.3
Annual change in Net Tariff, %	**(0.8)**	2.8	6.0	6.1	4.8

A ten-year summary is on our website.

	2016	2015	2014	2013	2012
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,913**	8,888	8,888	8,888	8,888
System maximum demand					
Local, MW	**6,841**	6,878	7,030	6,699	6,769
Annual change, %	**(0.5)**	(2.2)	4.9	(1.0)	1.0
Local and Mainland China, MW	**7,509**	7,582	7,502	7,615	7,431
Annual change, %	**(1.0)**	1.1	(1.5)	2.5	(4.7)
System load factor, %	**57.7**	57.0	57.8	55.7	57.5
Generation by CAPCO stations, millions of kWh	**26,056**	25,739	27,533	26,994	25,894
Sent out, millions of kWh –					
From own generation	**24,362**	24,075	25,597	25,084	24,102
Net transfer from					
Landfill gas generation	**4**	4	3	4	3
GNPS/GPSPS/Others	**11,501**	11,612	10,084	9,757	11,172
Total	**35,867**	35,691	35,684	34,845	35,277
Fuel consumed, terajoules –					
Oil	**3,452**	2,160	1,785	1,491	7,900
Coal	**160,661**	161,988	215,367	205,198	182,651
Gas	**74,559**	71,406	42,465	47,545	50,420
Total	**238,672**	235,554	259,617	254,234	240,971
Cost of fuel, HK$ per gigajoule – Overall	**43.77**	51.25	39.66	38.02	40.56
Thermal efficiency, % based on units sent out	**36.7**	36.8	35.5	35.5	36.0
Plant availability, %	**84.1**	85.0	83.7	85.2	82.1
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	555	555
132kV	**1,656**	1,645	1,643	1,587	1,581
33kV	**24**	24	27	27	27
11kV	**13,046**	12,739	12,475	12,328	12,074
Transformers, MVA	**65,834**	63,373	61,450	60,430	60,136
Substations –					
Primary	**230**	226	224	218	216
Secondary	**14,254**	14,019	13,845	13,692	13,536
Employees and Productivity					
Number of SoC employees	**3,808**	3,817	3,807	3,819	3,791
Productivity, thousands of kWh per employee	**8,718**	8,666	8,635	8,353	8,504

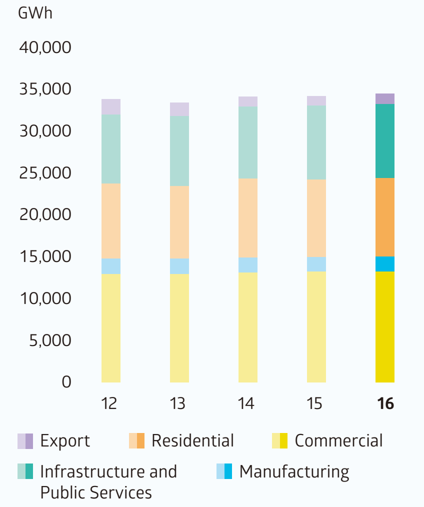
Notes:

1 The Fuel Cost Adjustment has replaced the Fuel Clause Charge effective from October 2014.

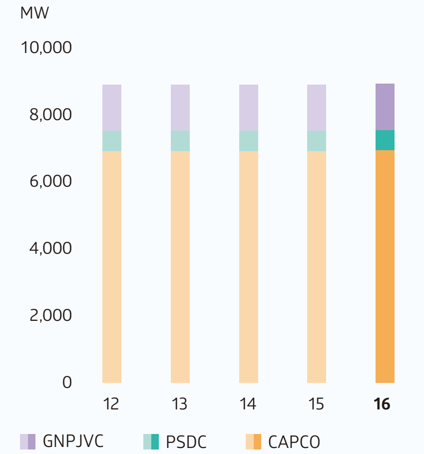
2 While the rent and rates appeals are still progressing, CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 3.3 cents and 2.1 cents per unit in 2012 and January to mid-October 2013 respectively, rebating to customers all interim refunds received from the Government in 2012 and 2013 for overcharged rent and rates.

3 The effective net tariff including the one-off special fuel rebate in 2015 is 110.3 cents per unit.

Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets