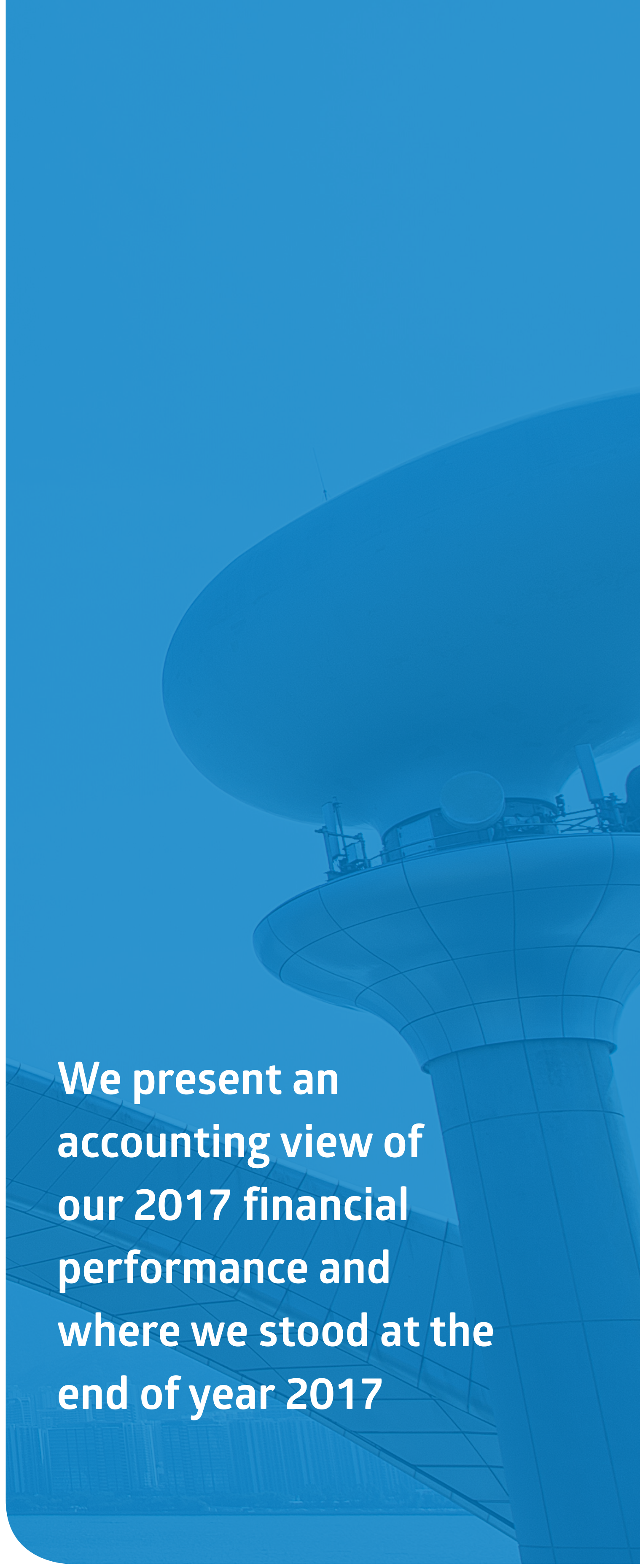
Financials

Kai Tak Cruise Terminal, Hong Kong

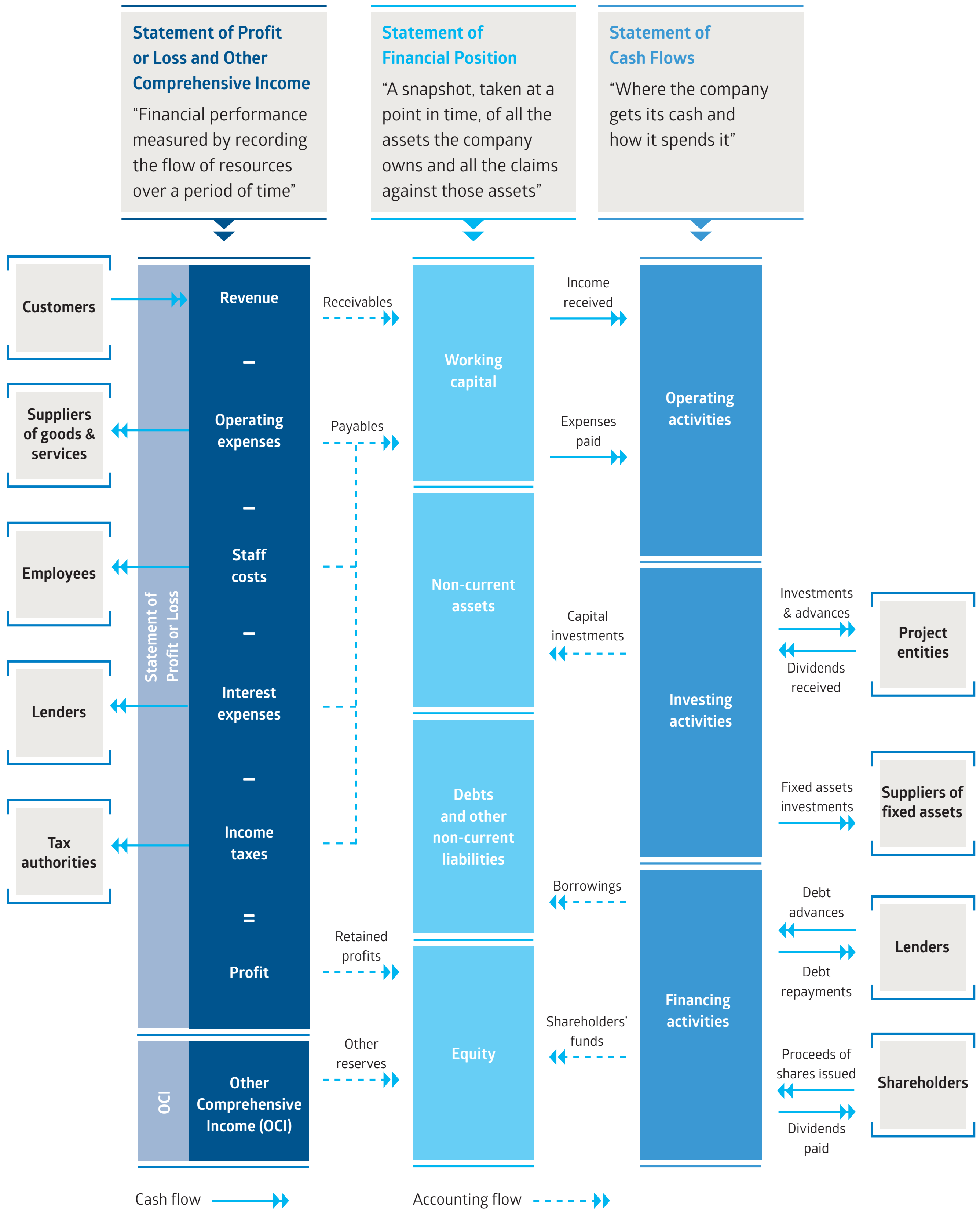


We present an accounting view of our 2017 financial performance and where we stood at the end of year 2017

Contents

Approaching Our Financial Statements

The objective of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders, for making economic decisions. The diagram below explains the functions and the relationships between the three essential financial statements, as well as their links with the Group's stakeholders.



The 2008 financial crisis highlighted the weakness in the current accounting standard, IAS 39 Financial Instruments: Recognition and Measurement, which adopts the incurred loss model for impairment of financial assets. The issue with the incurred loss model is that impairment losses and resulting write-downs in the reported value of financial assets can only be recognised when there is evidence that they exist (i.e. have been incurred). Reporting entities are not allowed to consider the effects of expected losses.

Following the crisis, the G20 tasked global accounting standard setters to strengthen accounting recognition of financial asset provisions by incorporating a broader range of credit information. In response, the International Accounting Standards Board (IASB) in 2014 published IFRS 9 Financial Instruments which replaces IAS 39 mandatorily in 2018. IFRS 9 includes a new impairment model that is more forward-looking.

CLP elected to early adopt HKFRS 9 (equivalent to IFRS 9) in 2016.

Accounting Mini-series

Expected Credit Loss Provisioning

The general purpose of an impairment test is to ensure that an asset is not carried for financial reporting purposes at an amount that exceeds its recoverable amount. To do so would overstate a reporting entity's financial position and performance. As such, a timely recognition of credit losses of financial assets is important. The issue of the recognition of credit losses has been discussed vigorously in the accounting regime since the financial crisis. This accounting mini-series explains the new impairment model under the new accounting standard.

Old – Incurred loss model

The incurred loss model under HKAS 39 (equivalent to IAS 39) only requires the recognition of credit losses that have been incurred as of the balance sheet date. There is no consideration of probable future losses. Loss identification is based on the occurrence of a "triggering" event supported by observable evidence such as loss of business, default on interest payment, bankruptcy etc. During the financial crisis, it was observed that the recognition of credit losses under the current incurred loss model was not timely reflected in the financial statements. In addition, although higher interest margins were set for riskier financial assets to compensate for expected losses, interest incomes derived from these assets were recognised in full. To overcome these issues, a new expected credit loss model under HKFRS 9 is introduced which replaces the current model and is effective from 1 January 2018.

New – Expected credit loss (ECL) model

The new ECL model is a forward-looking approach that emphasises on the assessment of increase in credit risk since initial recognition. Under this approach, a loss event is no longer needed to occur before a provisioning is recognised. This also involves a considerable judgment as to how changes in macroeconomic factors will affect credit losses.

Credit losses under the ECL model are measured at expected values. As a result, this new model is more subjective in nature compared to the incurred loss model since it relies significantly on the cash flow estimates prepared by an entity which are inherently subjective. To work out credit losses, the entity needs to consider the probability-weighted outcome, the time value of money and reasonable and supportable information that is available. Credit losses have to be updated at each reporting date to reflect changes in credit quality.

As the ECL model is more forward-looking, the new requirements are expected to increase credit losses of reporting entities with substantial long-term financial assets. The impact for short-term financial assets such as trade receivables is likely to be relatively small.

Two periods three stages

The new provisioning model bifurcates the estimation into (1) a 12-month ECL (Stage 1) and (2) a lifetime ECL. The computation of the lifetime ECL is further separated into two stages (Stages 2 and 3). Credit risk of a financial asset determines which stage of the model to be applied.

12-month ECL

Stage 1 – It is a measurement of the probability of a default event occurring in the next 12 months after the reporting date.

When a financial asset is initially recognised, the 12-month ECL is recognised in profit or loss. This is akin to a day one loss, the rationale of which is that interest rate charged by a lender includes a margin to cover ECL. Interest revenue at Stage 1 is calculated on the gross carrying amount (i.e. before deducting ECL).

Measurement of ECL	
12-month ECL	Probability of default over **the next 12 months** × Present value of lifetime cash shortfalls
Lifetime ECL	Probability of default over **the lifetime** × Present value of lifetime cash shortfalls

If credit risk has increased significantly since its initial recognition, the 12-month ECL would be replaced by lifetime ECL. Alternatively, the credit loss allowance reverts to 12-month ECL if its credit quality subsequently improves.

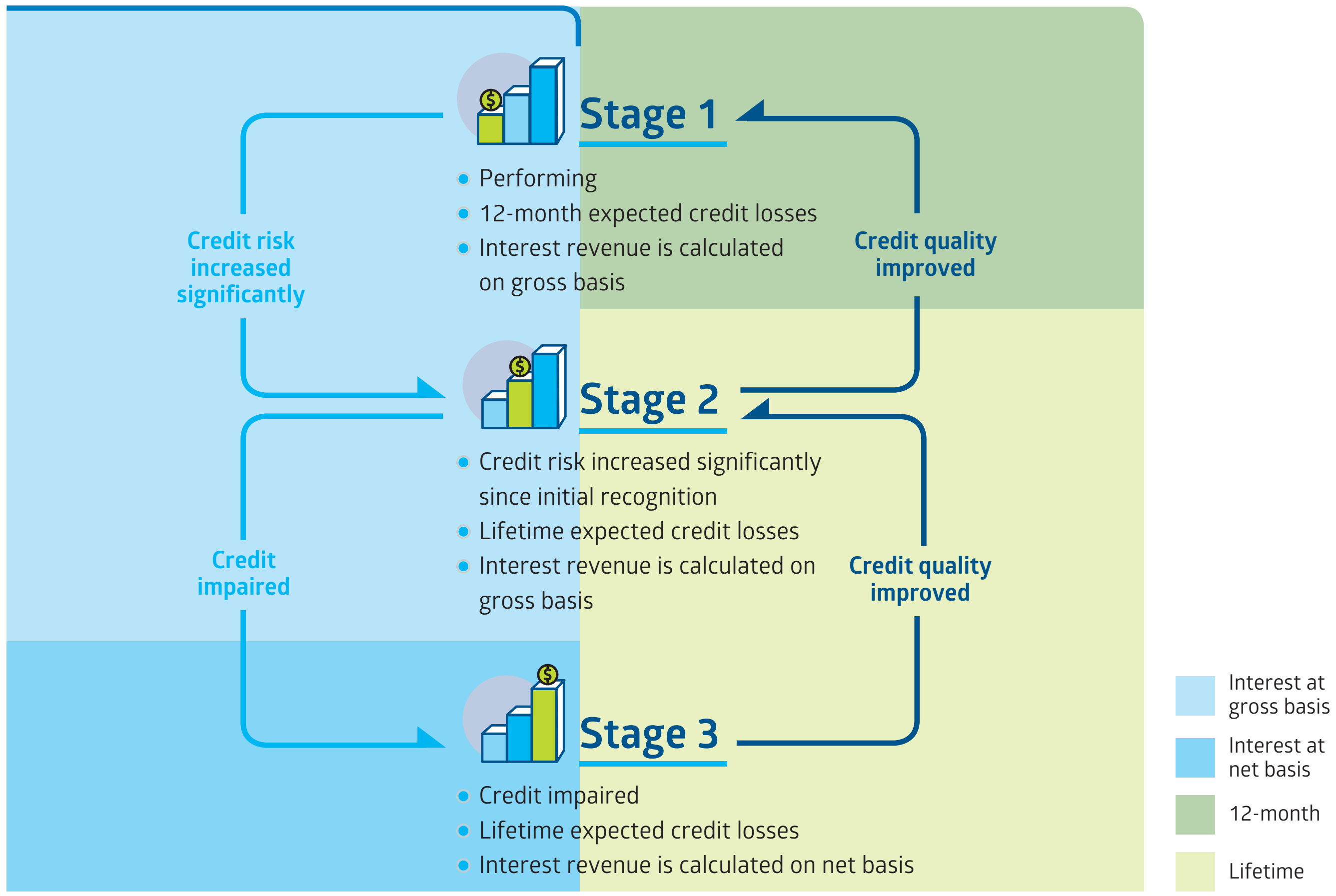
Lifetime ECL

Lifetime ECL is a measurement of the probability of credit losses expected over the remaining life of a financial asset irrespective of the timing of the default. It is estimated based on the present value of all expected cash shortfalls over the remaining life of the financial asset. The assessment of which stage of lifetime ECL to be applied is based on the increase in credit risk.

Stage 2 – When the credit quality deteriorates and the resulting credit risk of a financial asset increases significantly since its initial recognition, lifetime ECL has to be recognised. Interest revenue on this financial asset remains to be calculated on gross basis.

Stage 3 – If credit risk of a financial asset increases to the point that it is considered credit-impaired (similar to the current incurred loss model), lifetime ECL has to be recognised. However, interest revenue is calculated on the net carrying amount (i.e. after deducting ECL). A financial asset

Expected Credit Loss Model



becomes credit-impaired if an objective event occurred that has a detrimental impact on the estimated future cash flows of the asset. Financial assets at this stage are generally assessed individually.

Simplified approach

To apply the ECL model, entities need to keep track of the credit quality of financial assets. For entities with many customers, tracking of changes in credit quality of all these customers would require huge administrative effort. To lessen this administrative burden, the standard introduces a simplified approach.

Under this approach, trade receivables that do not contain significant financing component shall recognise lifetime ECL at all times. In fact, lifetime ECL does not differ from 12-month ECL in general as these trade receivables have typically less than 12-month duration.

Lifetime ECL could be calculated using a provision matrix based on historical loss patterns or customer bases. However, those historical provision rates would require adjustments to take into account current and forward-looking information.

Expected Credit Loss Provisioning in CLP

Trade receivables are our major financial assets. Trade receivables in Hong Kong and Australia cover enormous numbers of retail customers. For our generation businesses in the Mainland China and India, the counterparties (i.e. offtakers) are mainly state or state-owned entities. We apply the simplified approach in the provisioning of trade receivables. Let us see how we do it in different regions.

At 31 December 2017	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
CLP Power Hong Kong	1,967	(9)	1,958
EnergyAustralia	8,168	(994)	7,174
CLP India – Wind	482	–	482
CLP China – Renewables *	611	–	611

* Represent receivables related to the unpaid Renewable National Subsidies

CLP Power Hong Kong

CLP Power Hong Kong classifies its trade receivables by nature of customer accounts, i.e. active accounts and terminated accounts. Trade receivables are mostly secured by cash deposits or bank guarantees from customers. These, together with very low default rate, resulted in very minimal credit losses.

EnergyAustralia

In Australia, credit losses for trade receivables are assessed on both individual (wholesale customers) and collective (retail customers) basis. Customer segmentation is done according to the historical credit loss experiences by geographical region, product type, customer rating, collateral or trade credit insurance, type of customer, etc. Based on the customer segmentation and its ageing profile, EnergyAustralia derives a provision matrix to estimate the credit losses for each segment, which will be adjusted, where necessary, for forward-looking macroeconomic factors. The provision matrix applied by EnergyAustralia is set out in page 228 of this Annual Report.

CLP India - Wind

Trade receivables in India are assessed on individual basis. Certain state offtakers of CLP India's wind portfolio experience financial difficulties and thus delaying the payments of power purchase. As such, CLP India is exposed to credit risk and has aged debt. No provision has been made as periodic payments have been received, penalty interests for late payments have been charged and no history of default was recorded from the offtakers. The business environment has been improving. The exposure is classified as a sovereign credit risk.

CLP China - Renewables

CLP China's renewable projects are entitled to a national subsidy. Across the industry, there have been delay in payments of the Renewable National Subsidy. The Group recorded a total outstanding amount of HK$611 million at 31 December 2017. We consider that there are no credit losses on the basis that the counterparty is the Central Government, periodic payments have been received, no losses have been experienced in the past as well as no adverse change is anticipated in the business environment.

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To the Members of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of CLP Holdings Limited ("the Group Financial Statements") and its subsidiaries ("the Group") set out on pages 192 to 260, which comprise the consolidated statement of financial position as at 31 December 2017, 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 Financial Statements (including financial risk management), which include a summary of significant accounting policies.

Our opinion

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 2017, 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***
Unbilled retail revenue Refer to note 2 in the Group Financial Statements	
Retail electricity and gas revenues are recognised when electricity and gas are supplied to and consumed by the customers. The revenues are measured on the basis of periodic cycle meter readings and include an estimated accrual for the value of electricity and gas consumed from the meter reading date to the end of the reporting period (unbilled revenue). Unbilled retail revenue of the Group totalled HK$4,319 million at 31 December 2017.	Our procedures in relation to unbilled revenue included: • Obtaining an understanding of and testing the key controls in place to determine the estimate of unbilled revenue for both CLP Power Hong Kong and EnergyAustralia, including the logic of any models; • Testing the volume of electricity sent-out by CLP Power Hong Kong to supporting information;

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Unbilled retail revenue (continued) In CLP Power Hong Kong Limited (CLP Power Hong Kong), unbilled revenue is calculated using estimates including consumption quantity based on the electricity sent-out adjusted by a loss factor, pattern of residential and non-residential consumption, weather and certain other factors. In EnergyAustralia Holdings Limited (EnergyAustralia) the amount is calculated based on the electricity purchased and applicable tariffs for the mass market customer segment, as well as actual meter readings and contracted rates for commercial and industrial customers. The amount is adjusted for physical energy loss and other measurable factors.	• Testing the volume of electricity purchased by EnergyAustralia from the wholesale electricity market to the underlying Australian Energy Market Operator (AEMO) invoices on a sample basis and reconciling the total purchase volumes to revenue volumes; and • Understanding and challenging the key assumptions relating to volumes and pricing used in determining the level of unbilled revenue for both CLP Power Hong Kong and EnergyAustralia by comparing against historical trends and against the weighted average tariff for prices. Based on the work performed, the unbilled revenue amount is supported by the available evidence.
Fixed asset accounting, the calculation of the Scheme of Control permitted return and the carrying value of EnergyAustralia's generation assets and energy retail business Refer to notes 9 and 10 in the Group Financial Statements *Fixed asset accounting and the calculation of the Scheme of Control permitted return* Consolidated fixed assets, leasehold land and land use rights were HK$143 billion at 31 December 2017. This includes fixed assets and leasehold land relating to CLP Power Hong Kong and Castle Peak Power Company Limited (CAPCO) (together the SoC Companies) which are the base used in the calculation of the permitted return under the Scheme of Control (SoC) Agreement. The annual permitted return under the current SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments; and 11% for renewable energy investments. If the gross tariff revenue 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 (TSF). In any period, the amount of deduction from or addition to the TSF is recognised as a revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss. The completeness and accuracy of SoC fixed asset additions, disposals and depreciation charges is important to ensure the permitted return is calculated correctly.	Our procedures in relation to the Group's fixed assets and the calculation of the SoC permitted return included: • Assessing the control environment and testing controls over additions, disposals and depreciation charges; • Testing the fixed asset additions in the year to supporting evidence on a sample basis and assessing whether the items have been appropriately capitalised; • Assessing the estimated useful lives of the SoC Companies' fixed assets for compliance with the SoC; • Testing depreciation charges by performing depreciation reasonableness tests; • 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 SoC 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.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Fixed asset accounting, the calculation of the Scheme of Control permitted return and the carrying value of EnergyAustralia's generation assets and energy retail business (continued) *The carrying values of EnergyAustralia's generation assets and energy retail business* EnergyAustralia has goodwill of HK$16,656 million relating to the energy retail business in Australia and HK$11,138 million of generation fixed assets. EnergyAustralia management has assessed the recoverable amount of EnergyAustralia's generation assets and energy retail business at 31 December 2017 and concluded that the carrying values remain appropriate. These conclusions were based on value in use models requiring significant management judgment in respect of the key assumptions as set out in the Group Financial Statements.	Our procedures in relation to management's assessment of the carrying values of EnergyAustralia's generation assets and 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 values of EnergyAustralia's generation assets and energy retail business are supported by the available evidence and the key assumptions have been appropriately disclosed in notes 9 and 10 in the Group Financial Statements.
Recoverability of trade receivables Refer to 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$8,168 million at 31 December 2017 against which provisions for expected credit losses of HK$994 million are held. Management estimated the level of expected losses, 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 impact of economic factors both current and future is considered in assessing the likelihood of recovery from customers.	Our procedures in relation to trade receivables included: • Testing controls on a sample basis over the billing and collection cycle in CLP Power Hong Kong and EnergyAustralia; • Testing the trade receivables ageing analysis in CLP Power Hong Kong and EnergyAustralia; • Assessing the appropriateness of the credit loss provisioning methodology throughout the Group; • 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' meetings relating to the recoverability of trade receivables; • Understanding the nature of trade receivables from the state grid operators of CLP India's renewable projects, reading correspondence with the customers and reviewing Court Orders petitioning priority of payment; and

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Recoverability of trade receivables (continued) CLP India Private Limited's (CLP India) renewable projects have trade receivables of HK$482 million of which HK$446 million are past due. Management has assessed the recoverability of past-due amounts and concluded no credit loss provision is required as there is no recent history of default and continuous payments are received. As at 31 December 2017, the Group has total receivables of HK$611 million relating to unpaid Renewable National Subsidies in its Mainland China business. These amounts were not considered by management to be impaired because the subsidy settlement and renewable project accreditation are regulated by the Central Government. Furthermore, there has been payment and no history of default.	• Understanding the policies and regulations set by the Central Government on the Renewable National Subsidy, assessing the Group's previous renewable project accreditations by the Central Government and assessing the regulatory eligibility criteria has been satisfied by those facilities not yet accredited. We found management's assessments of the recoverability of trade receivables are supported by the available evidence.
Asset retirement obligations (AROs) Refer to note 23 in the Group Financial Statements Provisions 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. The Group's provision of HK$2,182 million mainly relates to land remediation of generation assets in Australia. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives. CLP Power Hong Kong has been investing in the transmission and distribution network to supply electricity to the customers in its supply area in Hong Kong. As CLP Power Hong Kong expects that the land sites being used for the transmission and distribution network will continue to be used for the distribution of electricity supply to its customers, CLP Power Hong Kong currently considers it remote that the network would be removed from the existing land sites. In accordance with the requirements of accounting standards, asset retirement obligations have not been recognised by CLP Power Hong Kong. The Hong Kong Government has published in 2017 the Climate Action Plan 2030+ with a tightened carbon reduction target by 2030. CAPCO envisages that with the Government's continued commitment to reduce carbon intensity, the removal of its fossil-fuel generation units from the existing land sites may be possible at some point of time in the future. Under the SoC, CAPCO makes a periodic charge to accrue in the statement of financial position a liability balance which would be utilised in discharging asset decommissioning costs if and when incurred. While asset retirement obligations have not been recognised upfront by CAPCO under the applicable accounting standards, CAPCO expects that should such obligation be incurred, it will be met by the deferred liability accrued and the cost recovery mechanism under the SoC.	Our procedures in relation to AROs included: • Assessing the appropriateness of the Group's accounting policy; • Evaluating management's conclusion that management consider it is remote that the Hong Kong transmission and distribution network would be removed from the existing land sites and possible, but not probable, that CAPCO's fossil-fuel generation units may be removed at some point in time in the future; • 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, past practice and the Climate Action Plan 2030+; and • Testing the appropriateness of management's estimates of costs, timing and discount rates for those assets where management has concluded that the legal or constructive obligation exist. Based on the work performed, the provisions recorded are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Legal matters Refer to note 30 in the Group Financial Statements From time-to-time the Group experiences legal disputes with offtakers, service providers and other third parties. Provisions are recognised when management considers 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. Where management considers 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. 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. The material legal matters and disputes are as follows: There is a dispute between CLP India and its offtaker – Gujarat Urja Vikas Nigam Limited (GUVNL) 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$1,045 million) at 31 December 2017. 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. In December 2015, EnergyAustralia completed the disposal of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million). On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd (Lochard Energy), the purchaser of the Iona Gas Plant, and certain related entities, commencing formal legal proceedings seeking A$967 million (approximately HK$5,899 million) or alternatively A$780 million (approximately HK$4,758 million) in damages. The claims allege that certain information regarding the technical performance of the Iona Gas Plant, and on which the consortium claims to have relied to make its offer, were incomplete or misleading. EnergyAustralia has rejected the claims and is vigorously defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the Financial Statements.	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; • Discussing with management any material developments and the latest status of the legal matters; • Reviewing the minutes of board of directors' meetings in respect of discussions relating to legal matters; • Obtaining written confirmation from external legal counsels on the status of the GUVNL and Lochard Energy 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 2017 annual report (other than the Group Financial Statements and our auditor's report thereon).

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 & Risk 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 & Risk 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 & Risk 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 & Risk 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 & Risk 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, 26 February 2018

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017

	Note	2017 HK$M	2016 HK$M
Revenue	*2*	**92,073**	79,434
Expenses			
Purchases of electricity, gas and distribution services		**(38,121)**	(31,743)
Staff expenses		**(4,195)**	(3,892)
Fuel and other operating expenses		**(23,691)**	(19,744)
Depreciation and amortisation		**(7,368)**	(6,909)
		(73,375)	(62,288)
Operating profit	*4*	**18,698**	17,146
Finance costs	*5*	**(2,180)**	(2,261)
Finance income	*5*	**151**	137
Share of results, net of income tax			
Joint ventures	*11*	**508**	737
Associates	*12*	**950**	904
Profit before income tax		**18,127**	16,663
Income tax expense	*6*	**(2,780)**	(2,855)
Profit for the year		**15,347**	13,808
Earnings attributable to:			
Shareholders		**14,249**	12,711
Perpetual capital securities holders		**249**	247
Other non-controlling interests		**849**	850
		15,347	13,808
Earnings per share, basic and diluted	*8*	**HK$5.64**	HK$5.03

The notes and disclosures on pages 198 to 260 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 2017

	2017 HK$M	2016* HK$M
Profit for the year	**15,347**	13,808
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**4,329**	(1,443)
Cash flow hedges	**(300)**	838
Costs of hedging	**(157)**	(187)
Share of other comprehensive income of joint ventures	**–**	20
	3,872	(772)
Items that cannot be reclassified to profit or loss		
Fair value changes on equity investments	**(280)**	(115)
Remeasurement gains on defined benefit plans	**91**	34
	(189)	(81)
Other comprehensive income for the year, net of tax	**3,683**	(853)
Total comprehensive income for the year	**19,030**	12,955
Total comprehensive income attributable to:		
Shareholders	**17,914**	11,865
Perpetual capital securities holders	**249**	247
Other non-controlling interests	**867**	843
	19,030	12,955

* Certain comparative figures have been reclassified to conform with current year's presentation.

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 181. Further details of other comprehensive income attributable to shareholders are presented in Note 25.

The notes and disclosures on pages 198 to 260 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Note	2017 HK$M	2016* HK$M
Non-current assets			
Fixed assets	*9*	**137,207**	130,189
Leasehold land and land use rights under operating leases	*9*	**5,345**	5,444
Investment properties	*9*	**1,186**	3,788
Goodwill and other intangible assets	*10*	**29,087**	27,653
Interests in and loan to joint ventures	*11*	**10,383**	9,971
Interests in associates	*12*	**8,081**	813
Finance lease receivables	*13*	**620**	628
Deferred tax assets	*21*	**929**	981
Derivative financial instruments	*14*	**956**	1,519
Equity investments		**349**	1,528
Other non-current assets		**298**	181
		194,441	182,695
Current assets			
Inventories – stores and fuel		**3,050**	2,565
Renewable energy certificates		**1,047**	1,424
Property under development	*15*	**2,971**	–
Trade and other receivables	*16*	**15,427**	13,464
Finance lease receivables	*13*	**148**	136
Derivative financial instruments	*14*	**1,137**	1,282
Short-term deposits and restricted cash	*17*	**3,401**	200
Cash and cash equivalents	*17*	**6,529**	4,467
		33,710	23,538
Current liabilities			
Customers' deposits	*16(a)*	**(5,221)**	(4,999)
Fuel clause account	*18*	**(2,212)**	–
Trade and other payables	*19*	**(18,978)**	(20,176)
Income tax payable		**(762)**	(792)
Bank loans and other borrowings	*20*	**(8,472)**	(10,651)
Derivative financial instruments	*14*	**(789)**	(977)
		(36,434)	(37,595)
Net current liabilities		**(2,724)**	(14,057)
Total assets less current liabilities		**191,717**	168,638

* Certain comparative figures have been reclassified to conform with current year's presentation. Details are set out in Note 1 of Significant Accounting Policies.

	Note	2017 HK$M	2016* HK$M
Financed by:			
Equity			
Share capital	*24*	**23,243**	23,243
Reserves	*25*	**85,454**	74,767
Shareholders' funds		**108,697**	98,010
Perpetual capital securities	*26*	**5,791**	5,791
Other non-controlling interests	*26*	**7,019**	1,972
		121,507	105,773
Non-current liabilities			
Bank loans and other borrowings	*20*	**48,869**	40,995
Deferred tax liabilities	*21*	**14,275**	13,819
Derivative financial instruments	*14*	**1,640**	1,580
Fuel clause account	*18*	**–**	2,867
Scheme of Control (SoC) reserve accounts	*22*	**977**	860
Asset decommissioning liabilities and retirement obligations	*23*	**2,987**	1,268
Other non-current liabilities		**1,462**	1,476
		70,210	62,865
Equity and non-current liabilities		**191,717**	168,638

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, 26 February 2018

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

The notes and disclosures on pages 198 to 260 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Attributable to Shareholders			Perpetual	Other Non-	
	Share Capital HK$M	Reserves HK$M	Total HK$M	Capital Securities HK$M	controlling Interests HK$M	Total Equity HK$M
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	–	–	–	–	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
Balance at 1 January 2017	23,243	74,767	98,010	5,791	1,972	105,773
Profit for the year	–	14,249	14,249	249	849	15,347
Other comprehensive income for the year	–	3,665	3,665	–	18	3,683
Contributions from other non-controlling interests of subsidiaries*	–	(4)	(4)	–	5,146	5,142
Transfer to fixed assets	–	3	3	–	1	4
Dividends paid						
2016 fourth interim	–	(2,754)	(2,754)	–	–	(2,754)
2017 first to third interim	–	(4,472)	(4,472)	–	–	(4,472)
Distributions to perpetual capital securities holders	–	–	–	(249)	–	(249)
Dividends paid to other non-controlling interests of subsidiaries	–	–	–	–	(967)	(967)
Balance at 31 December 2017	**23,243**	**85,454**	**108,697**	**5,791**	**7,019**	**121,507**

* The contributions included the advances of HK$5,115 million from China Southern Power Grid International (HK) Co., Limited (CSG HK) to Castle Peak Power Company Limited (CAPCO) reclassified from advances from non-controlling interest included under "Trade and other payables" to redeemable shareholder capital of CAPCO upon execution of a Shareholder Capital Agreement in April 2017 (Note 26).

The notes and disclosures on pages 198 to 260 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 HK$M	2017 HK$M	2016 HK$M	2016 HK$M
Operating activities					
Net cash inflow from operations	27(A)	**26,506**		25,353	
Interest received		**145**		137	
Income tax paid		**(2,234)**		(1,814)	
Net cash inflow from operating activities			**24,417**		23,676
Investing activities					
Capital expenditure		**(9,538)**		(9,756)	
Capitalised interest and other finance costs paid		**(256)**		(244)	
Proceeds from disposal of fixed assets		**120**		848	
Additions of other intangible assets		**(549)**		(308)	
Acquisitions of subsidiaries		**–**		(236)	
Deposit paid for acquisition of an associate		**–**		(568)	
Increase in equity investments		**(14)**		(1)	
(Investments in and advances to) / repayment of advances from joint ventures and associates		**(5,183)**		2	
Dividends received from					
Joint ventures		**818**		1,035	
Associates		**910**		889	
Equity investments		**9**		43	
Increase in bank deposits with maturities of more than three months		**(3,052)**		–	
Net cash outflow from investing activities			**(16,735)**		(8,296)
Net cash inflow before financing activities			**7,682**		15,380
Financing activities	27(B)				
Proceeds from long-term borrowings		**20,290**		12,226	
Repayment of long-term borrowings		**(16,340)**		(15,651)	
Increase / (decrease) in short-term borrowings		**459**		(764)	
Interest and other finance costs paid		**(1,779)**		(1,901)	
Decrease in advances from other non-controlling interest		**(79)**		(31)	
Contribution from other non-controlling interest of a subsidiary		**28**		9	
Distributions paid to perpetual capital securities holders		**(249)**		(247)	
Dividends paid to shareholders		**(7,226)**		(6,973)	
Dividends paid to other non-controlling interests of subsidiaries		**(967)**		(956)	
Net cash outflow from financing activities			**(5,863)**		(14,288)
Net increase in cash and cash equivalents			**1,819**		1,092
Cash and cash equivalents at beginning of year			**4,467**		3,565
Effect of exchange rate changes			**243**		(190)
Cash and cash equivalents at end of year	17		**6,529**		4,467

The notes and disclosures on pages 198 to 260 are an integral part of these consolidated financial statements.

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 relevant notes to the financial statements.

Certain comparative amounts have been reclassified or regrouped to conform with current year's presentation which mainly included:

- A reclassification of certain energy contracts with fair value of HK$590 million and related payable of HK$255 million from "Trade and other receivables" to "Derivative financial instruments" included under current assets and "Trade and other payables" to reflect the nature of the transaction; and
- Grouping asset retirement obligations of HK$352 million included in "Other non-current liabilities" with "Asset decommissioning liabilities" into "Asset decommissioning liabilities and retirement obligations".

2. Changes in Accounting Policies

(A) Amendments to standards effective from 1 January 2017

The Group has adopted the following amendments to standards effective from 1 January 2017.

Reference	Description
Amendments to HKAS 7 Disclosure Initiative	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. To meet this new disclosure requirement, a reconciliation between the opening and closing balances for liabilities arising from financing activities is presented in Note 27(B) to the Financial Statements.
Amendments to HKAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	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 claim deductions on the reversal of that deductible temporary difference. The adoption of these amendments has had no impact on the results and financial position of the Group.

2. Changes in Accounting Policies (continued)

(B) New standards effective after 2017 and have not yet been adopted

The following new standards are effective for annual periods beginning on or after 1 January 2018 and have not been early adopted by the Group for the year ended 31 December 2017.

Reference	Description
HKFRS 15 Revenue from Contracts with Customers	HKFRS 15 establishes a new framework for revenue recognition. This replaces HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard introduces a five-step model to determine when and how to recognise revenue. Revenue is recognised when control of goods or services is transferred to a customer. It also sets out new capitalisation criteria for contract acquisition costs which state that the costs incurred are incremental and the Group is expected to recover them. HKFRS 15 has a mandatory effective date of 1 January 2018. The Group has assessed the effects of applying this new standard and has identified the following key areas that are likely to be affected: 1. Revenue from electricity related technical services in Hong Kong 2. Revenue from sale of residential and commercial solar and battery products in Australia 3. Contract acquisition costs for residential customers in Australia The Group expects that the impact of the new standard on items 1 and 2 will not be material as the volume of the identified transactions is considered insignificant to the Group. In relation to item 3, the Group concludes that commissions paid to third parties for obtaining residential customers in Australia meets the new capitalisation criteria. These capitalised costs will be amortised over the expected benefit period of the contracts. The Group intends to adopt the modified retrospective application stipulated in the new standard, under which the cumulative impact of the adoption will be recognised in retained profits at 1 January 2018 and comparative figures will not be restated. The estimated after tax impact is an increase in retained profits of about HK$200 million at 1 January 2018 with a corresponding recognition of an asset on the statement of financial position. Impact on the Group's profit or loss arising from the amortisation of the asset is about HK$90 million for 2018.

2. Changes in Accounting Policies (continued)

(B) New standards effective after 2017 and have not yet been adopted (continued)

Reference	Description
HKFRS 16 Leases	HKFRS 16 introduces a substantial change to lease accounting. The standard requires lessees to account for almost all leases under a single on-balance sheet model similar to finance leases under the current accounting standard, HKAS 17. 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. HKFRS 16 has a mandatory effective date of 1 January 2019. The Group has reassessed all lease contracts as well as contracts which do not satisfy the lease definition under the current standard. For the existing lease contracts, only the Capacity Purchase Contract entered into by Hong Kong Pumped Storage Development Company, Limited (PSDC) does not meet the new lease definition under HKFRS 16. As at 31 December 2017, the operating lease commitment of this contract amounted to HK$1,692 million. All other existing operating lease contracts which are mainly related to leases for land and buildings meet the new lease definition. As at 31 December 2017, the commitments for these operating leases amounted to HK$655 million. The new standard will change the accounting for these operating lease contracts. The Group will recognise the right-of-use assets and lease liabilities for these leases according to the new standard. However, for operating leases that will expire within 12 months or less from 1 January 2019, the Group will apply the 12 months or less (i.e. short-term lease) exemption. The accounting of these short-term leases is similar to the accounting for an operating lease under the current standard. For the transition arrangement, the Group intends to adopt the modified retrospective application, which means that the cumulative impact on the adoption of HKFRS 16 will be recognised in retained earnings as of 1 January 2019 and the comparatives will not be restated. No contracts in operation which do not satisfy the lease definition under the current standard will fall into the new lease definition. For other contracts newly entered in 2017, the Group is still assessing whether they will meet the new lease definition.

(C) New standards effective after 2017 and had been early adopted

The Group early adopted HKFRS 9 Financial Instruments with the date of initial application on 1 January 2016.

3. 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.

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) Joint operations

A joint operation is an arrangement in which the Group has joint control (as explained in (B) above), whereby the Group has rights to the assets and obligations for the liabilities, relating to the arrangement. When the Group undertakes its activities under a joint operation, the Group as a joint operator recognises its direct right to, and its share of jointly held assets, liabilities, revenues and expenses of the joint operation. They are incorporated in the financial statements under appropriate headings.

(D) 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.

3. Consolidation (continued)

(D) Change in ownership interests (continued)

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 purpose 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 / Joint Operation
Significant Influence → Associate
Less than Significant Influence → Equity Investment

4. 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.

5. Equity Investments

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 profits on disposal of an equity investment.

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.

8. Employee Benefits

(A) Defined contribution obligations

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) Defined benefit obligations

The Group operates defined benefit pension plans in Australia and India. Under the plans, the employees are entitled to lump sum benefits on retirement, death, disablement and withdrawal. The level of benefits provided depends on employees' years of service and final average salary. Plan assets held in trusts are governed by local regulations and practice in each country.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Past service costs are recognised immediately in profit and loss. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in other comprehensive income.

(C) 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; and 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.

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 operates.

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
- Expected credit loss provisioning

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, and 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 Limited (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 existing SoC Agreement are summarised on pages 261 and 262. The SoC Statement on page 263 is unaudited.

On 25 April 2017, the SoC Companies signed a new SoC Agreement with the Hong Kong Government. The term of the new SoC will be for a period of over 15 years beginning on 1 October 2018, immediately following the expiry of the current SoC, and ending on 31 December 2033. The new SoC contains key principles that are similar to the existing SoC. The annual permitted return under the new SoC is at the rate of 8% on the average net fixed assets of the SoC Companies.

These financial statements have been approved for issue by the Board of Directors on 26 February 2018.

2. 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 payments under power purchase agreements which are variable and depend on operation parameters are recognised as operating lease income when they are earned. 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.

Critical Accounting Estimates and Judgments: Unbilled Revenue

The Group records revenues from retail and wholesale energy sales using the accrual accounting method. Retail electricity and gas revenues are recognised when electricity and gas are supplied to and consumed by the customers. The revenues are measured on the basis of periodic cycle meter readings and include an estimated accrual for the value of electricity and gas consumed from the meter reading date to the end of the reporting period (the "unbilled revenue"). In Hong Kong, the unbilled revenue is calculated using estimates including consumption quantity based on electricity sent-out adjusted by loss factor, pattern of residential and non-residential consumption, weather and certain other factors. In Australia, the unbilled revenue is calculated based on the electricity purchased and applicable tariffs for the mass market customer segment, as well as actual meter readings and contracted rates for commercial and industrial customers. The amount is adjusted for physical energy loss and other measurable factors. Unbilled retail revenue of the Group (included in trade and other receivables) totalled HK$4,319 million at 31 December 2017 (2016: HK$3,588 million).

2. Revenue (continued)

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

	2017 HK$M	2016 HK$M
Sales of electricity	**78,751**	68,053
Sales of gas	**8,251**	7,382
Operating lease income under Power Purchase Agreement (PPA)	**3,142**	2,138
Lease service income under PPA	**487**	533
Finance lease income under PPA	**114**	117
Other revenue	**1,230**	951
	91,975	79,174
Transfer for SoC to revenue (Note 22)	**98**	260
	92,073	79,434

The operating lease income under PPA relates to Jhajjar's PPA which has been accounted for as an operating lease.

The lease service income and finance lease 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.

3. 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.

3. 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 2017							
Revenue	39,965	1,305	4,887	14	45,895	7	92,073
EBITDAF of subsidiaries	18,053	1,212	2,110	(15)	5,416	(572)	26,204
Share of results, net of income tax							
Joint ventures	(18)	339	–	171	16	–	508
Associates	–	961	–	–	(11)	–	950
EBITDAF of the Group	18,035	2,512	2,110	156	5,421	(572)	27,662
Depreciation and amortisation	(4,761)	(638)	(599)	–	(1,335)	(35)	(7,368)
Fair value adjustments	44	–	–	–	(182)	–	(138)
Finance costs	(1,049)	(241)	(713)	–	(140)	(37)	(2,180)
Finance income	–	39	57	4	16	35	151
Profit / (loss) before income tax	12,269	1,672	855	160	3,780	(609)	18,127
Income tax expense	(1,951)	(151)	(209)	–	(469)	–	(2,780)
Profit / (loss) for the year	10,318	1,521	646	160	3,311	(609)	15,347
Earnings attributable to							
Perpetual capital securities holders	(249)	–	–	–	–	–	(249)
Other non-controlling interests	(837)	(13)	1	–	–	–	(849)
Earnings / (loss) attributable to shareholders	9,232	1,508	647	160	3,311	(609)	14,249
Excluding: Items affecting comparability	(369)	–	–	–	(573)	–	(942)
Operating earnings	8,863	1,508	647	160	2,738	(609)	13,307
Capital additions	8,073	630	868	–	3,062	13	12,646
Impairment provisions							
Receivables and others	4	–	32	–	407	–	443
At 31 December 2017							
Fixed assets, leasehold land and land use rights and investment properties	112,270	8,522	11,698	–	11,138	110	143,738
Goodwill and other intangible assets	5,545	4,698	29	–	18,815	–	29,087
Interests in and loan to joint ventures	34	8,417	–	1,848	84	–	10,383
Interests in associates	–	8,050	–	–	31	–	8,081
Deferred tax assets	–	97	67	–	765	–	929
Other assets	11,157	3,894	5,081	121	13,239	2,441	35,933
Total assets	129,006	33,678	16,875	1,969	44,072	2,551	228,151
Bank loans and other borrowings	40,361	5,573	6,785	–	234	4,388	57,341
Current and deferred tax liabilities	13,232	1,228	282	–	295	–	15,037
Other liabilities	21,145	1,526	1,002	2	10,213	378	34,266
Total liabilities	74,738	8,327	8,069	2	10,742	4,766	106,644

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 31.

3. 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 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	–	–	–	–	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	9,839	2,242	27,394
Total assets	122,455	27,151	15,721	1,864	36,672	2,370	206,233
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	7,168	310	34,203
Total liabilities	75,601	7,697	8,150	2	8,700	310	100,460

Our investments in Mainland China are mainly through joint ventures and associates, 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.

4. Operating Profit

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

	2017 HK$M	2016 HK$M
Charging		
Retirement benefits costs [(a)]	**421**	334
Auditors' remuneration		
Audit services		
PricewaterhouseCoopers	**39**	39
Other auditor [(b)]	**1**	–
Permissible audit related and non-audit services		
PricewaterhouseCoopers [(c)]	**9**	9
Other auditor [(b)]	**–**	–
Operating lease expenditure on the agreement with Ecogen	**255**	204
Net loss / (gain) on disposal of fixed assets	**407**	(386)
Impairment of		
Fixed assets	**–**	38
Inventories – stores and fuel	**3**	10
Crediting		
Net exchange (gain) / loss	**(143)**	228
Revaluation (gains) / losses on investment properties	**(369)**	146
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	**(144)**	(267)
Fuel and other operating expenses	**56**	(36)
Transactions not qualifying as hedges	**138**	(341)
Rental income from investment properties	**(48)**	(35)
Dividends from equity investments	**(9)**	(43)
Reversal of provision for onerous contract	**–**	(78)

Notes:

(a) Retirement benefits costs for the year amounted to HK$561 million (2016: HK$440 million), of which HK$140 million (2016: HK$106 million) was capitalised.

(b) According to the Companies Act of India, CLP India group (CLP India Private Limited (CLP India) and its subsidiaries) is required to rotate its statutory auditor if the auditor has been appointed for a period of 10 or more consecutive years. To comply with the regulation, KPMG India (audit arm in India, BSR & Co LLP) was appointed as the statutory auditor of CLP India group to replace PricewaterhouseCoopers for the financial year commencing on 1 April 2017. The Group does not regard KPMG India as a principal auditor of the Group given the relative small quantum of the audit fees, which reflect the scale of operation in CLP India group. Our policy with regard to non-principal auditors for providing non-audit services is to ensure that, within country, the non-audit fees are not paid out of proportion to the audit fees so as to compromise in-country independence. The figure of audit related and non-audit services represented KPMG India's non-audit fees charged to CLP India group from 1 April 2017 to 31 December 2017. Other KPMG offices have also provided services to our businesses in other regions which amounted to HK$5 million during the period.

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

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.

Interest income is recognised on a time proportion basis using the effective interest method.

	2017 HK$M	2016 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**760**	924
Other borrowings	**1,056**	893
Tariff Stabilisation Fund [(a)]	**4**	2
Customers' deposits and fuel clause over-recovery	**128**	151
Finance charges under finance leases	**2**	2
Other finance charges	**279**	281
Net fair value (gain) / loss on debt related derivative financial instruments		
Reclassified from cash flow hedge reserve	**(313)**	(84)
Reclassified from costs of hedging reserves	**104**	118
Fair value hedges	**(58)**	(9)
Transactions not qualifying as hedges	**148**	(70)
Ineffectiveness of cash flow hedges	**7**	7
Ineffectiveness of fair value hedges	**(3)**	6
Loss on hedged items in fair value hedges	**58**	9
Other net exchange loss on financing activities	**270**	268
	2,442	2,498
Less: amount capitalised [(b)]	**(262)**	(237)
	2,180	2,261
Finance income		
Interest income on short-term investments, bank deposits and loan to a joint venture	**151**	137

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)).

(b) Finance costs have been capitalised at average interest rates of 1.34% – 2.94% (2016: 1.13% – 3.03%) 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:

	2017 HK$M	2016 HK$M
Current income tax	**2,094**	2,032
Deferred tax	**686**	823
	2,780	2,855

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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:

	2017 HK$M	2016 HK$M
Profit before income tax	**18,127**	16,663
Less: Share of results of joint ventures and associates, net of income tax	**(1,458)**	(1,641)
	16,669	15,022
Calculated at an income tax rate of 16.5% (2016: 16.5%)	**2,750**	2,479
Effect of different income tax rates in other countries	**646**	460
Income not subject to tax	**(237)**	(184)
Expenses not deductible for tax purposes	**219**	238
Revenue adjustment for SoC not subject to tax (Note 22(A))	**(16)**	(43)
Over-provision in prior years	**(11)**	(98)
Utilisation of previously unrecognised tax losses	**(573)**	–
Tax losses not recognised	**2**	3
Income tax expense	**2,780**	2,855

Utilisation of previously unrecognised tax losses represented the tax losses on derivatives acquired in a previous business combination in Australia. These tax losses were utilised in 2017 after the confirmation of the tax treatment by the Australian Taxation Office.

7. Dividends

	2017 HK$ per Share	2017 HK$M	2016 HK$ per Share	2016 HK$M
First to third interim dividends paid	**1.77**	**4,472**	1.71	4,320
Fourth interim dividend declared	**1.14**	**2,880**	1.09	2,754
	2.91	**7,352**	2.80	7,074

At the Board meeting held on 26 February 2018, the Directors declared the fourth interim dividend of HK$1.14 per share (2016: HK$1.09 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:

	2017	2016
Earnings attributable to shareholders (HK$M)	**14,249**	12,711
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**5.64**	5.03

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 2017 (2016: 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	20 – 50 years
Ash lagoon	35 years	20 – 40 years
Other buildings and civil structures	60 years	10 – 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 – 30 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

* Useful lives of the generating plants have previously been extended by 5 – 15 years to 30 – 40 years after mid-life refurbishments.

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

Accounting Policy (continued)

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

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.

Critical Accounting Estimates and Judgments

(A) Assessment of the Carrying Value of Generation Assets in Australia

Given the continued structural changes in the National Electricity 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 regard to the Group's generation assets 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 assessing the carrying value of the generation assets 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 management's estimate of future fuel prices.

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

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

Critical Accounting Estimates and Judgments (continued)

(B) Assessment of the Carrying Values of Assets in Other Regions

The Group has also made substantial investments in fixed assets, leasehold land and land use rights in other regions. The Group conducts impairment reviews of these assets whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

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 2017, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there was no impairment loss for fixed assets and leasehold land and land use rights.

The latest annual impairment models for these assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management believes that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2017 year end.

(C) Fair Value Estimation of Investment Properties

The investment properties were valued by Knight Frank Petty Limited (Knight Frank), an independent qualified valuer, who holds recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. Details of the fair value estimation of the properties are as follows:

- Knight Frank has valued the retail portion of Laguna Mall at 31 December 2017 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% (2016: 4.25%). The fair value measurement is negatively correlated to the capitalisation rate.
- On the date of transfer to property under development (Note 15), Knight Frank has taken into account the development constraints stipulated on the covenants of the Government Leases and subsequent modifications in formulating the optimal development of the Argyle Street site. 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% (31 December 2016: 5%). The fair value measurement is negatively correlated to the discount rate.

The recurring fair value measurement of the Group's investment properties is categorised within Level 3 of the fair value hierarchy at 31 December 2017 and 2016.

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

Fixed assets, leasehold land and land use rights under operating leases and investment properties totalled HK$143,738 million (2016: HK$139,421 million) which included assets under construction with book value of HK$9,919 million (2016: HK$12,966 million). Movements in the accounts are as follows:

	Fixed Assets						
	Land						
	Freehold HK$M	Leased HK$M	Buildings HK$M	Plant, Machinery and Equipment HK$M	Total HK$M	Leasehold Land and Land Use Rights under Operating Leases HK$M	Investment Properties[a] HK$M
Net book value at 1 January 2016	642	473	19,606	107,080	127,801	5,542	2,669
Acquisition of subsidiaries	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
Net book value at 1 January 2017	745	417	19,501	109,526	130,189	5,444	3,788
Additions	17	–	792	10,049	10,858	74	–
Adjustment for decommissioning assets[b]	–	–	–	1,165	1,165	–	–
Revaluation gains	–	–	–	–	–	–	369
Transfer to property under development (Note 15)	–	–	–	–	–	–	(2,971)
Transfers and disposals	(35)	(19)	23	(677)	(708)	–	–
Depreciation / amortisation	–	(12)	(647)	(5,847)	(6,506)	(184)	–
Exchange differences	59	–	274	1,876	2,209	11	–
Net book value at 31 December 2017	**786**	**386**	**19,943**	**116,092**	**137,207**	**5,345**	**1,186**
Cost / valuation	892	517	32,754	208,912	243,075	6,441	1,186
Accumulated depreciation / amortisation and impairment	(106)	(131)	(12,811)	(92,820)	(105,868)	(1,096)	–
Net book value at 31 December 2017	**786**	**386**	**19,943**	**116,092**	**137,207**	**5,345**	**1,186**

Notes:

(a) Investment property at 31 December 2017 represented the commercial interest of the retail portion of the Laguna Mall in Hong Kong.

(b) The discount rate used to calculate the asset retirement obligations was revised which resulted in an uplift of the provision estimate, and associated asset value, by A$198 million (HK$1,165 million). The impact is not material to the Group, hence no adjustment to prior year financial statements is made.

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.

Critical Accounting Estimates and Judgments: Goodwill Impairment

The Group has assessed the recoverable amount of the CGU with allocated goodwill and concluded that goodwill has not been impaired.

The recoverable amounts of the CGUs with allocated goodwill have been determined based on value in use calculations, which use cash flow projections as at 31 December 2017. These cash flow projections are derived from the approved Business Plan which has a forecast covering a period of ten years and have incorporated 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 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 expectation of regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the Business Plan of EnergyAustralia Holdings Limited (EnergyAustralia). 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.

10. Goodwill and Other Intangible Assets (continued)

Critical Accounting Estimates and Judgments: Goodwill Impairment (continued)

Energy retail business in Australia (continued)

- The cash flow projections are discounted using a pre-tax discount rate of 12.0% (2016: 11.8%). 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 1.2% (2016: 0.4%) has been used.

Hong Kong electricity business

- Goodwill arising from the CAPCO acquisition has been allocated to the CLP Power Hong Kong and CAPCO as a 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 September 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 2027.
- The cash flow projections are discounted using a pre-tax discount rate of 9.81% (2016: 11.87%), or a post-tax return of 8.00% (2016: 9.99%) which reflects the SoC return rate applicable to the electricity business in Hong Kong.

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 amounts to be less than the carrying values at 31 December 2017.

	Goodwill [a] HK\$M	Capacity Right [b] HK\$M	Others HK\$M	Total HK\$M
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

10. Goodwill and Other Intangible Assets (continued)

	Goodwill [a] HK\$M	Capacity Right [b] HK\$M	Others HK\$M	Total HK\$M
Net carrying value at 1 January 2017	20,874	4,913	1,866	27,653
Additions	–	24	525	549
Amortisation	–	(274)	(404)	(678)
Exchange differences	1,391	–	172	1,563
Net carrying value at 31 December 2017	**22,265**	**4,663**	**2,159**	**29,087**
Cost	22,406	5,663	7,947	36,016
Accumulated amortisation and impairment	(141)	(1,000)	(5,788)	(6,929)
Net carrying value at 31 December 2017	**22,265**	**4,663**	**2,159**	**29,087**

Notes:

(a) Goodwill arose from the acquisitions of energy retail business in Australia of HK\$16,656 million (2016: HK\$15,269 million) and the acquisition of CAPCO under Hong Kong electricity business of HK\$5,545 million (2016: HK\$5,545 million) in 2014.

(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.

11. Interests in and Loan to Joint Ventures

Accounting Policy No. 3(B)

The table below lists the material joint ventures of the Group at 31 December 2017:

Name	% of Ownership Interest at 31 December 2016 and 2017	Place of Incorporation / Business	Principal Activity
CSEC Guohua International Power Company Limited (CSEC Guohua) [a]	30	Mainland China	Generation of Electricity
CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) [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 Venture Enterprise 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 40% interest in Ho-Ping Power Company.

(e) Registered as Sino-Foreign Cooperative Joint Venture Enterprise under PRC law.

More detailed information of our joint ventures can be found on "Our Portfolio" on pages 8 to 13 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 HK\$M	Fang-chenggang (note) HK\$M	SNGPC HK\$M	OneEnergy Taiwan HK\$M	SZPC HK\$M	Others HK\$M	Total HK\$M
For the year ended 31 December 2017							
Revenue	12,448	1,896	964	–	6,509	1,692	23,509
Depreciation and amortisation	(1,479)	(251)	(129)	–	(922)	(614)	(3,395)
Interest income	2	2	2	–	2	14	22
Interest expense	(352)	(255)	(72)	–	(191)	(191)	(1,061)
Other expenses	(9,918)	(1,485)	(236)	(3)	(5,080)	(358)	(17,080)
Share of results of joint ventures	–	–	–	285	–	(27)	258
Profit / (loss) before income tax	701	(93)	529	282	318	516	2,253
Income tax expense	(223)	(1)	(136)	–	(127)	(98)	(585)
Profit / (loss) for the year	478	(94)	393	282	191	418	1,668
Non-controlling interests	(249)	–	–	–	–	–	(249)
Profit / (loss) for the year attributable to shareholders	229	(94)	393	282	191	418	1,419
Profit / (loss) for the year	478	(94)	393	282	191	418	1,668
Other comprehensive income	–	–	–	(1)	–	1	–
Total comprehensive income	478	(94)	393	281	191	419	1,668
Group's share							
Profit / (loss) for the year attributable to shareholders	69	(66)	157	141	56	151	508
Other comprehensive income	–	–	–	(1)	–	1	–
Total comprehensive income	69	(66)	157	140	56	152	508
Dividend income from joint ventures	154	–	122	233	128	166	803
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	–	–	–	–	–	2	2
Total comprehensive income	870	(259)	413	495	874	371	2,764
Group's share							
Profit / (loss) for the year attributable to shareholders	117	(181)	165	247	257	132	737
Other comprehensive income	–	–	–	–	–	1	1
Total comprehensive income	117	(181)	165	247	257	133	738
Dividend income from joint ventures	39	–	131	212	541	148	1,071

Note: In 2016, the Group's share of results of Fangchenggang included an impairment of HK\$199 million.

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 2017							
Non-current assets	23,655	8,432	3,459	3,212	6,406	8,766	53,930
Current assets							
Cash and cash equivalents	61	412	11	3	12	454	953
Other current assets	2,991	1,006	52	1	978	837	5,865
	3,052	1,418	63	4	990	1,291	6,818
Current liabilities							
Financial liabilities	(5,400)	(552)	(325)	–	(3,144)	(652)	(10,073)
Other current liabilities [a]	(1,373)	(1,005)	(32)	–	(885)	(564)	(3,859)
	(6,773)	(1,557)	(357)	–	(4,029)	(1,216)	(13,932)
Non-current liabilities							
Financial liabilities	(3,336)	(5,489)	–	–	(1,332)	(3,098)	(13,255)
Shareholders' loans	–	–	(1,136)	–	–	(28)	(1,164)
Other non-current liabilities [a]	(1,669)	(57)	(31)	–	(35)	(35)	(1,827)
	(5,005)	(5,546)	(1,167)	–	(1,367)	(3,161)	(16,246)
Non-controlling interests	(6,423)	–	–	–	–	–	(6,423)
Net assets	8,506	2,747	1,998	3,216	2,000	5,680	24,147
Group's share of net assets	2,552	1,923	799	1,608	588	2,401	9,871
Goodwill	–	–	–	–	–	44	44
Interests in joint ventures	2,552	1,923	799	1,608	588	2,445	9,915
Loan to a joint venture [b]	–	–	455	–	–	13	468
	2,552	1,923	1,254	1,608	588	2,458	10,383
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 [a]	(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 [a]	(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 to a joint venture [b]	–	–	542	–	–	–	542
	2,452	1,817	1,252	1,553	625	2,272	9,971

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

Notes:

(a) Including trade and other payables and provisions

(b) Loan to a joint venture is unsecured, carries interest at 90% (2016: 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$130 million (2016: HK$151 million) was included in the Group's trade and other receivables (Note 16). There was no impairment recognised on the loan at 31 December 2017 and 2016.

	2017 HK$M	2016 HK$M
Share of capital commitments	**475**	490
Share of contingent liabilities	**58**	55

12. Interests in Associates

Accounting Policy No. 3(B)

The table below lists the associates of the Group at 31 December 2017:

Name	**% of Ownership Interest 2017**	2016	**Place of Incorporation / Business**	**Principal Activity**
Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) [(a)]	**25**	25	Mainland China	Generation of Electricity
Yangjiang Nuclear Power Co., Ltd. (Yangjiang Nuclear) [(b)]	**17**	–	Mainland China	Generation of Electricity
Redback Technologies Limited (Redback)	**21**	18	Hong Kong	Development of Solar Technologies

Notes:

(a) Registered as Sino-Foreign Equity Joint Venture Enterprise under PRC law.

(b) In December 2017, the Group completed the acquisition of 17% equity interest in Yangjiang Nuclear at a consideration which included the bid price of HK$5.9 billion (RMB5.0 billion) and a Completion Payment (subject to completion audit) as defined under the Equity Transfer Agreement. Yangjiang Nuclear, a company registered as Sino-Foreign Equity Joint Venture Enterprise under PRC law, owns and operates the Yangjiang Nuclear Power Station located in Guangdong Province. The Group has significant influence over Yangjiang Nuclear's financing and operating policies through representation on its board of directors.

More detailed information of our associates can be found on "Our Portfolio" on pages 8 to 13 of the Annual Report.

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

	GNPJVC HK$M	**Yangjiang Nuclear [(note)] HK$M**	**Redback HK$M**	**Total HK$M**
For the year ended 31 December 2017				
Revenue	**7,735**	**703**	**14**	**8,452**
Profit / (loss) and total comprehensive income	**3,695**	**232**	**(50)**	**3,877**
Group's share of profit / (loss) and total comprehensive income	**924**	**37**	**(11)**	**950**
Dividend income from associates	**10**	**–**	**–**	**10**

Note: The share of results of Yangjiang Nuclear related to the period from acquisition to 31 December 2017 and after amortisation of fair value adjustments on fixed assets.

12. Interests in Associates (continued)

	GNPJVC HK$M	Yangjiang Nuclear HK$M	Redback HK$M	Total HK$M
For the year ended 31 December 2016				
Revenue	7,722	–	–	7,722
Profit / (loss) and total comprehensive income	3,628	–	(12)	3,616
Group's share of profit / (loss) and total comprehensive income	907	–	(3)	904
Dividend income from associates	905	–	–	905
At 31 December 2017				
Non-current assets	**3,491**	**108,003**	**3**	**111,497**
Current assets	**8,979**	**9,520**	**14**	**18,513**
Current liabilities	**(1,959)**	**(17,435)**	**(12)**	**(19,406)**
Non-current liabilities	**(3,682)**	**(62,778)**	**–**	**(66,460)**
Net assets	**6,829**	**37,310**	**5**	**44,144**
Group's share of net assets and goodwill	**1,707**	**6,343**	**31**	**8,081**
At 31 December 2016				
Non-current assets	3,308	–	1	3,309
Current assets	8,662	–	25	8,687
Current liabilities	(5,535)	–	(5)	(5,540)
Non-current liabilities	(3,292)	–	–	(3,292)
Net assets	3,143	–	21	3,164
Group's share of net assets and goodwill	786	–	27	813

At 31 December 2017, the Group's share of capital commitments of its associates was HK$1,310 million (2016: HK$101 million).

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

13. Finance Lease Receivables

Accounting Policy No. 10

	2017 HK$M	2016 HK$M	Present Value **2017 HK$M**	Present Value 2016 HK$M
Minimum lease payments receivables				
Within one year	**168**	153	**148**	136
After one year but within five years	**–**	153	**–**	119
	168	306	**148**	255
Unguaranteed residual value of leased assets *	**703**	655	**620**	509
Gross investment	**871**	961	**768**	764
Less: unearned finance income	**(103)**	(197)		
Net investment	**768**	764		

* The plant will be transferred to fixed assets upon the expiry of the PPA and therefore the amount was classified as non-current asset at 31 December 2017.

The finance lease receivables are related to the 20-year PPA under which CLP India sells all of its electricity output of Paguthan Plant (Paguthan) to its offtaker, Gujarat Urja Vikas Nigam Limited (GUVNL). The arrangement is accounted for as a finance lease in accordance with HK(IFRIC) Int 4 and HKAS 17. The effective interest rate implicit in the finance lease was approximately 13.4% for both 2017 and 2016. The PPA will expire in December 2018.

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 and 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 hedging relationship meets the hedge effectiveness requirements.

(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 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 remains in equity at that time is accounted for according to the nature of the underlying transactions (as discussed above) once the hedged cash flow occurs. 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.

(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.

14. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(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.

	2017		2016	
	Assets HK$M	**Liabilities HK$M**	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**224**	**113**	180	34
Foreign exchange options	**18**	**–**	37	–
Cross currency interest rate swaps	**300**	**727**	462	973
Interest rate swaps	**93**	**84**	127	92
Energy contracts	**442**	**36**	837	94
Fair value hedges				
Cross currency interest rate swaps	**9**	**352**	31	407
Interest rate swaps	**–**	**84**	–	118
Not qualifying as accounting hedges or held for trading				
Forward foreign exchange contracts	**225**	**46**	299	45
Foreign exchange options	**–**	**–**	1	–
Interest rate swaps	**28**	**1**	34	9
Energy contracts	**754**	**986**	793	785
	2,093	**2,429**	2,801	2,557
Current	**1,137**	**789**	1,282	977
Non-current	**956**	**1,640**	1,519	1,580
	2,093	**2,429**	2,801	2,557

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

At 31 December 2017, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 7 years
Foreign exchange options	Up to 5 years
Cross currency interest rate swaps	Up to 13 years
Interest rate swaps	Up to 10 years
Energy contracts	Up to 12 years

15. Property under Development

Accounting Policy

Property under development comprises leasehold lands and construction-in-progress and is carried at the lower of cost and net realisable value. Property under development is included in the current assets when it is expected to be realised or is intended for sale in the normal operating cycle.

	2017 HK$M
Transfer from investment properties (Note 9)	**2,971**

On 18 December 2017, the Group and Sino Land Company Limited (Sino Land) agreed to collaborate on redeveloping the Group's former headquarters at Argyle Street for residential purposes and to preserve the Clock Tower building for community use. While site preparation works have been largely completed, the redevelopment is still undergoing government procedures and finalisation of project details.

The arrangement entered into by the Group and Sino Land does not involve an establishment of a separate legal entity and is considered as a joint operation under HKFRS 11 Joint Arrangements. Under the development arrangement, Sino Land is fully responsible for all development costs such as land premium, construction costs, professional fees etc. and paid a non-refundable upfront payment of HK$3 billion to the Group. When the property is completed and sold, the Group is entitled to share a percentage of the sale proceeds.

The balance of the account represented the fair value of the development site at Argyle Street on the date of the transfer from investment properties. The non-refundable upfront payment approximates to its fair value.

The non-refundable upfront payment forms part of the proceeds from the property development and is recorded as deferred revenue (Note 19(d)). When legal titles of the units in the developed property are passed to the purchasers, deferred revenue and the percentage share of the sale proceeds which the Group is entitled will be credited to the profit or loss as revenue, while property under development will be charged to the profit or loss as cost of development.

16. Trade and Other Receivables

Accounting Policy

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 losses, 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.

16. Trade and Other Receivables (continued)

Critical Accounting Estimates and Judgments: Recoverability of Trade Receivables

Provision for expected credit losses 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 receivables, 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 basis as relevant. While the provision is considered appropriate, changes in estimation basis or in economic conditions could lead to a change in the level of provision recorded and consequently on the charge or credit to profit or loss.

	2017 HK$M	2016 HK$M
Trade receivables [(a)]	**12,228**	9,772
Deposits, prepayments and other receivables [(b)]	**2,930**	2,479
Dividend receivables from		
Joint ventures	**68**	105
Associates	**–**	895
Loan to and current accounts with [(c)]		
Joint ventures	**200**	212
Associates	**1**	1
	15,427	13,464

Notes:

(a) Trade receivables

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

	2017 HK$M	2016 HK$M
30 days or below *	**9,465**	6,832
31 – 90 days	**882**	763
Over 90 days	**1,881**	2,177
	12,228	9,772

* Including unbilled revenue

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 policies for customers in each of its retail businesses.

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 2017, such cash deposits amounted to HK$5,218 million (2016: HK$4,998 million) and the bank guarantees stood at HK$798 million (2016: HK$818 million). For all the deposits held, customers are paid a floating market interest rate equivalent to the HSBC bank savings rate. The customers' deposits are treated on the statement of financial position as current liabilities on the basis that they are repayable on demand.

In Australia, customers are allowed to settle their electricity bills in no more than 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 consider that the expected credit risks of them are close to zero.

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses

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. 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.

CLP Power Hong Kong

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
At 31 December 2017				
Active accounts				
Provision on individual basis	**100%**	**2**	**(2)**	**–**
Provision on collective basis	**0%***	**1,954**	**–**	**1,954**
Terminated accounts				
Provision on individual basis	**100%**	**5**	**(5)**	**–**
Provision on collective basis	**25%**	**6**	**(2)**	**4**
		1,967	**(9)**	**1,958**
At 31 December 2016				
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.

EnergyAustralia

EnergyAustralia categorises 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
At 31 December 2017				
Current	**1%**	**5,737**	**(32)**	**5,705**
1 – 30 days	**7%**	**609**	**(45)**	**564**
31 – 60 days	**17%**	**307**	**(51)**	**256**
61 – 90 days	**27%**	**211**	**(56)**	**155**
Over 90 days	**62%**	**1,304**	**(810)**	**494**
		8,168	**(994)**	**7,174**

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

EnergyAustralia (continued)

	Weighted Average Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
At 31 December 2016				
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

India and Mainland China

At 31 December 2017, CLP India's wind projects have trade receivables of HK$482 million (2016: HK$596 million) of which HK$446 million (2016: HK$563 million) were past due. These amounts were not considered impaired as there are no recent history of default and continuous payments received. Trade receivables in dispute are assessed individually for impairment allowance in order to determine whether specific provisions are required. Further information about disputed trade receivables of CLP India group is disclosed in Note 30.

The Group's Mainland China renewable projects are experiencing delays in receipt of the Renewable National Subsidy. As at 31 December 2017, the Group had total receivables of HK$611 million (2016: HK$417 million) relating to the unpaid Renewable National Subsidies. These amounts were not considered impaired because the subsidy settlement and renewable project accreditation are regulated by the Central Government. Furthermore, there have been continuous payments and no history of default.

Movements in Provision for Impairment

	2017 HK$M	2016 HK$M
Balance at 1 January	**1,288**	1,474
Provision for impairment	**441**	350
Receivables written off during the year as uncollectable	**(411)**	(516)
Amounts reversed	**(1)**	(1)
Exchange differences	**110**	(19)
Balance at 31 December	**1,427**	1,288

(b) At 31 December 2017, other receivables included the consideration receivable from the sale of our entire 15.746% equity interest in CGN Wind Power Company Limited (CGN Wind) of HK$913 million (RMB773 million). On 15 December 2017, the Group completed the sale of CGN Wind according to the provisions of a Share Transfer Agreement and the payment is subject to certain administrative procedures which is expected to complete in the first quarter of 2018. The disposal of CGN Wind has no impact to the Group's profit or loss as the Group has made an irrevocable election to present all the changes in the fair value of this equity investment through other comprehensive income.

(c) 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.

17. Bank Balances, Cash and Other Liquid Funds (continued)

	2017 HK$M	2016 HK$M
Trust accounts restricted under TRAA [(a)]	347	198
Bank deposits	7,257	2,789
Bank balances and cash	2,326	1,680
Bank balances, cash and other liquid funds [(b)]	9,930	4,667
Less: Short-term deposits and restricted cash		
Cash restricted for specific purposes [(a)]	(347)	(198)
Bank deposits with maturities over three months	(3,054)	(2)
	(3,401)	(200)
Cash and cash equivalents	6,529	4,467

Notes:

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

(b) 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$673 million (2016: HK$1,374 million) which was mostly denominated in Renminbi (2016: Renminbi).

18. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to 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, while interest is credited to customers at prime rate on the amount over-recovered.

In accordance with the new SoC effective 1 October 2018, CLP Power Hong Kong may adjust fuel related tariff from time to time, including on a monthly basis, to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity. As a result, the fuel clause account was reclassified as a current liability as at 31 December 2017.

19. 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.

	2017 HK$M	2016 HK$M
Trade payables [(a)]	7,092	6,019
Other payables and accruals	6,991	6,767
Advances from non-controlling interest [(b)]	1,514	6,692
Current accounts with [(c)]		
Joint ventures	1	1
Associates	271	606
Deferred revenue [(d)]	3,109	91
	18,978	20,176

19. Trade and Other Payables (continued)

Notes:

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

	2017 HK$M	2016 HK$M
30 days or below	6,507	5,632
31 – 90 days	146	188
Over 90 days	439	199
	7,092	6,019

At 31 December 2017, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$625 million (2016: HK$704 million), of which HK$501 million (2016: HK$532 million) were denominated in US dollar.

(b) The advances from non-controlling interest represented the advances from 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 repayable on demand. The advances are mainly denominated in Hong Kong dollar (2016: US dollar).

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

(d) Deferred revenue included the non-refundable upfront payment for the property development at Argyle Street of HK$3 billion (2016: nil) (Note 15) and payments received in advance for other services. Non-current deferred revenue of HK$1,171 million (2016: HK$1,239 million) was included under other non-current liabilities.

20. 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 2017, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings *		Total	
	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M
Within one year	8,181	9,123	291	1,528	8,472	10,651
Between one and two years	7,186	4,563	1,588	231	8,774	4,794
Between two to five years	6,526	6,516	9,173	8,972	15,699	15,488
Over five years	4,427	4,699	19,969	16,014	24,396	20,713
	26,320	24,901	31,021	26,745	57,341	51,646

* Other borrowings mainly included Medium Term Notes of HK$28,503 million (2016: HK$24,955 million) and bonds of HK$2,141 million (2016: HK$1,701 million).

Another presentation of the Group's liquidity risk is set out on pages 252 and 253.

20. Bank Loans and Other Borrowings (continued)

Total borrowings included secured liabilities of HK$12,153 million (2016: HK$12,275 million), analysed as follows:

	2017 HK$M	2016 HK$M
CLP India group [(a)]	**6,785**	7,589
Subsidiaries in Mainland China [(b)]	**5,368**	4,686
	12,153	12,275

Notes:

(a) Bank loans and bonds for CLP India group are secured by fixed and floating charges over their immovable and movable properties and current assets with total carrying amounts of HK$14,033 million (2016: HK$13,854 million).

(b) Bank loans for subsidiaries in Mainland China are secured by rights of receipt of tariff and by fixed assets and land use rights with carrying amounts of HK$7,881 million (2016: HK$7,397 million).

At 31 December 2017 and 2016, 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 2017, the Group had undrawn bank loans and overdraft facilities of HK$25,924 million (2016: HK$23,986 million).

21. 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:

	2017 HK$M	2016 HK$M
Deferred tax assets	**929**	981
Deferred tax liabilities	**(14,275)**	(13,819)
	(13,346)	(12,838)

Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

21. Deferred Tax (continued)

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

	2017 HK$M	2016 HK$M
At 1 January	**(12,838)**	(11,786)
Charged to profit or loss (Note 6)	**(686)**	(823)
Credited / (charged) to other comprehensive income	**110**	(230)
Acquisition of subsidiaries	**–**	(1)
Exchange differences	**68**	2
At 31 December	**(13,346)**	(12,838)

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	
	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M
At 1 January	**824**	730	**787**	860	**558**	453	**2,169**	2,043
Credited / (charged) to profit or loss	**23**	114	**526**	(43)	**18**	129	**567**	200
(Charged) / credited to other comprehensive income	**–**	–	**(39)**	(14)	**7**	(20)	**(32)**	(34)
Acquisition of subsidiaries	**–**	–	**–**	–	**–**	4	**–**	4
Exchange differences	**61**	(20)	**71**	(16)	**33**	(8)	**165**	(44)
At 31 December	**908**	824	**1,345**	787	**616**	558	**2,869**	2,169

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Intangibles		Others [(b)]		Total	
	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M
At 1 January	**(13,089)**	(12,202)	**(68)**	(72)	**(1,120)**	(1,215)	**(730)**	(340)	**(15,007)**	(13,829)
(Charged) / credited to profit or loss	**(1,102)**	(910)	**(52)**	8	**87**	93	**(186)**	(214)	**(1,253)**	(1,023)
Credited / (charged) to other comprehensive income	**–**	–	**–**	–	**–**	–	**142**	(196)	**142**	(196)
Acquisition of subsidiaries	**–**	–	**–**	(5)	**–**	–	**–**	–	**–**	(5)
Exchange differences	**(27)**	23	**(1)**	1	**(16)**	2	**(53)**	20	**(97)**	46
At 31 December	**(14,218)**	(13,089)	**(121)**	(68)	**(1,049)**	(1,120)	**(827)**	(730)	**(16,215)**	(15,007)

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity business in India of HK$906 million (2016: HK$823 million). There is no expiry on tax losses recognised.

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

22. SoC Reserve Accounts

Critical Accounting Estimates and Judgments: Classification of 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 such that these account balances meet the definition of a financial liability.

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:

	2017 HK$M	2016 HK$M
Tariff Stabilisation Fund (A)	**746**	786
Rate Reduction Reserve (B)	**4**	2
Rent and Rates Interim Refunds (C)	**227**	72
	977	860

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

(A) Tariff Stabilisation Fund

	2017 HK$M	2016 HK$M
At 1 January	**786**	935
Transfer from Rate Reduction Reserve	**2**	2
Transfer under the SoC [(a)]		
– transfer for SoC to revenue (Note 2)	**(98)**	(260)
– charge for asset decommissioning [(b)]	**56**	109
At 31 December	**746**	786

Notes:

(a) Under the SoC Agreement, if the gross tariff revenue 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 2).

(b) Under the SoC, a periodic charge to accrue 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$860 million (2016: HK$916 million) (Note 23) recognised under the SoC represents a liability of the Group.

(B) Rate Reduction Reserve

	2017 HK$M	2016 HK$M
At 1 January	**2**	2
Transfer to Tariff Stabilisation Fund	**(2)**	(2)
Interest expense charged to profit or loss (Note 5)	**4**	2
At 31 December	**4**	2

22. SoC Reserve Accounts (continued)

(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 in March 2017, the Court of Final Appeal found in favour of the Hong Kong Government on a point of law, this did not impact the original Lands Tribunal judgment, and the subsequent judgment on the review of valuation matters, which were in CLP Power Hong Kong's favour. Final resolution of the matter is now subject to the application of the Lands Tribunal judgments to the rent and rates amounts for all rating years under appeal.

Interim refunds totalling HK$1,868 million were received by CLP Power Hong Kong from the Hong Kong Government during 2012 to 2014 and in 2017. 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 their application to all rating years under appeal.

Based on the latest development of the case, CLP Power Hong Kong maintains that it would recover no less than interim refunds received to date in the final outcome of these appeals. The interim refunds continue 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 have been offset against the interim refunds received.

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. Asset Decommissioning Liabilities and Retirement Obligations

Accounting Policy

When the Group has a legal and / or constructive obligation for remediation, provisions for asset retirement obligations are recorded for estimated remediation costs of reclamation, plant closure, dismantling and waste disposal. 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.

Critical Accounting Estimates and Judgments

Estimating the amount and timing of the obligation to be recorded requires significant judgment. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates.

CLP Power Hong Kong has been investing in the transmission and distribution network to supply electricity to the customers in its supply area in Hong Kong. As CLP Power Hong Kong expects that the land sites being used for the transmission and distribution network will continue to be used for the distribution of electricity supply to its customers, CLP Power Hong Kong currently considers it remote that the network would be removed from the existing land sites. In accordance with applicable accounting standards, asset retirement obligations have not been recognised by CLP Power Hong Kong.

23. Asset Decommissioning Liabilities and Retirement Obligations (continued)

Critical Accounting Estimates and Judgments (continued)

The Hong Kong Government has published in 2017 the Climate Action Plan 2030+ with a tightened carbon reduction target by 2030. CAPCO envisages that with the Government's continued commitment to reduce carbon intensity, the removal of its fossil-fuel generation units from the existing land sites may be possible at some point of time in the future. Under the SoC, CAPCO makes a periodic charge to accrue in the statement of financial position a liability balance which would be utilised in discharging asset decommissioning costs if and when incurred. While asset retirement obligations have not been recognised upfront by CAPCO under the applicable accounting standards, CAPCO expects that should such obligation be incurred, it will be met by the deferred liability accrued and the cost recovery mechanism under the SoC.

Asset retirement obligations of EnergyAustralia amounted to HK$2,182 million (2016: HK$415 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 Hazelwood Mine Fire Board of Inquiry undertaken towards the end of 2015, cost to remediate brown coal mines in the Latrobe Valley (including the Group's Yallourn mine) and an assessment of the adequacy of the current financial assurance held by the Victorian Government in respect of those remediation costs was reviewed. The method employed was to establish a base cost of known works required that are almost certain to be incurred before adding a risk cost on the balance of probabilities of risk events that may occur in carrying out rehabilitation work.

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 estimated costs to rehabilitate, including the size and condition of the mine. The estimate of Yallourn's base cost liability determined as part of the review is largely in line with our assumptions. A difference in such costs arises from the inclusion of the risk of significant water supply costs whereas our estimate assumes that water will be available at minimal cost. This approach is subject to further research and government approvals. 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.

	2017 HK$M	2016 HK$M
Asset decommissioning liabilities (Note 22(A)(b))	860	916
Provisions for land remediation and restoration costs (note)	2,127	352
	2,987	1,268

Note: The movement of the balances, including the current portion of HK$55 million (2016: HK$63 million) under "Trade and other payables", is as below.

	2017 HK$M	2016 HK$M
Balance at 1 January	415	367
Additional provision	346	55
Effect of changes in discount rate	1,306	–
Amounts used	(15)	(35)
Unwinding of discount	63	35
Exchange differences	67	(7)
	2,182	415

In addition, performance bonds (in the form of bank guarantees) of HK$903 million (A$148 million) were executed during the year for the mining licence at Yallourn Power Station after the review of the remediation costs of brown coal mines by the Hazelwood Mine Fire Board of Inquiry.

24. Share Capital

	2017 Number of Ordinary Shares	2017 Amount HK$M	2016 Number of Ordinary Shares	2016 Amount HK$M
Issued and fully paid, at 31 December	2,526,450,570	23,243	2,526,450,570	23,243

25. 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 2016	(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 losses on equity investments	–	–	–	(115)	–	(115)
Remeasurement gains on defined benefit plans	–	–	–	34	–	34
Share of other comprehensive income of joint ventures	19	1	–	–	–	20
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

25. 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 2017	(7,638)	1,001	81	2,776	78,547	74,767
Earnings attributable to shareholders	–	–	–	–	14,249	14,249
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	3,453	–	–	–	–	3,453
Joint ventures	754	–	–	–	–	754
Associates	118	–	–	–	–	118
Cash flow hedges						
Net fair value losses	–	(64)	–	–	–	(64)
Reclassification to profit or loss	–	(398)	–	–	–	(398)
Tax on the above items	–	125	–	–	–	125
Costs of hedging						
Net fair value losses	–	–	(262)	–	–	(262)
Amortisation / reclassification to profit or loss	–	–	103	–	–	103
Tax on the above items	–	–	25	–	–	25
Fair value losses on equity investments	–	–	–	(280)	–	(280)
Remeasurement gains on defined benefit plans	–	–	–	–	91	91
Share of other comprehensive income of joint ventures	–	1	–	(1)	–	–
Total comprehensive income attributable to shareholders	4,325	(336)	(134)	(281)	14,340	17,914
Contribution from non-controlling interest of a subsidiary	–	–	–	–	(4)	(4)
Transfer to fixed assets	–	3	–	–	–	3
Disposal of an equity investment	–	–	–	277	(277)	–
Revaluation reserve realised due to depreciation of fixed assets	–	–	–	(2)	2	–
Appropriation of reserves	–	–	–	83	(83)	–
Dividends paid						
2016 fourth interim	–	–	–	–	(2,754)	(2,754)
2017 first to third interim	–	–	–	–	(4,472)	(4,472)
Balance at 31 December 2017	**(3,313)**	**668**	**(53)**	**2,853**	**85,299** [(a)]	**85,454**

Note:

(a) The fourth interim dividend declared for the year ended 31 December 2017 was HK$2,880 million (2016: HK$2,754 million). The balance of retained profits after the fourth interim dividend of the Group was HK$82,419 million (2016: HK$75,793 million).

26. Perpetual Capital Securities and Other Non-controlling Interests

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.

On 21 April 2017, CAPCO and its shareholders executed a Shareholder Capital Agreement in which an amount of advances from shareholders was reclassified into redeemable shareholder capital of CAPCO. The redeemable shareholder capital is subordinated, unsecured, interest free and has no fixed terms of repayment. CAPCO can, at its sole discretion, redeem all or part of the redeemable shareholder capital at any time after 31 December 2032. The redeemable shareholder capital attributable to CSG HK's pro rata share of HK$5,115 million was reclassified from advances from non-controlling interest included under "Trade and other payables" to "Other non-controlling interests".

As the perpetual capital securities and redeemable shareholder capital 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 a part of non-controlling interests.

27. Notes to the Consolidated Statement of Cash Flows

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

	2017 HK$M	2016 HK$M
Profit before income tax	**18,127**	16,663
Adjustments for:		
Finance costs	**2,180**	2,261
Finance income	**(151)**	(137)
Dividend income from equity investments	**(9)**	(43)
Share of results of joint ventures and associates, net of income tax	**(1,458)**	(1,641)
Depreciation and amortisation	**7,368**	6,909
Impairment charge	**443**	397
Reversal of provision for onerous contract	**–**	(78)
Net loss / (gain) on disposal of fixed assets	**407**	(386)
Revaluation (gains) / losses on investment properties	**(369)**	146
Fair value gain of non-debt related derivative financial instruments and net exchange difference	**(416)**	(211)
SoC items		
Special fuel rebate to customers	**(786)**	–
Increase in customers' deposits	**220**	169
(Decrease) / increase in fuel clause account	**(782)**	1,275
Increase in rent and rates interim refunds	**155**	–
Transfer for SoC	**(98)**	(260)
	(1,291)	1,184
(Increase) / decrease in trade and other receivables	**(2,263)**	145
Decrease in finance lease receivables	**56**	45
(Increase) / decrease in cash restricted for specific purposes	**(149)**	34
Changes in non-debt related derivative financial instruments	**443**	(30)
Increase in trade and other payables	**3,917**	63
(Decrease) / increase in current accounts due to joint ventures and associates	**(329)**	32
Net cash inflow from operations	**26,506**	25,353

27. Notes to the Consolidated Statement of Cash Flows (continued)

(B) Reconciliation of liabilities arising from financing activities

	Bank Loans and Other Borrowings HK$M	Interest and Other Finance Costs Payables HK$M	Debt-related Derivative Financial Instruments HK$M	Advances from Non-controlling Interest HK$M	Total HK$M
Balance at 1 January 2017	51,646	263	483	6,692	59,084
Changes from financing cash flows					
Proceeds from long-term borrowings	20,290	–	–	–	20,290
Repayment of long-term borrowings	(16,183)	–	–	–	(16,183)
Increase in short-term borrowings	459	–	–	–	459
Interest and other finance costs paid	–	(1,784)	–	–	(1,784)
Settlement of derivative financial instruments	–	–	(152)	–	(152)
Decrease in advances from other non-controlling interest	–	–	–	(79)	(79)
Total changes from financing cash flows	4,566	(1,784)	(152)	(79)	2,551
Non-cash changes					
Fair value loss of derivative financial instruments to equity	–	–	191	–	191
Net exchange and translation difference	1,096	10	7	16	1,129
Interest and other finance costs charged to profit or loss	–	1,847	152	–	1,999
Reclassification from trade and other payable (Note 26)	–	–	–	(5,115)	(5,115)
Other non-cash movements	33	(26)	–	–	7
Balance at 31 December 2017	**57,341**	**310**	**681**	**1,514**	**59,846**

28. Commitments and Operating Lease Arrangements

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

	2017 HK$M	2016 HK$M
Fixed assets	**5,367**	5,099
Investment properties	**2**	3
Intangible assets	**28**	14
	5,397	5,116

(B) At 31 December 2017, equity contribution to be made for an associate was HK$15 million (2016: equity contribution of HK$24 million and outstanding commitment of HK$5.0 billion (RMB4.5 billion) for the acquisition of Yangjiang Nuclear).

Except the above, contribution required to be made for a private equity partnership at 31 December 2017 was HK$64 million (2016: nil).

28. Commitments and Operating Lease Arrangements (continued)

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

	2017 HK$M	2016 HK$M
Within one year	**475**	440
Later than one year but not later than five years	**630**	914
Over five years	**1,242**	1,344
	2,347	2,698

Of the above amount, HK$1,692 million (2016: HK$1,792 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$344 million (2016: HK$551 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 Power Limited (JPL) 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:

	2017 HK$M	2016 HK$M
Within one year	**827**	723
Later than one year but not later than five years	**2,714**	2,842
Over five years	**6,192**	6,230
	9,733	9,795

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 factors. The purchase of nuclear electricity under the arrangement was HK$5,380 million (2016: HK$5,198 million).

Under a separate purchase arrangement with GNPJVC and its shareholder, Guangdong Nuclear Investment Company Limited, CLP Power Hong Kong would purchase 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$768 million (2016: HK$742 million).

29. Related Party Transactions (continued)

(B) The loan to a joint venture is disclosed under Note 11. Other amounts due from and to the related parties at 31 December 2017 are disclosed in Notes 16 and 19 respectively. At 31 December 2017, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2016: 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 (2016: two) Executive Directors and nine (2016: nine) senior management personnel.

	2017 HK$M	2016 HK$M
Fees	**11**	11
Recurring remuneration items (note)		
Base compensation, allowances & benefits	**65**	61
Performance bonus		
Annual incentive	**61**	59
Long-term incentive	**30**	13
Provident fund contribution	**12**	9
Non-recurring remuneration items (note)		
Other payments	**–**	7
	179	160

Note: Refer to recurring and non-recurring remuneration items on page 151 of Human Resources & Remuneration Committee Report.

At 31 December 2017, the CLP Holdings' Board was composed of twelve Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$52 million (2016: HK$46 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 (2016: two Directors) and three members (2016: three members) of Senior Management. The total remuneration of these five highest paid individuals amounted to HK$98 million (2016: HK$92 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 150 to 153 and 158 to 160. 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 (2016: 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 (2016: 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.

Critical Accounting Estimates and Judgments

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.

(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$888 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".

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$102 million) (2016: Rs.830 million (HK$95 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 2017, the total amount of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs.8,543 million (HK$1,045 million) (2016: Rs.8,543 million (HK$975 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.

30. Contingent Liabilities (continued)

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

CLP India group has invested in around 533MW 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 2017, 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) JPL – Disputed Charges with Offtakers

JPL has disputes with its offtakers over applicable tariff of capacity charges and energy charges relating to transit loss. Total disputed amounts were Rs.2,117 million (HK$259 million) at 31 December 2017 (2016: Rs.1,917 million (HK$219 million)). The Group considers that JPL has a strong case and hence, no provision has been made.

JPL 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.

(D) EnergyAustralia – Disposal of Iona Gas Plant

In December 2015, EnergyAustralia completed the disposal of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million). On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd, the purchaser of the Iona Gas Plant, and certain related entities, commencing formal legal proceedings seeking A$967 million (approximately HK$5,899 million) or alternatively A$780 million (approximately HK$4,758 million) in damages. The claims allege that certain information regarding the technical performance of the Iona Gas Plant, and on which the consortium claims to have relied to make its offer, were incomplete or misleading. EnergyAustralia has rejected the claims and is vigorously defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the financial statements.

31. Statement of Financial Position of the Company

	2017 HK$M	2016 HK$M
Non-current assets		
Fixed assets	**110**	128
Investments in subsidiaries	**53,074**	51,695
Advance to a subsidiary	**39**	39
Other non-current assets	**3**	4
	53,226	51,866
Current assets		
Trade and other receivables	**49**	63
Dividend receivable	**2,710**	–
Bank balances and cash	**12**	4
	2,771	67
Current liabilities		
Trade and other payables	**(422)**	(350)
Net current assets / (liabilities)	**2,349**	(283)
Total assets less current liabilities	**55,575**	51,583
Financed by:		
Equity		
Share capital	**23,243**	23,243
Retained profits	**27,944**	28,340
Shareholders' funds	**51,187**	51,583
Non-current liabilities		
Bank and other borrowings	**4,388**	–
Equity and non-current liabilities	**55,575**	51,583

The movement of retained profits is as follows:

	2017	2016
Balance at 1 January	**28,340**	28,138
Profit and total comprehensive income for the year	**6,830**	7,175
Dividends paid		
2016 / 2015 fourth interim	**(2,754)**	(2,653)
2017 / 2016 first to third interim	**(4,472)**	(4,320)
Balance at 31 December	**27,944**	28,340

The fourth interim dividend declared for the year ended 31 December 2017 was HK$2,880 million (2016: HK$2,754 million). The balance of retained profits after the fourth interim dividend of the Company was HK$25,064 million (2016: HK$25,586 million).

William Mocatta
Vice Chairman
Hong Kong, 26 February 2018

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

32. Subsidiaries

The table below lists the principal subsidiaries of the Group at 31 December 2017:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2016 and 2017	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	HK$10,000,000 divided into 100,000 ordinary shares	100 (a)	Hong Kong	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 Nuclear Investment Company Limited	1 ordinary share of US$1 each	100	Hong Kong / British Virgin Islands	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	1 ordinary share of HK$1 each	100	Hong Kong	Innovation Projects Investment Holding
EnergyAustralia Holdings Limited	1,585,491,005 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

32. Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2016 and 2017	Place of Incorporation / Business	Principal Activity
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
CLP Sichuan (Jiangbian) Power Company Limited (b)	RMB496,380,000	100 (a)	Mainland China	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited (c)	RMB69,098,976	84.9 (a)	Mainland China	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited (c)	RMB249,430,049	84.9 (a)	Mainland China	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited (c)	US$13,266,667	84.9 (a)	Mainland China	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited (c)	RMB141,475,383	84.9 (a)	Mainland China	Generation of Electricity

Notes:

(a) Indirectly held through subsidiaries of the Company
(b) Registered as a Wholly Foreign Owned Enterprise under PRC law
(c) 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:

	2017 HK$M	2016 HK$M
Results for the year		
Revenue	**16,105**	15,176
Profit for the year	**3,168**	3,149
Other comprehensive income for the year	**44**	–
Total comprehensive income for the year	**3,212**	3,149
Dividends paid to non-controlling interests	**952**	942
Net assets		
Non-current assets	**30,000**	29,122
Current assets	**8,966**	5,238
Current liabilities	**(11,364)**	(28,139)
Non-current liabilities	**(9,563)**	(5,275)
	18,039	946
Cash flows		
Net cash inflow from operating activities	**3,235**	4,099
Net cash outflow from investing activities	**(3,795)**	(198)
Net cash inflow / (outflow) from financing activities	**688**	(3,901)
Net increase in cash and cash equivalents	**128**	–

1. Financial Risk Factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange 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 is carried out by the Company's central treasury department (Group Treasury) under policies approved by the Board of Directors or the Finance & General Committee of relevant Group entities. 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 exchange 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 group (i.e. CLP Power Hong Kong and CAPCO) has significant foreign currency obligations relating to its foreign currency denominated debts, US dollar denominated nuclear power purchase offtake commitments, other fuel related payments and major capital projects 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 group

Under the SoC, the SoC Companies are allowed to pass-through foreign exchange gains and losses arising from future non-capital projects related 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 group 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. CLP Power Hong Kong group also uses forward contracts to manage the foreign exchange risks of non-Hong Kong dollar payment obligations for major capital projects, for which the exchange gains and losses are capitalised.

At the end of the reporting period, the fair value movement of the derivative financial instruments 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:

	2017 HK$M	2016 HK$M
Increase / (decrease) in the cash flow hedge reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2016: 0.6%)	**70**	118
If Hong Kong dollar strengthened by 0.6% (2016: 0.6%)	**(70)**	(118)
Hong Kong dollar against Euro		
If Hong Kong dollar weakened by 3%	**21**	N/A
If Hong Kong dollar strengthened by 3%	**(21)**	N/A

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 or is capitalised in fixed assets.

1. Financial Risk Factors (continued)

Foreign exchange 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 2017, the Group's net investment subject to translation exposure was HK$69,454 million (2016: HK$56,859 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2016: 1%) average foreign currency movement, our translation exposure will vary by about HK$695 million (2016: 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 group) 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:

	2017 HK$M	2016 HK$M
US dollar		
If US dollar strengthened by 5% (2016: 5%)		
Post-tax profit for the year	**48**	60
Equity – cash flow hedge reserve	**58**	70
If US dollar weakened by 5% (2016: 5%)		
Post-tax profit for the year	**(48)**	(60)
Equity – cash flow hedge reserve	**(58)**	(70)
Renminbi		
If Renminbi strengthened by 3% (2016: 4%)		
Post-tax profit for the year	**29**	101
Equity – cash flow hedge reserve	**–**	–
If Renminbi weakened by 3% (2016: 4%)		
Post-tax profit for the year	**(29)**	(101)
Equity – cash flow hedge reserve	**–**	–

1. Financial Risk Factors (continued)

Energy portfolio risk

EnergyAustralia's activity in energy markets exposes it to financial risk.

The electricity market is a competitive power pool. In this market generation supply and retail demand are exposed to spot (half-hour) prices. EnergyAustralia enters into electricity spot-price-linked derivative financial instruments to hedge these 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.

Energy portfolio exposure is managed through an established risk management framework. The framework consists of policies which place appropriate limits on overall energy market exposures, hedging strategies and targets, delegations of authority on trading, approved product lists, regular exposure reporting, and segregation of duties. 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 for the coming financial year. The EaR measure is drawn from the resulting earnings distribution and is chosen at a 1 in 4 probability downside (2016: 1 in 4 probability downside).

The corporate governance process also includes oversight by an Audit & Risk Committee (ARC – EA) which acts on behalf of EnergyAustralia's Board.

Based on the methods explained above, the energy portfolio risk exposure for EnergyAustralia at 31 December 2017 was HK$397 million (2016: HK$247 million). The change in the risk measure is the result of higher forward prices and increased volatility compared to prior year.

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, and 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)

	2017 HK$M	2016 HK$M
Hong Kong dollar		
If interest rates were 0.7% (2016: 0.4%) higher		
Post-tax profit for the year	**(95)**	(49)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 0.7% (2016: 0.4%) lower		
Post-tax profit for the year	**95**	49
Equity – cash flow hedge reserve	**–**	–
Indian rupee		
If interest rates were 1% (2016: 1%) higher		
Post-tax profit for the year	**(11)**	(16)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 1% (2016: 1%) lower		
Post-tax profit for the year	**11**	16
Equity – cash flow hedge reserve	**–**	–
US dollar		
If interest rates were 0.7% (2016: 0.2%) higher		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**33**	17
If interest rates were 0.7% (2016: 0.2%) lower		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**(33)**	(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.

1. Financial Risk Factors (continued)

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 monitors rolling forecasts of the Group's undrawn borrowing facilities and cash and cash equivalents on the expected cash flows.

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, derivative financial liabilities (both net settled and gross settled) and derivative financial assets (gross settled) based on the 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 2017					
Non-derivative financial liabilities					
Bank loans	9,039	3,379	7,979	5,333	25,730
Other borrowings	1,401	2,694	11,444	22,874	38,413
Customers' deposits	5,221	–	–	–	5,221
Fuel clause account	2,212	–	–	–	2,212
Trade and other payables	18,978	–	–	–	18,978
SoC reserve accounts	–	–	–	977	977
Asset decommissioning liabilities	–	–	–	860	860
	36,851	6,073	19,423	30,044	92,391
Derivative financial liabilities – net settled					
Interest rate swaps	38	27	43	30	138
Energy contracts	940	284	293	214	1,731
	978	311	336	244	1,869
Derivative financial instruments – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	17,335	6,337	1,929	342	25,943
Cross currency interest rate swaps	1,751	814	9,536	15,429	27,530
	19,086	7,151	11,465	15,771	53,473
Gross contractual amounts receivable					
Forward foreign exchange contracts	(17,499)	(6,346)	(2,109)	(414)	(26,368)
Cross currency interest rate swaps	(1,845)	(852)	(9,053)	(15,072)	(26,822)
	(19,344)	(7,198)	(11,162)	(15,486)	(53,190)
Net (receivable) / payable	(258)	(47)	303	285	283

1. Financial Risk Factors (continued)

Liquidity risk (continued)

	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	20,176	–	–	–	20,176
Fuel clause account	–	2,867	–	–	2,867
SoC reserve accounts	–	860	–	–	860
Asset decommissioning liabilities	–	916	–	–	916
	37,630	11,065	19,200	24,768	92,663
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
	761	205	291	335	1,592
Derivative financial instruments – gross settled					
Gross contractual amounts payable					
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
	23,912	11,307	16,419	12,054	63,692
Gross contractual amounts receivable					
Forward foreign exchange contracts	(21,233)	(9,698)	(7,710)	(490)	(39,131)
Cross currency interest rate swaps	(2,483)	(1,707)	(8,577)	(11,083)	(23,850)
	(23,716)	(11,405)	(16,287)	(11,573)	(62,981)
Net payable / (receivable)	196	(98)	132	481	711

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 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 debt. 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.

2. Hedge Accounting (continued)

Hedges on non-debt related transactions

CLP Power Hong Kong group uses forward contracts to manage its foreign exchange risk arising from fuel and nuclear purchases obligations, and payments for major capital projects. CLP Power Hong Kong group 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. EnergyAustralia procures gas supply agreements from various gas producers to meet retail demand. 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 financial position and performance of the Group for the year ended 31 December 2017 and 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
At 31 December 2017								
Debt related transactions								
Interest rate risk[b]	**26,882**	**(418)**	**217**	**(214)**	**(224)**	**7**	**463**	**–**
Foreign exchange risk	**2,211**	**(35)**	**(151)**	**151**	**151**	**–**	**(150)**	**–**
Non-debt related transactions								
Foreign exchange risk	**16,980**	**164**	**137**	**(141)**	**(137)**	**–**	**(43)**	**–**
Energy portfolio risk – electricity	**4,046**	**175**	**(162)**	**162**	**162**	**–**	**129**	**–**
Energy portfolio risk – gas	**3,510**	**231**	**(69)**	**69**	**69**	**–**	**–**	**–**
At 31 December 2016								
Debt related transactions								
Interest rate risk[b]	27,242	(476)	591	(599)	(594)	3	116	(5)
Foreign exchange risk	2,202	172	(40)	36	36	4	(27)	–
Non-debt related transactions								
Foreign exchange risk	24,912	70	143	(145)	(143)	–	(21)	–
Energy portfolio risk – electricity	3,054	466	402	(402)	(402)	–	226	–
Energy portfolio risk – gas	2,682	277	285	(285)	(285)	–	–	–

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 exchange risk in case of foreign currency debts

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

			Accumulated fair value hedge adjustments		Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness		
Fair Value Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedged items (included accumulated fair value hedge adjustments) HK$M	Continuing hedges HK$M	Discontinued hedges HK$M	Hedging instruments HK$M	Hedged items HK$M	Hedge ineffectiveness (credited) / charged to finance costs HK$M
At 31 December 2017							
Debt related transactions							
Interest rate risk[b]	**5,981**	**(10,494)**	**156**	**(13)**	**61**	**(58)**	**(3)**
At 31 December 2016							
Debt related transactions							
Interest rate risk[b]	6,131	(10,532)	214	(25)	3	(9)	6

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$M	Foreign exchange risk HK$M	Energy portfolio risk HK$M	Total HK$M
Balance at 1 January 2016	(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
Balance at 1 January 2017	357	1	578	936
Hedging gains / (losses)	225	(15)	(231)	(21)
Reclassification to profit or loss				
Hedged items affected profit or loss	(463)	193	(129)	(399)
Amount transferred to hedged assets	–	4	–	4
Related deferred tax	39	(29)	108	118
Balance at 31 December 2017	**158**	**154**	**326**	**638**

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

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	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 amortised to profit or loss	20	71	28	119
Related deferred tax	2	7	35	44
Balance at 31 December 2016	3	14	64	81
Balance at 1 January 2017	3	14	64	81
Changes due to transaction related hedged items				
Fair value losses	–	–	(24)	(24)
Amount reclassified to the costs of the hedged items	–	–	(3)	(3)
Changes due to time-period related hedged items				
Fair value losses	(9)	(72)	(182)	(263)
Amount amortised to profit or loss	15	72	18	105
Related deferred tax	(2)	–	31	29
Balance at 31 December 2017	**7**	**14**	**(96)**	**(75)**

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)

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

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 2017				
Financial assets				
Equity investments	**302**	**–**	**47**	**349**
Forward foreign exchange contracts	**–**	**449**	**–**	**449**
Foreign exchange options	**–**	**18**	**–**	**18**
Cross currency interest rate swaps	**–**	**309**	**–**	**309**
Interest rate swaps	**–**	**121**	**–**	**121**
Energy contracts	**–**	**957**	**239**	**1,196**
	302	**1,854**	**286**	**2,442**
Financial liabilities				
Forward foreign exchange contracts	**–**	**159**	**–**	**159**
Cross currency interest rate swaps	**–**	**1,079**	**–**	**1,079**
Interest rate swaps	**–**	**169**	**–**	**169**
Energy contracts	**232**	**578**	**212**	**1,022**
	232	**1,985**	**212**	**2,429**
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	590	910	130	1,630
	893	2,081	1,355	4,329
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

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

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	Dividend model	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 price curve; and long term forward electricity price and cap price curve

(b) 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 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 an internally generated long term forward electricity and cap price 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 by the CFO – EA and ARC – EA annually due to the lack of market liquidity. Analysis of fair value changes is performed on a monthly basis for reasonableness.

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.

During 2017 and 2016, there were no transfers between Level 1 and Level 2, the movements of Level 3 financial instruments for the years ended 31 December are as follows:

	2017			2016		
	Equity Investments HK$M	Energy Contracts HK$M	Total HK$M	Equity Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	1,225	(59)	1,166	1,227	(631)	596
Total gains / (losses) recognised in						
Profit or loss and presented in fuel and other operating expenses *	–	108	108	–	656	656
Other comprehensive income	(280)	(4)	(284)	–	(29)	(29)
Purchase	15	–	15	–	–	–
Sales (Note 16(b))	(913)	–	(913)	–	–	–
Settlements	–	(18)	(18)	–	(18)	(18)
Transfer out of Level 3	–	–	–	(2)	(37)	(39)
Closing balance	47	27	74	1,225	(59)	1,166

* Out of which, unrealised gains recognised in profit or loss relating to the assets and liabilities held at the end of the reporting period was HK$204 million (2016: HK$617 million).

At 31 December 2017 and 2016, the valuation of long tenure energy contracts is sensitive to electricity pool price assumptions. A favourable and unfavourable change of 15% (2016: 15%) would cause the fair values to rise by HK$547 million (2016: HK$511 million) and decline by HK$548 million (2016: HK$509 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		
	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$M	Net [a] amount HK$M
At 31 December 2017						
Financial assets						
Bank balances, cash and other liquid funds	347	–	347	(347)	–	–
Trade and other receivables	4,884	–	4,884	(3,000)	(1,884)	–
Derivative financial instruments	2,270	(634)	1,636	(307) [b]	–	1,329
	7,501	(634)	6,867	(3,654)	(1,884)	1,329
Financial liabilities						
Customers' deposits	5,218	–	5,218	(1,884)	–	3,334
Bank loans and other borrowings	11,512	–	11,512	–	(3,347)	8,165
Derivative financial instruments	2,905	(634)	2,271	(307) [b]	–	1,964
	19,635	(634)	19,001	(2,191)	(3,347)	13,463
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	2,483	(367)	2,116	(438) [b]	–	1,678
	7,018	(367)	6,651	(3,067)	(1,906)	1,678
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

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. "Net amount" column represents the net impact that would be shown 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 (1) restricted cash of CLP India disclosed under Note 17 to the Financial Statements; (2) trade receivables related to Hong Kong electricity business where customers' deposits are served as security for payments; (3) trade receivables of subsidiaries in Mainland China and India which are pledged against their bank loans and other borrowings; and (4) bank loans and other borrowings of subsidiaries in Mainland China and India which are secured by charges over certain financial assets or rights to income.

(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.

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 fine-tunes 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 change the level of debts. The Group's capital management objectives, policies or processes were unchanged during 2017 and 2016.

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

	2017 HK$M	2016 HK$M
Total debt [a]	57,341	51,646
Net debt [b]	47,411	46,979
Total equity [c]	123,021	112,465
Total capital (based on total debt) [d]	180,362	164,111
Total capital (based on net debt) [e]	170,432	159,444
Total debt to total capital (based on total debt) ratio (%)	31.8	31.5
Net debt to total capital (based on net debt) ratio (%)	27.8	29.5

The reduction in net debt to total capital mainly related to higher Group earnings and cash inflows from Argyle Street Redevelopment Project which were partly offset by additional debt for capital investments.

Certain entities of the Group are subject to loan covenants. For both 2017 and 2016, 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.

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% in 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 (SoC) Agreement 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 and covers a period of 10 years to 30 September 2018. On 25 April 2017, the SoC Companies signed a new SoC Agreement with the Hong Kong Government. The term of the new SoC will be for a period of over 15 years beginning on 1 October 2018 and ending on 31 December 2033. The new SoC contains key principles that are similar to the existing SoC. The annual permitted return under the new SoC is at the rate of 8% on the average net fixed assets of the SoC Companies.

The 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 current SoC are calculated as follows:

- The annual permitted return under the current 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 under the current SoC 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 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 for each applicable period under the SoC.
- The rate of return on average net fixed assets of the SoC Companies for the year ended 31 December 2017 was 9.14% (2016: 9.14%).

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 2017, 68% (2016: 68%) of the net return was allocated to CLP Power Hong Kong and 32% (2016: 32%) to CAPCO.

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

For the year ended 31 December

	2017 HK$M	2016 HK$M
SoC revenue	**39,259**	37,223
Expenses		
Operating costs	**4,405**	4,312
Fuel	**11,901**	10,978
Purchases of nuclear electricity	**5,380**	5,198
Provision for asset decommissioning	**(56)**	(109)
Depreciation	**4,706**	4,375
Operating interest	**994**	997
Taxation	**1,989**	1,895
	29,319	27,646
Profit after taxation	**9,940**	9,577
Interest on borrowed capital	**976**	952
Adjustment for performance incentives	**(54)**	(53)
Adjustment required under the SoC (being share of profit on sale of electricity to Mainland China attributable to the SoC Companies)	**(79)**	(69)
Profit for SoC	**10,783**	10,407
Transfer from Tariff Stabilisation Fund	**42**	151
Permitted return	**10,825**	10,558
Deduct interest on / Adjustment for		
Borrowed capital as above	**976**	952
Performance incentives as above	**(54)**	(53)
Tariff Stabilisation Fund to Rate Reduction Reserve	**4**	2
	926	901
Net return	**9,899**	9,657
Divisible as follows:		
CLP Power Hong Kong	**6,778**	6,547
CAPCO	**3,121**	3,110
	9,899	9,657
CLP Power Hong Kong's share of net return		
CLP Power Hong Kong	**6,778**	6,547
Interest in CAPCO	**2,185**	2,177
	8,963	8,724

Five-year Summary: CLP Group Statistics

A ten-year summary is on our website

Economic

	2017	2016	2015	2014	2013
Consolidated Operating Results, HK$M					
Revenue					
Hong Kong electricity business	**39,485**	37,615	38,488	35,303	33,840
Energy businesses outside Hong Kong	**52,101**	41,459	41,757	56,633	70,352
Others	**487**	360	455	323	338
Total	**92,073**	79,434	80,700	92,259	104,530
Earnings [(a)]					
Hong Kong electricity business	**8,863**	8,640	8,260	7,777	6,966
Hong Kong electricity business related	**335**	203	206	71	125
Mainland China	**1,238**	1,521	1,977	1,579	2,131
India	**647**	469	614	270	184
Southeast Asia and Taiwan	**160**	274	312	297	241
Australia	**2,738**	1,849	836	756	126
Other earnings in Hong Kong	**(65)**	62	(60)	(66)	(17)
Unallocated net finance (costs) / income	**(2)**	33	17	(36)	(26)
Unallocated Group expenses	**(607)**	(717)	(643)	(586)	(423)
Operating earnings	**13,307**	12,334	11,519	10,062	9,307
Gains on acquisitions / sales of investments	**–**	–	6,619	1,953	525
Impairment and provision reversal	**–**	(203)	(1,723)	(1,736)	(3,696)
Property revaluation and transaction	**369**	497	99	245	–
Reversal of tax provision and tax credit	**573**	83	–	545	–
Other items affecting comparability from Australia	**–**	–	(858)	152	(76)
Total	**14,249**	12,711	15,656	11,221	6,060
Dividends	**7,352**	7,074	6,822	6,619	6,493
Depreciation and amortisation, owned and leased assets	**7,368**	6,909	6,765	6,791	7,592
Consolidated Statement of Financial Position [(b)], HK$M					
SoC fixed assets	**109,824**	106,886	104,479	101,420	67,057
Other fixed assets	**33,914**	32,535	31,533	34,963	63,846
Goodwill and other intangible assets	**29,087**	27,653	28,257	31,129	23,847
Interests in joint ventures	**10,383**	9,971	11,250	11,176	19,940
Interests in associates	**8,081**	813	785	786	1,675
Other non-current assets	**3,152**	4,837	5,385	9,664	8,601
Current assets	**33,710**	23,538	22,284	25,525	26,840
Total assets	**228,151**	206,233	203,973	214,663	211,806
Shareholders' funds	**108,697**	98,010	93,118	88,013	87,361
Perpetual capital securities	**5,791**	5,791	5,791	5,791	–
Other non-controlling interests	**7,019**	1,972	2,023	2,155	120
Equity	**121,507**	105,773	100,932	95,959	87,481
Bank loans and other borrowings	**57,341**	51,646	55,483	67,435	56,051
Obligations under finance leases	**–**	–	–	27	27,976
SoC reserve accounts	**977**	860	1,009	1,131	28
Other current liabilities	**27,962**	26,944	25,107	27,771	25,372
Other non-current liabilities	**20,364**	21,010	21,442	22,340	14,898
Total liabilities	**106,644**	100,460	103,041	118,704	124,325
Equity and total liabilities	**228,151**	206,233	203,973	214,663	211,806

Notes:

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

(b) The 2013 to 2016 figures have been reclassified to conform with current year's presentation of certain energy derivatives.

	2017	2016	2015	2014	2013
Consolidated Statement of Cash Flows, HK$M					
Funds from operations	**26,506**	25,353	20,994	23,431	21,798
Net cash inflow from operating activities	**24,417**	23,676	19,168	21,966	21,021
Net cash (outflow) / inflow from investing activities	**(16,735)**	(8,296)	1,066	(18,683)	(6,595)
Net cash outflow from financing activities	**(5,863)**	(14,288)	(20,505)	(3,904)	(21,444)
Capital expenditure, owned and leased assets	**(9,538)**	(9,756)	(10,871)	(9,192)	(8,462)
Per Share Data, HK$					
Shareholders' funds per share	**43.02**	38.79	36.86	34.84	34.58
Earnings per share	**5.64**	5.03	6.20	4.44	2.40
Dividends per share	**2.91**	2.80	2.70	2.62	2.57
Closing share price					
Highest	**85.30**	83.90	69.75	68.00	69.85
Lowest	**72.55**	62.45	62.20	56.30	60.35
As at year-end	**79.95**	71.25	65.85	67.25	61.30
Ratios					
Return on equity, %	**13.8**	13.3	17.3	12.8	6.8
Operating return on equity, %	**12.9**	12.9	12.7	11.5	10.4
Total debt to total capital, %	**31.8**	31.5	34.0	39.6	39.1
Net debt to total capital, %	**27.8**	29.5	32.4	38.0	36.7
EBIT interest cover, times	**11**	10	10	6	3
Price / Earnings, times	**14**	14	11	15	26
Dividend yield, %	**3.6**	3.9	4.1	3.9	4.2
Dividend pay-out, %					
Total earnings	**51.6**	55.7	43.5	59.0	107.1
Operating earnings	**55.2**	57.4	59.2	65.8	69.8
Total returns to shareholders [1], %	**8.4**	6.4	8.4	8.8	9.9
Group Generation Capacity					
(owned / operated / under construction) [2], MW					
– by region					
Hong Kong	**7,483**	7,483	6,908	6,908	6,908
Mainland China	**7,985**	7,181	7,072	6,740	5,760
India	**2,948**	2,978	3,048	3,056	3,026
Southeast Asia and Taiwan	**285**	285	285	285	285
Australia	**4,505**	4,505	4,505	4,533	5,533
	23,206	22,432	21,818	21,522	21,512
– by status					
Operational	**22,118**	21,560	20,336	20,176	20,974
Construction	**1,088**	872	1,482	1,346	538
	23,206	22,432	21,818	21,522	21,512

Notes:

1 Total returns to shareholders represents the 10-year annualised rate of return from the combination of share price appreciation and dividend payments.

2 Group generation 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 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.

Environmental [1]

Performance Indicators	Units	2017	2016	2015	2014	2013	GRI Standard	HKEx ESG Reporting Guide Reference
Resource Use & Emissions [2]								
Coal consumed (for power generation)	TJ	**471,976**	453,904	450,937	541,865	433,763	302-1	A2.1
Gas consumed (for power generation)	TJ	**91,426**	86,787	95,591	63,268	73,510	302-1	A2.1
Oil consumed (for power generation)	TJ	**5,069**	4,162	2,892	2,345	1,973	302-1	A2.1
Carbon dioxide equivalent (CO_2e) emissions from power generation (Scopes 1 & 2)	kT	**48,082**	46,681	46,723	53,258	44,258	305-1, 305-2	A1.2
Carbon dioxide (CO_2) emissions from power generation (Scopes 1 & 2) [3]	kT	**47,921**	46,518	46,553	53,044	44,076		
Nitrogen oxides (NO_x) emissions	kT	**59.3**	58.1	56.3	74.6	50.2	305-7	A1.1
Sulphur dioxide (SO_2) emissions	kT	**81.6**	71.2	63.4	93.0	50.5	305-7	A1.1
Total particulates emissions	kT	**8.3**	8.5	9.8	11.5	5.5	305-7	A1.1
Water withdrawal							303-1	A2.2
from marine water resources	Mm^3	**4,421.7**	4,202.3	4,447.6	4,774.5	4,987.9		
from freshwater resources	Mm^3	**52.6**	48.2	48.8	52.9	37.2 [4]		
from municipal sources	Mm^3	**6.5**	6.5	6.6	6.6	6.2 [4]		
Total	Mm^3	**4,480.8**	4,257.0	4,503.0	4,834.0	5,031.3		
Water discharged							306-1	
cooling water to marine water bodies	Mm^3	**4,421.7**	4,202.3	4,447.6	4,774.5	4,987.9		
treated wastewater to marine water bodies	Mm^3	**1.6**	1.5	1.1	1.3	1.2		
treated wastewater to freshwater bodies	Mm^3	**12.3**	13.6	12.6	14.5	10.1		
wastewater to sewerage	Mm^3	**1.9**	1.6	1.6	1.8	1.5		
wastewater to other destinations	Mm^3	**0.2**	0.2	0.1	0.1	0.1		
Total	Mm^3	**4,437.7**	4,219.2	4,463.0	4,792.2	5,000.8		
Hazardous waste produced [5]	T (solid) / kl (liquid)	**857 / 1,420**	1,302 / 1,251	641 / 2,832	484 / 2,783	337 / 1,228	306-2	A1.3
Hazardous waste recycled [5]	T (solid) / kl (liquid)	**469 / 1,384**	260 / 1,149	203 / 1,176	89 / 1,463	34 / 981	306-2	
Non-hazardous waste produced [5]	T (solid) / kl (liquid)	**20,334 / 103**	8,317 / 84	11,455 / 199	21,142 / 78	7,700 / 0	306-2	A1.4
Non-hazardous waste recycled [5]	T (solid) / kl (liquid)	**3,790 / 103**	2,963 / 84	4,414 / 199	4,172 / 78	1,853 / 0	306-2	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	**0**	0	1	1	0	307-1	
Environmental licence limit exceedances & other non-compliances	number	**13**	2	13	3	4	307-1	
Climate Vision 2050 Target Performance (Equity Basis) [6]								
Total renewable energy generation capacity	% (MW)	**14.2 (2,751)**	16.6 (3,090)	16.8 (3,051)	14.1 (2,660)	16.3 (2,579)		
Non-carbon emitting generation capacity	% (MW)	**22.4 (4,350)**	19.2 (3,582)	19.5 (3,543)	16.7 (3,152)	19.4 (3,071)		
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	**0.80** [7]	0.82 [7]	0.81 [7]	0.84 [7]	0.82 [7]	305-4	A1.2

Notes:
1 Environmental data rounded by facility before aggregation.
2 Covers operating facilities where CLP has operational control for the full calendar reporting year.
3 Includes CO_2e emissions of Yallourn and Hallett facilities as CO_2 emissions data were not available.
4 Data updated to align with reporting definition.
5 Waste categorised in accordance with local regulations.
6 "Equity basis" includes all majority and minority share facilities in the CLP Group portfolio.
7 CGN Wind not included as per the Greenhouse Gas Protocol due to its accounting categorisation since 2013.

*All 2017 data above have been independently verified by PricewaterhouseCoopers **except** those 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.

For a detailed narrative on the "Environmental, Social and Governance" related performance indicators, please refer to the Capitals chapters and the Corporate Governance Report of this Annual Report.

Social

Performance Indicators	Units	2017	2016	2015	2014	2013	GRI Standard	HKEx ESG Reporting Guide Reference
Employees								
Employees based on geographical location							102-7	B1.1
Hong Kong	number	**4,504**	4,450	4,438	4,405	4,394		
Mainland China	number	**577**	560	527	480	469		
Australia	number	**1,998**	1,983	1,998	2,143	1,745		
India	number	**463**	435	397	359	360		
Total	number	**7,542**	7,428	7,360	7,387	6,968		
Employees eligible to retire within the next five years [8]							EU15	
Hong Kong	%	**18.6%**	17.3%	16.2%	15.4%	15.2%		
Mainland China	%	**10.6%**	12.1%	11.9%	11.1%	12.2%		
Australia	%	**12.2%**	11.4%	10.9%	9.2%	10.9%		
India	%	**2.4%**	0.9%	0.8%	1.4%	0.8%		
Total	%	**15.1%**	14.1%	13.3%	12.4%	13.0%		
Voluntary staff turnover rate [9,10]							401-1	B1.2
Hong Kong	%	**1.9%**	2.3%	2.8%	2.6%	1.9%		
Mainland China	%	**3.0%**	3.4%	2.6%	2.5%	2.6%		
Australia	%	**13.8%**	12.6%	13.7%	11.6%	9.4%		
India	%	**3.5%**	8.4%	9.8%	13.2%	10.1%		
Training per employee	average hours	**46.9**	49.2	57.2	43.4 [11]	5.5	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	**4**	3	0	1	1	403-2	B2.1
Fatality Rate (employees only) [14]	rate	**0.00**	0.00	0.00	0.00	0.00	403-2	B2.1
Fatality Rate (contractors only) [14]	rate	**0.03**	0.02	0.00	0.01	0.01	403-2	B2.1
Lost Time Injury (employees only) [15]	number	**11**	3	8	4	5	403-2	
Lost Time Injury (contractors only) [15]	number	**16**	10	8	19	28	403-2	
Lost Time Injury Rate (employees only) [14,15]	rate	**0.13**	0.04	0.10	0.05	0.06	403-2	
Lost Time Injury Rate (contractors only) [14,15]	rate	**0.14**	0.07	0.06	0.15	0.22	403-2	
Total Recordable Injury Rate (employees only) [14,16]	rate	**0.21**	0.11	0.18	0.26	0.23	403-2	
Total Recordable Injury Rate (contractors only) [14,16]	rate	**0.36**	0.19 [18]	0.28	0.51	0.50	403-2	
Days lost (employees only) [15,17]	number	**252**	9	199	105	29	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	**28**	21	6	7	12		

Notes:
8 The percentages given refer to full-time permanent staff within each location, who are eligible to retire within the next five years.
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.
18 A first aid case at CLP Power Hong Kong in 2016 was reclassified to a medical treatment case.

*All 2017 data above have been independently verified by PricewaterhouseCoopers **except** those shaded in grey.*

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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

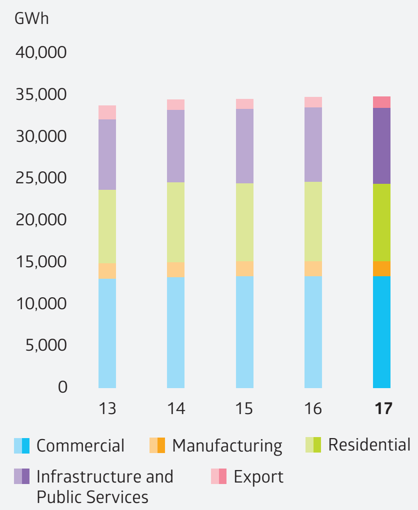
	2017	2016	2015	2014	2013
SoC Financial Statistics					
Combined Profit & Loss Statement, HK$M					
Profit for SoC	**10,783**	10,407	10,162	10,988	8,945
Transfer from / (to) Tariff Stabilisation Fund	**42**	151	124	(1,030)	693
Permitted return	**10,825**	10,558	10,286	9,958	9,638
Less: Interest on / Adjustment for					
Borrowed capital	**976**	952	920	856	887
Performance incentives	**(54)**	(53)	(51)	(49)	(48)
Tariff Stabilisation Fund	**4**	2	2	1	1
Net return	**9,899**	9,657	9,415	9,150	8,798
Combined Balance Sheet, HK$M					
Net assets employed					
Fixed assets	**109,824**	106,886	104,479	101,420	97,918
Non-current assets	**268**	440	382	684	1,091
Current assets	**7,606**	4,061	5,327	6,770	6,778
	117,698	111,387	110,188	108,874	105,787
Less: current liabilities	**22,565**	21,474	18,565	18,518	17,142
Net assets	**95,133**	89,913	91,623	90,356	88,645
Exchange fluctuation account	**(21)**	(279)	113	(565)	(939)
	95,112	89,634	91,736	89,791	87,706
Represented by					
Equity	**44,736**	42,147	42,307	42,456	45,067
Long-term loans and other borrowings	**34,251**	28,885	30,730	28,340	26,873
Deferred liabilities	**15,379**	17,816	17,764	17,937	15,747
Tariff Stabilisation Fund	**746**	786	935	1,058	19
	95,112	89,634	91,736	89,791	87,706
Other SoC Information, HK$M					
Total electricity sales	**39,161**	37,120	38,087	35,969	33,064
Capital expenditure	**8,068**	7,292	7,630	7,800	7,479
Depreciation	**4,706**	4,375	4,143	3,901	4,475
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,556**	2,524	2,485	2,460	2,429
Sales analysis, millions of kWh					
Commercial	**13,220**	13,234	13,209	13,099	12,935
Manufacturing	**1,740**	1,751	1,791	1,791	1,832
Residential	**9,217**	9,394	9,228	9,450	8,658
Infrastructure and Public Services	**8,987**	8,858	8,805	8,585	8,358
Local	**33,164**	33,237	33,033	32,925	31,783
Export	**1,341**	1,205	1,187	1,226	1,650
Total Electricity Sales	**34,505**	34,442	34,220	34,151	33,433
Annual change, %	**0.2**	0.6	0.2	2.1	(1.2)
Local consumption, kWh per person	**5,397**	5,451	5,466	5,516	5,379
Local sales, HK¢ per kWh (average)					
Basic Tariff	**91.8**	88.9	87.1	88.6	84.0
Fuel Cost Adjustment [1]	**21.0**	24.3	27.0	22.4	22.4
Total Tariff	**112.8**	113.2	114.1	111.0	106.4
Rent and Rates Special Rebate [2]	**–**	–	–	–	(1.7)
Net Tariff [3]	**112.8**	113.2	114.1	111.0	104.7
Annual change in Basic Tariff, %	**3.3**	2.1	(1.7)	5.5	(0.2)
Annual change in Total Tariff, %	**(0.4)**	(0.8)	2.8	4.3	4.3
Annual change in Net Tariff, %	**(0.4)**	(0.8)	2.8	6.0	6.1

A ten-year summary is on our website.

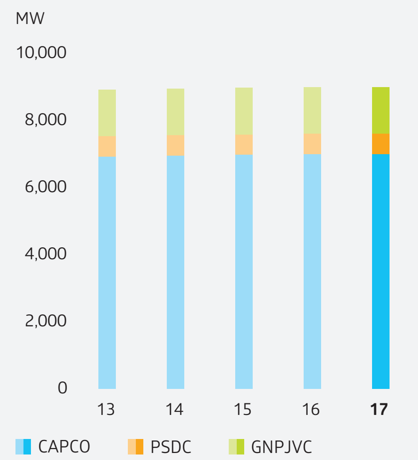
	2017	2016	2015	2014	2013
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,913**	8,913	8,888	8,888	8,888
System maximum demand					
Local, MW	**7,155**	6,841	6,878	7,030	6,699
Annual change, %	**4.6**	(0.5)	(2.2)	4.9	(1.0)
Local and Mainland China, MW	**8,183**	7,509	7,582	7,502	7,615
Annual change, %	**9.0**	(1.0)	1.1	(1.5)	2.5
System load factor, %	**53.0**	57.7	57.0	57.8	55.7
Generation by CAPCO stations, millions of kWh	**25,032**	26,056	25,739	27,533	26,994
Sent out, millions of kWh –					
From own generation	**23,456**	24,362	24,075	25,597	25,084
Net transfer from					
Landfill gas generation	**2**	4	4	3	4
GNPS / GPSPS / Others	**12,426**	11,501	11,612	10,084	9,757
Total	**35,884**	35,867	35,691	35,684	34,845
Fuel consumed, terajoules –					
Oil	**3,894**	3,452	2,160	1,785	1,491
Coal	**148,065**	160,661	161,988	215,367	205,198
Gas	**75,807**	74,559	71,406	42,465	47,545
Total	**227,766**	238,672	235,554	259,617	254,234
Cost of fuel, HK$ per gigajoule – Overall	**49.30**	43.77	51.25	39.66	38.02
Thermal efficiency, % based on units sent out	**37.1**	36.7	36.8	35.5	35.5
Plant availability, %	**84.6**	84.1	85.0	83.7	85.2
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	555	555
132kV	**1,646**	1,656	1,645	1,643	1,587
33kV	**22**	24	24	27	27
11kV	**13,455**	13,046	12,739	12,475	12,328
Transformers, MVA	**66,938**	65,834	63,373	61,450	60,430
Substations –					
Primary	**232**	230	226	224	218
Secondary	**14,483**	14,254	14,019	13,845	13,692
Employees and Productivity					
Number of SoC employees	**3,831**	3,808	3,817	3,807	3,819
Productivity, thousands of kWh per employee	**8,683**	8,718	8,666	8,635	8,353

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. Effective net tariffs including one-off special fuel rebates in 2015 and 2017 were 110.3 cents per unit and 110.5 cents per unit respectively.

Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets