Financials

Our objective is to present comprehensive, useful and reader-friendly financial statements to stakeholders to facilitate their clear understanding of our financial position and performance.

Clarity

Precise

INTEGRATED

Contents

Approaching Our Financial Statements

The objective of financial statements is to communicate the Group' s financial information to our stakeholders, especially shareholders, investors and lenders, for making economic decisions. To achieve this objective, it is always our aim to present the financial information of CLP as clearly and concisely as possible. This overview helps you understand how information is organised and presented in our financial statements. Hopefully, this will bring you a more insightful reading experience.

1. Essential Financial Statements

Financial statements start with summaries of the financial position, performance and changes in resources of the Group. **These summaries are presented in three essential financial statements with different objectives as shown in the diagram.** The relationships between these statements and the interactions with the Group's stakeholders are set out in our website.

Statement of Financial Position

A snapshot taken at a point in time, of all the assets the company owns and all the claims against those assets

Assets | Liabilities + Equity

Statement of Profit or Loss and Other Comprehensive Income

Financial performance measured by recording the flow of resources over a period of time

Income | Expenses

Statement of Cash Flows

Where the company gets its cash and how it spends it

Cash Inflow | Cash Outflow

2. Significant Accounting Policies

Financial statements are prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). You do not need to be familiar with all the requirements of HKFRS because **the accounting policies which are significant and relevant to the Group are disclosed in the financial statements.** The disclosures include specific principles and procedures selected and applied by management in preparing the financial statements, as well as the methods, measurement basis and procedures to account for the transactions.

Look for the document clip

3. Critical Accounting Estimates and Judgments

Management makes judgments and estimates in preparing the financial statements, some of which will have a significant effect on the reported results and financial position. HKAS 1 specifies that an entity shall disclose (1) the key judgments that have the most significant effect on amounts recognised; and (2) the assumptions and other sources of estimation uncertainty at period end that have a significant risk of material adjustment to the carrying amounts of assets or liabilities within the next financial year. You should pay attention to **our disclosures under "critical accounting estimates and judgments" which help you assess CLP's financial position and performance and understand the sensitivities to changes in assumptions.**

Look for the grey boxes

4. Tips & Hints

Tips & Hints are our initiatives to **facilitate you to understand the content of a particular disclosure or complicated accounting concepts or terms.**

Look for the green boxes

5. Accounting Mini-series

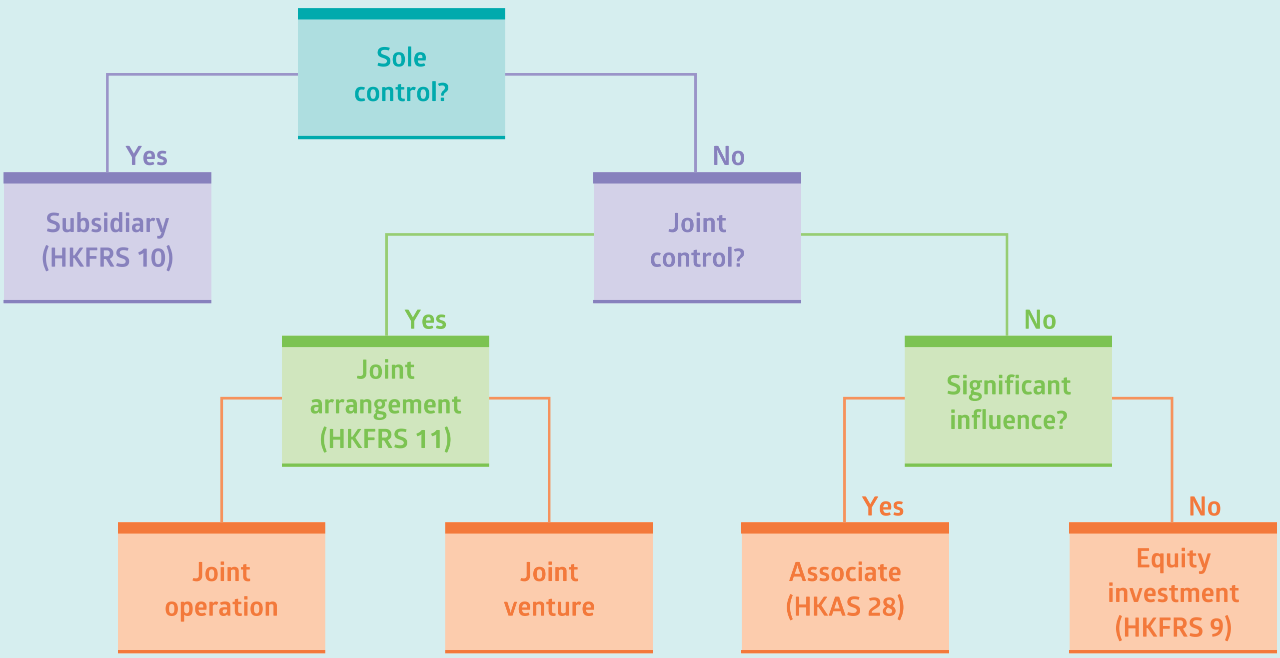
We believe that understanding financial statements is a right, not a privilege. To help those unfamiliar with accounting terms read our financial statements, we have developed an Accounting Mini-series to **explain topical and difficult accounting concepts in a way that is easier to understand.** A number of topics have been discussed since 2007, the content of which can be found in our website.

Read our previous accounting mini-series

Classification of Equity Investments

Nowadays, it is common for a commercial entity to set up a holding company structure with its wholly or partially-owned entities engaging in different lines of business and/or operating in different geographical regions. This arrangement has the benefit of limiting the financial and legal liability of the holding company and its related entities. Under the accounting regime, these entities can be classified as subsidiaries, joint arrangements, associates or equity investments. They have different accounting treatments in the financial statements, and therefore, a proper classification of these entities is important for the presentation of the financial statements.

Overview of Classification of Equity Investments



This year's accounting mini-series will tell you how to classify, measure and recognise the above group entities in the financial statements.

Subsidiary

HKFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The control model of HKFRS 10 encompasses three distinct principles which, if present, identify the existence of control by an investor, hence forming a parent-subsidiary relationship. They are:

- power over an investee;
- exposure or rights to variable returns from the investee;
- ability to use its power to affect the amount of these returns.

All these three elements must be present for an investor to conclude that it has control over an investee.

Consolidated financial statements are prepared for the parent and subsidiaries to show the effect as if the parent and all the subsidiaries were one entity. Transactions within the Group are eliminated.

Several considerations of the control model

Potential voting rights

Potential voting rights are voting power over an investee through the exercise or conversion of certain convertible debt or equity instruments and/or contractual arrangements. These rights should be considered when assessing investor's power over an investee.

Substantive rights vs protective rights

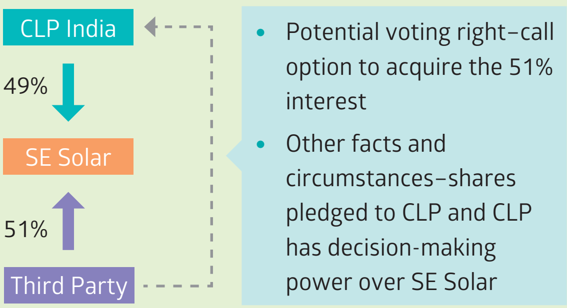
Substantive rights are rights that confer an investor the current ability to direct an investee's relevant activities. Protective rights are defined as rights to protect the interest of an investor under exceptional circumstances or relate to fundamental changes in an investee without giving power to the holder. When assessing whether an investor has power over an investee, protective rights are not relevant.

Variable returns

Variable returns include not only the conventional returns such as dividends and changes in investment value, but also synergistic returns such as economies of scale and cost savings. Returns shall have the potential to vary as a result of the performance of an investee, of which an investor is able to affect it by exercising its power over an investee.

CLP Case Study

CLP holds 49% interest in SE Solar Limited (SE Solar) through CLP India, with an option to acquire the remaining 51% interest one year after project commissioning.

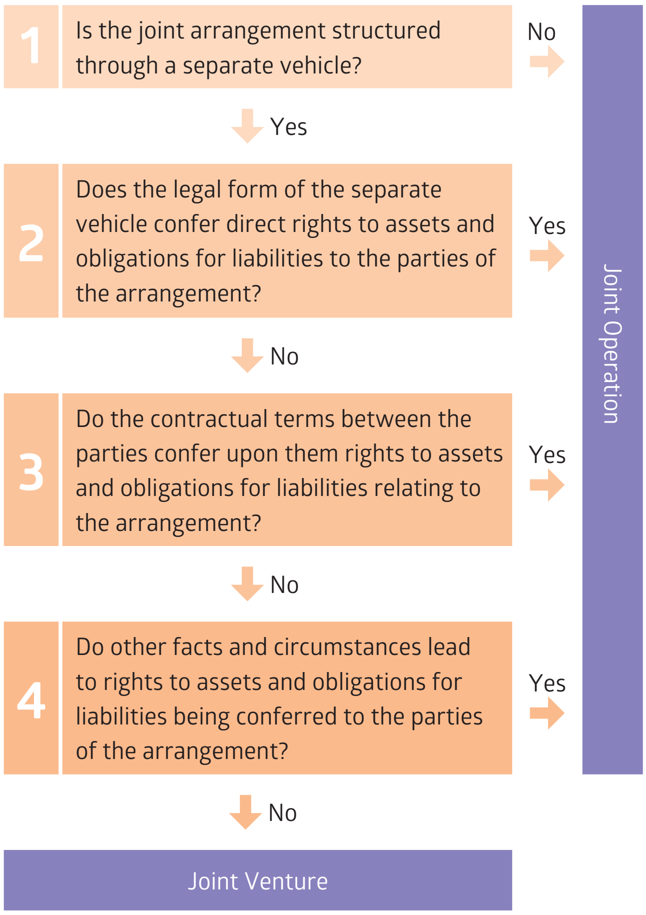


CLP has control on SE Solar ➡ Subsidiary

Joint Arrangement

HKFRS 11 Joint Arrangements specifies two types of joint arrangement, namely joint venture and joint operation. Classification of them is driven by the rights and obligations of the parties arising from the arrangement, rather than the legal form of the arrangement.

Determining the classification of joint arrangements can be set out as a four-step process.

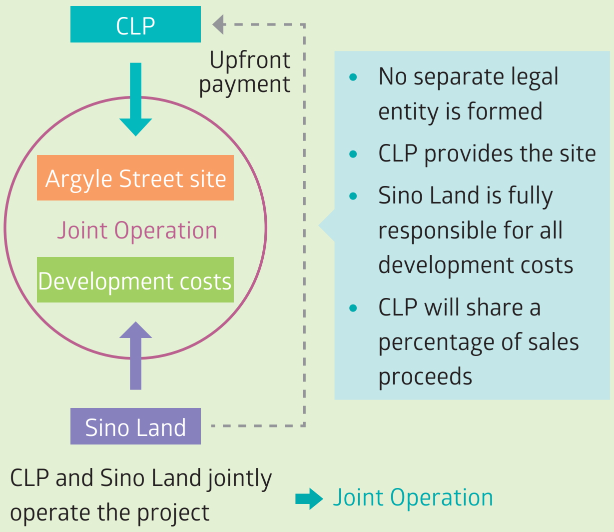


The parties to a joint operation have rights to the assets and obligations for the liabilities. A joint operator accounts for assets, liabilities and corresponding revenues and expenses arising from the arrangement.

The parties to a joint venture have rights to the net assets. A joint venture partner accounts for an investment in the arrangement using the equity method. Equity method records the initial investment at cost which is adjusted periodically to reflect the changes in value due to the share of the joint venture's performance.

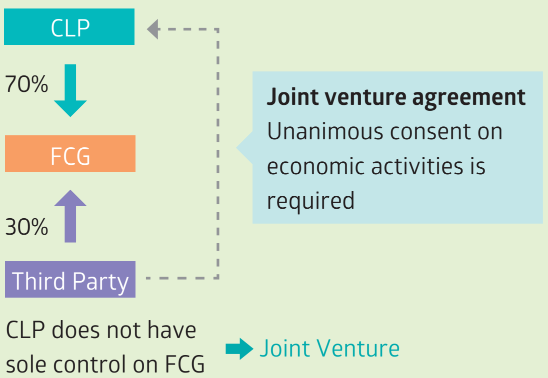
CLP Case Study

CLP and Sino Land Company Limited (Sino Land) executed a development agreement on redeveloping the Group's former headquarters at Argyle Street for residential purposes and to preserve the Clock Tower building for community use.



CLP Case Study

CLP holds 70% interest in CLP Guangxi Fangchenggang Power Company Limited (FCG). Under the joint venture agreement, none of the joint venture partners has unilateral control over the economic activities of FCG.



Associate

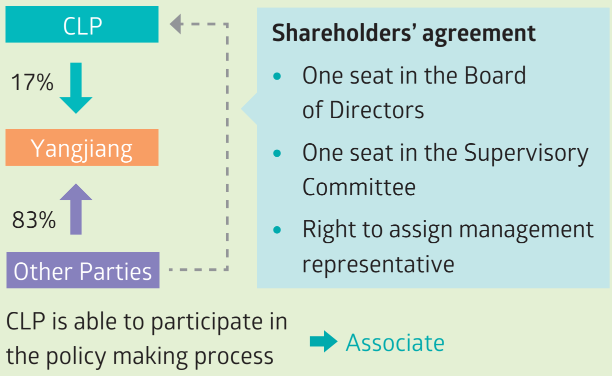
HKAS 28 Investment in Associates defines an associate as an entity over which the investor has significant influence but not control or joint control. Significant influence is the power to participate in the operating and financial policy decisions of an entity, but it has no control over those policies.

Usually, a holding of 20% or more of the voting power (directly or through subsidiaries) will indicate significant influence and vice versa. Other factors like representation on the board of directors or participation in the policy-making process may also evident the existence of significant influence by an investor.

Similar to the accounting for a joint venture, an investor accounts for the investment in an associate by using the equity method.

CLP Case Study

CLP holds 17% interest in Yangjiang Nuclear Power Co. Ltd. (Yangjiang). CLP has a representative in both the Board of Directors and the Supervisory Committee.



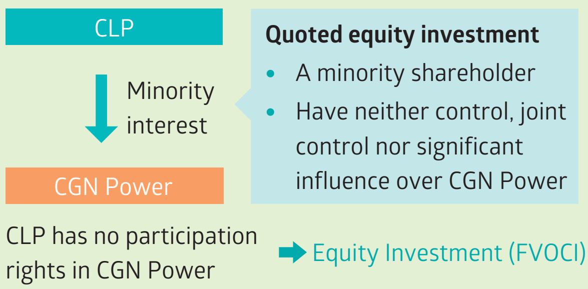
Equity Investment

Equity investments are financial assets under HKFRS 9 Financial Instruments. Investors of these investments have neither control, joint control nor significant influence over investees.

They are measured at fair value through profit or loss (FVTPL) but an irrevocable election at initial recognition may be made to present the fair value change to other comprehensive income (FVOCI) which are not held for trading.

CLP Case Study

CLP has invested in CGN Power Company Limited (CGN Power) as a minority shareholder for strategic purpose. CGN Power is principally engaged in the production and sale of electricity.



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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 "Company") and its subsidiaries (the "Group") ("the Group Financial Statements") set out on pages 210 to 282, which comprise:

- the Consolidated Statement of Financial Position as at 31 December 2018;
- the Consolidated Statement of Profit or Loss for the year then ended;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the Significant Accounting Policies, Notes to the Financial Statements and Financial Risk Management.

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 2018, 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.

The key audit matters identified in our audit are summarised as follows:

- Unbilled retail revenue;
- Fixed asset accounting, the calculation of the Scheme of Control permitted return and the carrying values of EnergyAustralia's generation assets and energy retail business;
- Recoverability of trade receivables;
- Asset retirement obligations; and
- Legal matters.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Unbilled retail revenue Refer to note 3 to the Group Financial Statements Retail electricity and gas revenues are recognised when electricity and gas are supplied to and consumed by the customers. Revenues are measured on the basis of periodic 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$3,877 million as at 31 December 2018. For CLP Power Hong Kong Limited (CLP Power Hong Kong), unbilled retail revenue is calculated using estimates including consumption quantity based on the electricity sent-out adjusted by a loss factor, the pattern of residential and non-residential consumption, weather and certain other factors. For EnergyAustralia Holdings Limited (EnergyAustralia), unbilled retail revenue is calculated using the quantity of 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 loss and other factors.	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; • Testing the volume of electricity sent-out by CLP Power Hong Kong to supporting information; • Testing the volume of electricity purchased by EnergyAustralia from the wholesale electricity market to the underlying Australian Energy Market Operator invoices on a sample basis and reconciling the total purchase volumes to revenue volumes; and • Understanding the estimates made relating to volumes, loss factors and tariffs used in determining the level of unbilled revenue for both CLP Power Hong Kong and EnergyAustralia and assessing their reasonableness by comparing them against historical trends and against the weighted average tariff for prices. Based on the work performed, we found that the Group's unbilled retail revenue amount is 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 values of EnergyAustralia's generation assets and energy retail business Refer to notes 10 and 11 to 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$147 billion as at 31 December 2018. 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 SoC for the period from January to September 2018 was 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments and 11% for renewable energy investments. From October to December 2018, the annual permitted return is 8% of the SoC Companies' average net fixed assets. 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 SoC fixed asset balance is appropriate and 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 in accordance with the Group's accounting policies; • Assessing the estimated useful lives of the SoC Companies' fixed assets for compliance with the SoC; • Testing depreciation charges by performing depreciation reasonableness tests; • Reperforming the reconciliation of the SoC fixed asset records from the beginning of the financial year to the end of the financial year taking into account additions, disposals and depreciation; • Recalculating the SoC permitted return for the nine months period ended 30 September 2018 and for the three months period ended 31 December 2018; 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 values 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$15,065 million relating to the energy retail business in Australia and HK$11,922 million of generation fixed assets. EnergyAustralia management has assessed the recoverable amount of EnergyAustralia's generation fixed assets and energy retail business at 31 December 2018 and concluded that: • The latest impairment model for the generation assets indicates that sufficient headroom exists such that no impairment resulted. Management considers it would be inappropriate to reverse any previous impairment charges given the level of uncertainty. • Management has assessed the recoverable amount of the energy retail business and concluded that the goodwill has not been impaired, however the valuation indicates that minimal headroom remains. These conclusions are based on value in use models requiring significant management judgment in respect of forward electricity pool prices, annual retail tariffs, customer account growth rate assumptions and discount rate. Future regulatory policy decisions made by either the Australian State or Federal Government could significantly impact retail tariffs and the customer account growth assumptions used in the energy retail business value in use model, which would have a direct impact on the valuation.	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 discount rate used, based on our knowledge of the industry with the involvement of our in-house valuation experts; • Assessing the potential impact of reasonably possible downside changes in these key assumptions including possible future regulatory policy changes; and • Considering whether 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 10 and 11 to the Group Financial Statements.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Recoverability of trade receivables Refer to note 16 to 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. Management estimated credit losses in CLP Power Hong Kong are close to zero as the trade receivables are mostly secured by cash deposits or bank guarantees from customers and have no recent history of default. EnergyAustralia has trade receivables of HK$6,683 million at 31 December 2018 against which provisions for expected credit losses of HK$669 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 them 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. CLP India Private Limited's (CLP India) renewable projects have trade receivables of HK$487 million of which HK$437 million are past due at 31 December 2018. 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 2018, the Group has total receivables of HK$972 million relating to unpaid Renewable National Subsidies in its Mainland China business. These amounts were not considered as impaired by management because the subsidy settlement and renewable project accreditation are regulated by Government agencies. Furthermore, there have been continuous payments and no history of default.	Our procedures in relation to trade receivables included: • Testing controls over the billing and collection cycle in CLP Power Hong Kong and EnergyAustralia; • Testing the system calculated trade receivables ageing analysis used to assess the recoverability of receivables in CLP Power Hong Kong and EnergyAustralia; • Assessing the appropriateness of the credit loss provisioning methodology used by the Group; • Assessing the estimates used to determine the expected credit losses by considering cash collection performance against historical trends; • Reviewing the accuracy of management's judgments by comparing historical provisions against actual write-offs; • Reviewing minutes of the board of directors' meetings relating to the recoverability of trade receivables; • Discussing with management to understand the nature and the judgment involved in estimating the expected credit loss provision on trade receivables from the state grid operators of CLP India's renewable projects and corroborating with correspondence with the customers; and • Discussing with management to understand the nature and the judgment involved in their determination that there is no expected credit loss on unpaid Renewable National Subsidies, assessing the Group's previous renewable project accreditations by the Central Government and assessing the regulatory eligibility criteria has been satisfied by those projects not yet accredited. Further, we considered subsidies collected to-date. Based on the work performed, we found that management's assessments of the recoverability of trade receivables are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Asset retirement obligations (AROs) Refer to note 23 to 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 and the likelihood of an economic outflow is probable. Estimating the amount and timing of the obligation requires significant judgment. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates. Management's key ARO judgments are as follows: • The Group's provision of HK$2,630 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 expects that the transmission and distribution network will continue to be used for the distribution of electricity supply to its customers and considers it remote that the network will be removed from the existing land sites. Therefore, asset retirement obligations have not been recognised for transmission and distribution assets. • CAPCO will retire the coal-fired generation units at Castle Peak A Station (CPA) between 2022 to 2025. CAPCO considers that the dismantling obligation for the CPA units is covered by the asset decommissioning liability accrued under the SoC as at 31 December 2018. • While no provision for asset retirement obligations for the other generation units of CAPCO has been recognised, it is expected that should such obligation be incurred, it will be met by the 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 judgment that it is remote that the Hong Kong transmission and distribution network would be removed from the existing land sites; it is probable that the CPA units will be removed; and it is possible but not probable that CAPCO's other 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; • Assessing the independence, objectivity and competence of management's experts involved in respect of the future cost estimates for those assets where a provision has been recognised; and • Testing the appropriateness of management's estimates of future costs, the timing and the discount rates for those assets where management has concluded that a legal or constructive obligation exists. Based on the work performed, we found that the ARO provisions are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Legal matters Refer to note 30 to the Group Financial Statements The Group is exposed to the risk of litigation, regulatory judgments and contractual disputes in the course of its normal operations. 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. EnergyAustralia disposed of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million) in December 2015. 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$5,335 million) or alternatively A$780 million (approximately HK$4,303 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 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 Group Financial Statements.	Our procedures on management's assessment of legal matters included: • Assessing the processes and controls over identifying and monitoring 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 counsel on the status of the Lochard Energy legal claim; • Reviewing written correspondence from both external and internal legal counsel documenting the status of the legal claims; • 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 appropriateness 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 of the information included in the 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, 25 February 2019

Consolidated Statement of Profit or Loss

for the year ended 31 December 2018

	Note	2018 HK$M	2017 HK$M
Revenue	*3*	**91,425**	92,073
Expenses			
Purchases of electricity, gas and distribution services		**(34,214)**	(38,121)
Staff expenses		**(4,449)**	(4,195)
Fuel and other operating expenses		**(26,595)**	(23,691)
Depreciation and amortisation		**(8,005)**	(7,368)
		(73,263)	(73,375)
Operating profit	*5*	**18,162**	18,698
Finance costs	*6*	**(2,049)**	(2,180)
Finance income	*6*	**192**	151
Share of results, net of income tax			
Joint ventures	*12*	**518**	508
Associates	*13*	**1,818**	950
Profit before income tax		**18,641**	18,127
Income tax expense	*7*	**(4,014)**	(2,780)
Profit for the year		**14,627**	15,347
Earnings attributable to:			
Shareholders		**13,550**	14,249
Perpetual capital securities holders		**250**	249
Other non-controlling interests		**827**	849
		14,627	15,347
Earnings per share, basic and diluted	*9*	**HK$5.36**	HK$5.64

The notes and disclosures on pages 216 to 282 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 2018

	2018 HK$M	2017 HK$M
Profit for the year	**14,627**	15,347
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**(5,177)**	4,329
Cash flow hedges	**(284)**	(300)
Costs of hedging	**29**	(157)
Share of other comprehensive income of joint ventures	**1**	–
	(5,431)	3,872
Items that cannot be reclassified to profit or loss		
Fair value changes on equity investments	**(37)**	(280)
Remeasurement (losses) / gains on defined benefit plans	**(8)**	91
Share of other comprehensive income of an associate	**4**	–
	(41)	(189)
Other comprehensive income for the year, net of tax	**(5,472)**	3,683
Total comprehensive income for the year	**9,155**	19,030
Total comprehensive income attributable to:		
Shareholders	**8,035**	17,914
Perpetual capital securities holders	**250**	249
Other non-controlling interests	**870**	867
	9,155	19,030

This statement of profit or loss and other comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". Further details of other comprehensive income attributable to shareholders are presented in Note 25.

The notes and disclosures on pages 216 to 282 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2018

	Note	2018 HK$M	2017 HK$M
Non-current assets			
Fixed assets	*10*	**141,309**	137,207
Leasehold land and land use rights under operating leases	*10*	**5,432**	5,345
Investment property	*10*	**1,204**	1,186
Goodwill and other intangible assets	*11*	**26,910**	29,087
Interests in and loans to joint ventures	*12*	**9,674**	10,383
Interests in associates	*13*	**7,746**	8,081
Finance lease receivables	*10(b)*	**–**	620
Deferred tax assets	*21*	**835**	929
Derivative financial instruments	*14*	**1,000**	956
Equity investments		**300**	349
Other non-current assets		**604**	298
		195,014	194,441
Current assets			
Inventories – stores and fuel		**2,840**	3,050
Renewable energy certificates		**847**	1,047
Property under development	*15*	**2,971**	2,971
Trade and other receivables	*16*	**15,917**	15,427
Finance lease receivables		**–**	148
Derivative financial instruments	*14*	**799**	1,137
Short-term deposits and restricted cash	*17*	**4,761**	3,401
Cash and cash equivalents	*17*	**7,365**	6,529
		35,500	33,710
Current liabilities			
Customers' deposits	*16(a)*	**(5,476)**	(5,221)
Fuel clause account	*18*	**(901)**	(2,212)
Trade and other payables	*19*	**(19,061)**	(18,978)
Income tax payable		**(1,399)**	(762)
Bank loans and other borrowings	*20*	**(13,535)**	(8,472)
Derivative financial instruments	*14*	**(1,262)**	(789)
		(41,634)	(36,434)
Net current liabilities		**(6,134)**	(2,724)
Total assets less current liabilities		**188,880**	191,717

	Note	2018 HK$M	2017 HK$M
Financed by:			
Equity			
Share capital	*24*	**23,243**	23,243
Reserves	*25*	**85,810**	85,454
Shareholders' funds		**109,053**	108,697
Perpetual capital securities	*26*	**5,791**	5,791
Other non-controlling interests	*26*	**10,088**	7,019
		124,932	121,507
Non-current liabilities			
Bank loans and other borrowings	*20*	**41,763**	48,869
Deferred tax liabilities	*21*	**14,650**	14,275
Derivative financial instruments	*14*	**1,547**	1,640
Scheme of Control (SoC) reserve accounts	*22*	**998**	977
Asset decommissioning liabilities and retirement obligations	*23*	**3,558**	2,987
Other non-current liabilities		**1,432**	1,462
		63,948	70,210
Equity and non-current liabilities		**188,880**	191,717

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

William Mocatta
Vice Chairman
Hong Kong, 25 February 2019

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

The notes and disclosures on pages 216 to 282 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Attributable to Shareholders					
	Share Capital HK$M	Reserves HK$M	Total HK$M	Perpetual Capital Securities HK$M	Other Non-controlling Interests HK$M	Total Equity HK$M
Balance at 1 January 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
Balance at 1 January 2018, as previously reported	23,243	85,454	108,697	5,791	7,019	121,507
Effect on adoption of HKFRS 15 (Note 3 of Significant Accounting Policies)	–	173	173	–	–	173
Balance at 1 January 2018, as restated	23,243	85,627	108,870	5,791	7,019	121,680
Profit for the year	–	13,550	13,550	250	827	14,627
Other comprehensive income for the year	–	(5,515)	(5,515)	–	43	(5,472)
Transfer to fixed assets	–	(45)	(45)	–	(19)	(64)
Dividends paid						
2017 fourth interim	–	(2,880)	(2,880)	–	–	(2,880)
2018 first to third interim	–	(4,623)	(4,623)	–	–	(4,623)
Distributions to perpetual capital securities holders	–	–	–	(250)	–	(250)
Dividends paid to other non-controlling interests of subsidiaries	–	–	–	–	(970)	(970)
Change in ownership interests in a subsidiary (Note 26(B))	–	(304)	(304)	–	3,188	2,884
Balance at 31 December 2018	**23,243**	**85,810**	**109,053**	**5,791**	**10,088**	**124,932**

The notes and disclosures on pages 216 to 282 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018

	Note	2018 HK$M	2018 HK$M	2017 HK$M	2017 HK$M
Operating activities					
Net cash inflow from operations	*27(A)*	**26,584**		26,506	
Interest received		**186**		145	
Income tax paid		**(2,819)**		(2,234)	
Net cash inflow from operating activities			**23,951**		24,417
Investing activities					
Capital expenditure		**(10,327)**		(9,538)	
Capitalised interest and other finance costs paid		**(262)**		(256)	
Proceeds from disposal of fixed assets		**97**		120	
Additions of other intangible assets		**(565)**		(549)	
Acquisitions of subsidiaries	*2*	**(1,203)**		–	
Proceeds from disposal of an equity investment		**958**		–	
Increase in equity investments and other financial assets		**(85)**		(14)	
Repayment of advances from joint ventures		**59**		146	
Investments in associates		**(9)**		(5,329)	
Dividends received from					
Joint ventures		**524**		818	
Associates		**930**		910	
Equity investments		**13**		9	
Increase in bank deposits with maturities of more than three months		**(1,389)**		(3,052)	
Net cash outflow from investing activities			**(11,259)**		(16,735)
Net cash inflow before financing activities			**12,692**		7,682
Financing activities	*27(B)*				
Proceeds from long-term borrowings		**3,906**		20,290	
Repayment of long-term borrowings		**(6,660)**		(16,183)	
Increase in short-term borrowings		**300**		459	
Interest and other finance costs paid		**(1,890)**		(1,784)	
Settlement of derivative financial instruments		**130**		(152)	
Decrease in advances from non-controlling interests		**(1)**		(79)	
Contribution from other non-controlling interest of a subsidiary		**–**		28	
Distributions paid to perpetual capital securities holders		**(250)**		(249)	
Dividends paid to shareholders		**(7,503)**		(7,226)	
Dividends paid to other non-controlling interests of subsidiaries		**(970)**		(967)	
Proceeds from disposal of interest in a subsidiary without loss of control	*26(B)*	**1,433**		–	
Net cash outflow from financing activities			**(11,505)**		(5,863)
Net increase in cash and cash equivalents			**1,187**		1,819
Cash and cash equivalents at beginning of year			**6,529**		4,467
Effect of exchange rate changes			**(351)**		243
Cash and cash equivalents at end of year	*17*		**7,365**		6,529

The notes and disclosures on pages 216 to 282 are an integral part of these consolidated financial statements.

Significant Accounting Policies

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

1. Basis of Preparation

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

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

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

2. Changes in Accounting Policies

(A) New HKFRS effective from 1 January 2018

The following new standard, interpretation, amendments and improvements to standards, which are relevant to the Group, are first effective from 1 January 2018.

- Annual Improvements to HKFRSs 2014 – 2016 Cycle
- Amendments to HKAS 40 Transfers of Investment Property
- HK(IFRIC) – Int 22 Foreign Currency Transactions and Advance Consideration
- HKFRS 15 Revenue from Contracts with Customers

Except for HKFRS 15 as described in Note 3 below, the adoption of these interpretation and amendments to standards has had no significant impact on the results and the financial position of the Group.

(B) New HKFRS effective after 2018 and have not yet been adopted

The following new standard, interpretation, amendments and improvements to standards, which may be relevant to the Group, have been issued and are effective after 2018. The Group has not early adopted them for the year ended 31 December 2018.

- Annual Improvements to HKFRSs 2015 – 2017 Cycle
- Amendments to HKFRS 3 Definition of a Business
- Amendments to HKFRS 9 Prepayment Features with Negative Compensation
- Amendments to HKAS 1 and HKAS 8 Definition of Material
- Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures
- HK(IFRIC) – Int 23 Uncertainty over Income Tax Treatments
- HKFRS 16 Leases

Except for Amendments to HKFRS 3 and HKFRS 16 as described below, the adoption of these interpretation and amended standards is not expected to have any significant impact on the results and the financial position of the Group.

2. Changes in Accounting Policies (continued)

(B) New HKFRS effective after 2018 and have not yet been adopted (continued)

The amendments to HKFRS 3 clarify the definition of a business, with the objective of assisting entities to determine whether an acquisition is of a business or of a group of assets. This distinction is important because an acquirer recognises goodwill only when acquiring a business. A business must include, a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs. An optional concentration test is added that permits a simplified assessment of whether an acquired set of activities and assets does not satisfy the definition of a business. The amendments are effective for acquisitions that occur on or after the first annual reporting period beginning on or after 1 January 2020 with earlier application permitted. The Group elects to early apply the amendments for acquisitions occuring on or after 1 January 2019.

HKFRS 16 introduces a substantial change to lease accounting. HKFRS 16 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 Leases. 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. There are no existing contracts that are not classified as a lease under HKAS 17 but will satisfy the definition of a lease under HKFRS 16. The Group has identified that an existing water treatment service contract meets the new lease definition and it will be accounted for according to HKFRS 16 upon commercial operation of the water treatment plant, which is expected in 2019.

For the existing lease contracts, the Capacity Purchase Contract entered into by Hong Kong Pumped Storage Development Company, Limited (PSDC) is identified as an operating lease under HKAS 17, however it does not meet the definition of a lease under HKFRS 16. 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 2018, the commitments related to the Capacity Purchase Contract of PSDC and other operating lease contracts amounted to HK$1,592 million and HK$745 million respectively.

HKFRS 16 requires the Group to recognise the right-of-use assets and lease liabilities for all lease contracts including those that are currently identified as operating leases. However, for operating leases that would expire within 12 months from 1 January 2019, the Group will apply the short-term lease exemption. The accounting for these short-term leases is similar to the accounting for an operating lease under HKAS 17.

The Group intends to adopt the modified retrospective application for the transition arrangement, which means that the cumulative impact on the adoption of HKFRS 16 will be adjusted to retained earnings at 1 January 2019 and the comparatives will not be restated.

3. Adoption of HKFRS 15

The Group first adopted HKFRS 15 from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions of HKFRS 15, the Group has adopted the modified retrospective application, under which the cumulative effect of the initial application is adjusted to retained profits on 1 January 2018 and no comparative figures were restated.

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 to recognise revenue and at what amount. Under the model, revenue is recognised when control of goods or services is transferred to a customer and at the amount to which the entity expects to be entitled. Depending on the nature of the contracts, revenue is either recognised over time or at a point in time. The new standard also sets out new capitalisation criteria for contract acquisition costs which are incremental and the entity is expected to recover them.

3. Adoption of HKFRS 15 (continued)

Considering the nature of the Group's principal activities (i.e. generation and supply of electricity and sales of gas), the adoption of HKFRS 15 does not have material impact on the Group's revenue recognition. The key impact to the Group is on the accounting for costs to obtain a contract with a customer.

Costs of HK$247 million related to commissions paid to third parties for obtaining contracts with residential customers in Australia previously expensed were qualified for capitalisation as an asset under HKFRS 15 at 1 January 2018. The capitalised costs are amortised on a straight line basis over the expected benefit periods of the contracts and consistent with the recognition pattern of the associated revenue. The table below summarises the impact on the adoption of HKFRS 15:

	At 1 January 2018 HK$M
Increase in other non-current assets	247
Decrease in deferred tax assets	(74)
Increase in retained profits	173

	For the year ended 31 December 2018 HK$M
Increase in fuel and other operating expenses *	(6)
Decrease in income tax expense	2
Decrease in earnings attributable to shareholders	(4)

* Increase in amortisation offset by capitalisation of commissions paid

4. Consolidation

(A) Basis of consolidation

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

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

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

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

4. Consolidation (continued)

(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 that do not result in a loss of control are treated as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received, and the reattribution of other comprehensive income to non-controlling interests are recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes 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. Gains or losses on disposals are recognised in profit or loss.

If the ownership interest in a joint venture or associate is reduced, it is possible that joint control or significant influence is retained or a joint venture becomes an associate. As the Group continues to apply the equity method under both cases, the retained interest is not remeasured. However, a proportionate share of the amounts previously recognised in other comprehensive income of the investment is reclassified to profit or loss where appropriate.

A quick guide to the classification of equity investments:

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

Please also read this year's accounting mini-series for more details on classification of CLP's equity interests.

5. Impairment of Non-Financial Assets

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

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

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

6. 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.

7. 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. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

8. 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.

9. 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.

10. 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 rates at the end of the reporting period; and income and expenses for each statement of profit or loss and other comprehensive income 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. Gains or losses previously recognised in other comprehensive income may have to be reclassified to profit or loss. These reclassification adjustments are translated by using the exchange rate at the date of reclassification. The remaining reserve balances are translated using the closing rates at the end of the reporting period. Any exchange differences arising from these are taken to retained profits directly.

10. Foreign Currency Translation (continued)

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 rates 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 is re-attributed to non-controlling interests and is 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 differences 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.

An 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.

11. 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.

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 generation and supply of electricity in Hong Kong, Mainland China, 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 Castle Peak Power Company Limited (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 SoC Agreement which took effect from 1 October 2008 (2008 SoC) expired on 30 September 2018. A new SoC Agreement immediately became effective on 1 October 2018 (2018 SoC). The main features of these SoC Agreements are summarised on pages 283 and 284, which are unaudited.

These financial statements have been approved for issue by the Board of Directors on 25 February 2019.

2. Acquisitions in 2018

During the year, the Group has acquired subsidiaries in Australia, Mainland China and India. Details of the acquisitions are listed below.

(A) Ecogen in Australia

In April 2018, the Group acquired all the shares of Ecogen Energy Pty Ltd (Ecogen) at a consideration of HK$1,065 million (A$174 million). Ecogen owns both the Newport and Jeeralang gas-fired power stations with a total capacity of 940MW in Victoria, Australia. Since 1999, EnergyAustralia Holdings Limited (EnergyAustralia) had the right to call upon electricity from these power stations till 2019. This offtake agreement was a pre-existing relationship that was effectively settled upon acquisition.

(B) Jinchang Solar in Mainland China

In May 2018, the Group acquired the remaining 49% interest in Jinchang Zhenxin PV Power Company Limited (Jinchang Solar), which owns and operates a 85MW solar farm in Gansu, China, from its joint venture partner for a consideration of HK$206 million (RMB168 million). Jinchang Solar became the wholly-owned subsidiary of the Group since then.

(C) Gale Solar and Tornado Solar in India

In November 2018, the Group acquired 49% interest in Gale Solarfarms Limited (Gale Solar) and 100% interest in Tornado Solarfarms Limited (Tornado Solar), which owns and operates a 50MW and 20MW solar farm respectively in Maharashtra, India. Total consideration paid for this acquisition amounted HK$59 million (Rs542 million). Gale Solar is treated as a subsidiary because the Group has control over this company. The Group is committed to purchase the remaining 51% interest in Gale Solar in future and a corresponding liability has been recognised.

No goodwill arose from these acquisitions.

3. Revenue

Accounting Policy

(A) Revenue from contracts with customers

Revenue from contracts with customers primarily represents sales of electricity and gas.

(i) Policies in accordance with HKFRS 15 which are applicable from 1 January 2018

Revenues from sales of electricity and gas are recognised when electricity and gas are supplied to and consumed by the customers. Revenues are measured at the amounts billed to the customers based on the periodic cycle meter readings and the estimated accruals for the value of electricity and gas consumed from the meter reading date to the end of the reporting period (the "unbilled revenue").

Incremental costs to obtain a contract with a customer are capitalised if they are expected to be recoverable. Costs capitalised are amortised on a straight line basis over the expected benefit periods of the contracts. Non-incremental costs, i.e. costs that would have been incurred regardless of whether the contract is obtained, are expensed when incurred.

(ii) Policies in accordance with HKAS 18 which are applicable before 1 January 2018

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 applicable during the year. Other revenue from contracts with customers is recognised when services are rendered or sales are completed.

(B) Other revenue

Operating lease income represents lease payments which vary with operation parameters and are recognised as revenue 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 receivables and is recognised over the lease period using the effective interest method.

Critical Accounting Estimates and Judgments: Unbilled Retail 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 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. In Hong Kong, the unbilled retail 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 retail 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$3,877 million at 31 December 2018 (2017: HK$4,319 million).

3. Revenue (continued)

The Group's revenue primarily represents sales of electricity and gas, which is recognised over time, and is disaggregated as follows:

	2018 HK$M	2017 HK$M
Revenue from contracts with customers		
Sales of electricity in Hong Kong	**40,982**	39,161
Transfer for SoC (from) / to revenue (Note 22(A))	**(322)**	98
SoC sales of electricity	**40,660**	39,259
Sales of electricity outside Hong Kong	**39,121**	39,532
Sales of gas in Australia	**6,146**	8,251
Others	**1,132**	899
	87,059	87,941
Other revenue		
Operating lease income under Power Purchase Agreement (PPA)	**3,495**	3,142
Lease service income under PPA	**471**	487
Finance lease income under PPA	**100**	114
Others	**300**	389
	4,366	4,132
	91,425	92,073

Adoption of HKFRS 15 from 1 January 2018 does not have material impact on the Group's revenue recognition. Details are described in Note 3 of Significant Accounting Policies.

The operating lease income under PPA relates to Jhajjar's PPA and the lease service income and finance lease income under PPA relate to Paguthan (which expired in December 2018).

The comparative figures have been updated to align with current presentation format under HKFRS 15. Another analysis of revenue from contracts with customers by segment is shown in Note 4.

4. 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. The operating segments are based on geographical regions and 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.

4. 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 2018							
Revenue from contracts with customers	41,487	1,441	1,146	16	42,969	–	87,059
Other revenue	136	54	4,123	–	44	9	4,366
Revenue	41,623	1,495	5,269	16	43,013	9	91,425
EBITDAF	17,580	1,346	1,543	(9)	6,596	(821)	26,235
Share of results, net of income tax							
Joint ventures	(21)	354	–	170	15	–	518
Associates	–	1,863	–	–	(45)	–	1,818
Consolidated EBITDAF	17,559	3,563	1,543	161	6,566	(821)	28,571
Depreciation and amortisation	(4,985)	(696)	(608)	–	(1,681)	(35)	(8,005)
Fair value adjustments	(18)	–	–	–	(50)	–	(68)
Finance costs	(1,011)	(269)	(582)	–	(97)	(90)	(2,049)
Finance income	–	34	48	1	73	36	192
Profit / (loss) before income tax	11,545	2,632	401	162	4,811	(910)	18,641
Income tax expense	(1,971)	(267)	(267)	–	(1,509)	–	(4,014)
Profit / (loss) for the year	9,574	2,365	134	162	3,302	(910)	14,627
Earnings attributable to							
Perpetual capital securities holders	(250)	–	–	–	–	–	(250)
Other non-controlling interests	(805)	(10)	(12)	–	–	–	(827)
Earnings / (loss) attributable to shareholders	8,519	2,355	122	162	3,302	(910)	13,550
Excluding: Items affecting comparability	(18)	–	450	–	–	–	432
Operating earnings	8,501	2,355	572	162	3,302	(910)	13,982
Capital additions	8,872	525	48	–	2,221	32	11,698
Impairment provisions							
Fixed assets	–	13	–	–	1	–	14
Receivables and others	3	–	496	–	399	–	898
At 31 December 2018							
Fixed assets, leasehold land and land use rights and investment property	115,631	8,997	11,287	–	11,922	108	147,945
Goodwill and other intangible assets	5,545	4,453	27	–	16,885	–	26,910
Interests in and loans to joint ventures	42	7,689	–	1,866	77	–	9,674
Interests in associates	–	7,746	–	–	–	–	7,746
Deferred tax assets	–	94	130	–	611	–	835
Other assets	10,206	4,128	6,698	67	14,354	1,951	37,404
Total assets	131,424	33,107	18,142	1,933	43,849	2,059	230,514
Bank loans and other borrowings	38,636	6,080	6,182	–	–	4,400	55,298
Current and deferred tax liabilities	13,641	1,282	307	–	819	–	16,049
Other liabilities	21,088	1,494	552	18	10,643	440	34,235
Total liabilities	73,365	8,856	7,041	18	11,462	4,840	105,582

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.

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.

4. 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 2017							
Revenue from contracts with customers	39,795	1,276	1,064	14	45,792	–	87,941
Other revenue	170	29	3,823	–	103	7	4,132
Revenue	39,965	1,305	4,887	14	45,895	7	92,073
EBITDAF	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
Consolidated EBITDAF	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 property	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 loans 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

Items affecting comparability refer to significant unusual and infrequent events such as acquisition / disposal, impairment of non-current assets, property valuation gain / loss, provision for legal disputes 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. Items affecting comparability in 2018 included the provision for deemed generation disputes in India and fair value gain on investment property in Hong Kong.

5. Operating Profit

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

	2018 HK$M	2017 HK$M
Charging		
Retirement benefits costs [(a)]	**437**	421
Auditors' remuneration		
Audit services		
PricewaterhouseCoopers	**39**	39
Other auditor [(b)]	**2**	1
Permissible audit related and non-audit services		
PricewaterhouseCoopers [(c)]	**9**	9
Other auditor [(b)]	**–**	–
Operating lease expenditure on the agreement with Ecogen (Note 2(A))	**83**	255
Net loss on disposal of fixed assets	**416**	407
Impairment of		
Fixed assets	**14**	–
Trade receivables	**890**	440
Inventories – stores and fuel	**8**	3
Net exchange loss / (gain)	**87**	(143)
Crediting		
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	**(453)**	(144)
Fuel and other operating expenses	**(77)**	56
Transactions not qualifying as hedges	**68**	138
Rental income from investment property	**(40)**	(48)
Revaluation gains on investment properties	**(18)**	(369)
Dividends from equity investments	**(13)**	(9)

Notes:

(a) Retirement benefits costs for the year amounted to HK$584 million (2017: HK$561 million), of which HK$147 million (2017: HK$140 million) was capitalised.

(b) KPMG India has been the statutory auditor of CLP India Private Limited (CLP India) and its subsidiaries (CLP India group) since 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 of 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. Other KPMG offices have also provided services to our businesses in other regions which amounted to HK$6 million during the year (April-December 2017: HK$5 million).

(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 other advisory services.

6. 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.

	2018 HK$M	2017 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**787**	760
Other borrowings	**1,197**	1,056
Tariff Stabilisation Fund [(a)]	**11**	4
Customers' deposits and fuel clause over-recovery	**73**	128
Finance charges under finance leases	**2**	2
Other finance charges	**221**	279
Net fair value (gain) / loss on debt related derivative financial instruments		
Reclassified from cash flow hedge reserve	**(175)**	(313)
Reclassified from costs of hedging reserves	**82**	104
Fair value hedges	**143**	(58)
Transactions not qualifying as hedges	**(72)**	148
Ineffectiveness of cash flow hedges	**–**	7
Ineffectiveness of fair value hedges	**(2)**	(3)
(Gain) / loss on hedged items in fair value hedges	**(143)**	58
Other net exchange loss on financing activities	**203**	270
	2,327	2,442
Less: amount capitalised [(b)]	**(278)**	(262)
	2,049	2,180
Finance income		
Interest income on short-term investments, bank deposits and loans to joint ventures	**192**	151

Notes:

(a) In accordance with the provisions of the SoC Agreements, 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 of the Group's general borrowings have been capitalised at an average interest rate of 3.23% (2017: 2.77%) per annum.

7. 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:

	2018 HK$M	2017 HK$M
Current income tax	**3,565**	2,094
Deferred tax	**449**	686
	4,014	2,780

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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:

	2018 HK$M	2017 HK$M
Profit before income tax	**18,641**	18,127
Less: Share of results of joint ventures and associates, net of income tax	**(2,336)**	(1,458)
	16,305	16,669
Calculated at an income tax rate of 16.5% (2017: 16.5%)	**2,690**	2,750
Effect of different income tax rates in other countries	**925**	646
Income not subject to tax	**(154)**	(237)
Expenses not deductible for tax purposes	**420**	219
Revenue adjustment for SoC not subject to tax (Note 22(A))	**53**	(16)
Under / (over)-provision in prior years	**77**	(11)
Utilisation of previously unrecognised tax losses	**–**	(573)
Tax losses not recognised	**3**	2
Income tax expense	**4,014**	2,780

8. Dividends

	2018 HK$ per Share	**2018 HK$M**	2017 HK$ per Share	2017 HK$M
First to third interim dividends paid	**1.83**	**4,623**	1.77	4,472
Fourth interim dividend declared	**1.19**	**3,007**	1.14	2,880
	3.02	**7,630**	2.91	7,352

At the Board meeting held on 25 February 2019, the Directors declared the fourth interim dividend of HK$1.19 per share (2017: HK$1.14 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements.

9. Earnings per Share

The earnings per share are computed as follows:

	2018	2017
Earnings attributable to shareholders (HK$M)	**13,550**	14,249
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**5.36**	5.64

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 2018 (2017: nil).

10. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property

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 (33kV and above)	60 years	20 years
Overhead lines (below 33kV)	45 years	18 – 20 years
Cables	60 years	10 – 30 years
Switchgear and transformers	50 years	15 – 45 years
Substation miscellaneous	25 years	10 – 20 years
Meters	15 years	10 – 15 years
Other equipment, furniture and fittings, motor vehicles and marine crafts	5 – 10 years	3 – 30 years

* Useful lives of the generating plants have been extended by 10 – 20 years to 35 – 45 years after mid-life refurbishments.

10. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (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 estimated 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 under the accounting standard 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 continued 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 considers that no reasonably possible 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. Furthermore, given the level of uncertainty, management considers it would be inappropriate to reverse any previous impairment charges.

10. Fixed Assets, Leasehold Land and Land Use Rights under Operating Leases and Investment Property (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 present value of the expected cash flows are less than the asset's carrying amount, an impairment loss may arise. During 2018, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there was no material impairment loss for fixed assets and leasehold land and land use rights.

The latest impairment models for these assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management considers that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2018 year end.

(C) Fair Value Estimation of Investment Property

Investment property was valued by Knight Frank Petty Limited (Knight Frank), an independent qualified valuer, who holds recognised relevant professional qualification and has recent experience in the locations and segments of the investment property valued.

Knight Frank has valued the property at 31 December 2018 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% (2017: 4.25%). The fair value measurement is negatively correlated to the capitalisation rate.

The recurring fair value measurement of the Group's investment property is categorised within Level 3 of the fair value hierarchy at 31 December 2018 and 2017.

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

Fixed assets, leasehold land and land use rights under operating leases and investment property totalled HK$147,945 million (2017: HK$143,738 million) which included assets under construction with book value of HK$12,333 million (2017: HK$9,919 million). Movements in the accounts are as follows:

	Fixed Assets					Leasehold Land and Land Use Rights under Operating Leases	Investment Property [a]
	Land			Plant, Machinery and Equipment			
	Freehold HK$M	Leased HK$M	Buildings HK$M	HK$M	Total HK$M	HK$M	HK$M
Net book value at 1 January 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	–	–	–	1,165	1,165	–	–
Revaluation gains	–	–	–	–	–	–	369
Transfer to property under development	–	–	–	–	–	–	(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
Net book value at 1 January 2018	786	386	19,943	116,092	137,207	5,345	1,186
Acquisitions of subsidiaries (Note 2)	155	–	301	2,294	2,750	–	–
Additions	–	–	1,370	9,488	10,858	275	–
Revaluation gains	–	–	–	–	–	–	18
Transfer from finance lease receivables [b]	347	–	4	291	642	1	–
Transfers and disposals	–	(18)	(119)	(419)	(556)	–	–
Depreciation / amortisation	–	(11)	(681)	(6,184)	(6,876)	(180)	–
Impairment charge	–	–	–	(14)	(14)	–	–
Exchange differences	(85)	–	(256)	(2,361)	(2,702)	(9)	–
Net book value at 31 December 2018	**1,203**	**357**	**20,562**	**119,187**	**141,309**	**5,432**	**1,204**
Cost / valuation	1,299	495	33,923	212,951	248,668	6,704	1,204
Accumulated depreciation / amortisation and impairment	(96)	(138)	(13,361)	(93,764)	(107,359)	(1,272)	–
Net book value at 31 December 2018	**1,203**	**357**	**20,562**	**119,187**	**141,309**	**5,432**	**1,204**

Notes:

(a) Investment property at 31 December 2018 represented the commercial interest of the retail portion of the Laguna Mall in Hong Kong.

(b) The residual value of the Paguthan Plant (Paguthan) was transferred to fixed assets upon the expiry of the PPA in December 2018.

11. 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 2018. 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 tariffs are sensitive to regulatory changes including regulation and deregulation. In the absence of any known or expected changes to the current pricing structure, the retail tariff assumptions are based on management estimates and expectations of current market conditions and regulatory outcomes.
- The electricity and gas volumes for purchases and sales represent the forecast projections in the Business Plan of 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. 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 and gas wholesale markets. 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.

11. 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 11% (2017: 12%). 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 2.3% (2017: 1.2%) has been used.

When undertaking a value in use calculation of our Retail CGU at year end, the results indicate that minimal headroom remains.

Regulatory and government policy decisions currently being contemplated at both a State and Federal level have the potential to significantly impact some of the assumptions used to underpin our value in use calculations. In particular, assumptions around retail tariffs and customer account growth would have a direct impact on our CGU valuation and may result in decreases in recoverable value for negative scenarios. Movements in discount rates, whilst driven by different assumptions, would also have an impact.

A 1% decrease in the retail tariff assumption would decrease the recoverable value by HK$1,103 million (A$200 million). Similarly, a 1% decrease in the annual customer account growth rate would decrease the recoverable amount by HK$1,103 million (A$200 million). An increase in the discount rate of 0.5% would decrease the recoverable amount by HK$1,241 million (A$225 million).

The sensitivities are based on a change in an assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. We expect that uncertainty around some of these assumptions may reduce as the outcomes of some of these policy decisions are announced, enacted or abandoned.

Up to the date of this report, there were no confirmed material changes in any of the key assumptions mentioned above that would have caused the recoverable amount of the Retail CGU to be less than its carrying value.

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 year 2023 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 2028.
- The cash flow projections are discounted using a pre-tax discount rate of 9.73% (2017: 9.81%), or a post-tax return of 8.00% (2017: 8.00%) 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 2018.

11. 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
Net carrying value at 1 January 2018	22,265	4,663	2,159	29,087
Additions	–	31	534	565
Amortisation	–	(274)	(675)	(949)
Exchange differences	(1,595)	–	(198)	(1,793)
Net carrying value at 31 December 2018	**20,670**	**4,420**	**1,820**	**26,910**
Cost	20,798	5,694	6,505	32,997
Accumulated amortisation and impairment	(128)	(1,274)	(4,685)	(6,087)
Net carrying value at 31 December 2018	**20,670**	**4,420**	**1,820**	**26,910**

Notes:

(a) Goodwill arose from the acquisitions of energy retail business in Australia of HK$15,065 million (2017: HK$16,656 million) and the acquisition of CAPCO under Hong Kong electricity business of HK$5,545 million (2017: 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.

12. Interests in and Loans to Joint Ventures Accounting Policy No. 4(B)

The table below lists the material joint ventures of the Group at 31 December 2018:

Name	% of Ownership Interest at 31 December 2017 and 2018	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.

12. Interests in and Loans 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$M	Fang-chenggang HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
For the year ended 31 December 2018							
Revenue	**12,578**	**3,333**	**997**	**–**	**6,590**	**1,691**	**25,189**
Depreciation and amortisation	**(1,497)**	**(240)**	**(132)**	**–**	**(939)**	**(522)**	**(3,330)**
Interest income	**2**	**11**	**2**	**–**	**2**	**6**	**23**
Interest expense	**(346)**	**(293)**	**(59)**	**–**	**(193)**	**(118)**	**(1,009)**
Other expenses	**(10,133)**	**(2,786)**	**(241)**	**(3)**	**(5,356)**	**(467)**	**(18,986)**
Share of results of joint ventures	**–**	**–**	**–**	**262**	**–**	**(9)**	**253**
Profit before income tax	**604**	**25**	**567**	**259**	**104**	**581**	**2,140**
Income tax expense	**(264)**	**(1)**	**(145)**	**–**	**(68)**	**(112)**	**(590)**
Profit for the year	**340**	**24**	**422**	**259**	**36**	**469**	**1,550**
Non-controlling interests	**(273)**	**–**	**–**	**–**	**–**	**–**	**(273)**
Profit for the year attributable to shareholders	**67**	**24**	**422**	**259**	**36**	**469**	**1,277**
Profit for the year	**340**	**24**	**422**	**259**	**36**	**469**	**1,550**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Total comprehensive income	**340**	**24**	**422**	**259**	**36**	**473**	**1,554**
Group's share							
Profit for the year attributable to shareholders	**20**	**17**	**169**	**129**	**10**	**173**	**518**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Total comprehensive income	**20**	**17**	**169**	**129**	**10**	**174**	**519**
Dividend income from joint ventures	**44**	**16**	**85**	**208**	**82**	**125**	**560**
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

12. Interests in and Loans 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 2018							
Non-current assets	21,712	7,876	3,168	2,959	5,201	6,966	47,882
Current assets							
Cash and cash equivalents	116	622	144	8	48	399	1,337
Other current assets	2,684	1,083	55	1	710	967	5,500
	2,800	1,705	199	9	758	1,366	6,837
Current liabilities							
Financial liabilities	(3,517)	(492)	(308)	–	(3,215)	(588)	(8,120)
Other current liabilities [(a)]	(1,552)	(850)	(139)	–	(259)	(376)	(3,176)
	(5,069)	(1,342)	(447)	–	(3,474)	(964)	(11,296)
Non-current liabilities							
Financial liabilities	(3,759)	(5,551)	–	–	(859)	(1,866)	(12,035)
Shareholders' loans	–	–	(770)	–	–	–	(770)
Other non-current liabilities [(a)]	(1,651)	(59)	(41)	–	(27)	(28)	(1,806)
	(5,410)	(5,610)	(811)	–	(886)	(1,894)	(14,611)
Non-controlling interests	(6,033)	–	–	–	–	–	(6,033)
Net assets	8,000	2,629	2,109	2,968	1,599	5,474	22,779
Group's share of net assets	2,400	1,840	843	1,484	470	2,288	9,325
Goodwill	–	–	–	–	–	41	41
Interests in joint ventures	2,400	1,840	843	1,484	470	2,329	9,366
Loans to joint ventures [(b)]	–	–	308	–	–	–	308
	2,400	1,840	1,151	1,484	470	2,329	9,674
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
Loans to joint ventures [(b)]	–	–	455	–	–	13	468
	2,552	1,923	1,254	1,608	588	2,458	10,383

12. Interests in and Loans to Joint Ventures (continued)

Notes:

(a) Including trade and other payables and provisions

(b) Loans to joint ventures mainly include the loan to SNGPC which is unsecured, carries interest at 90% (2017: 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$123 million (2017: HK$130 million) was included in the Group's trade and other receivables. There was no impairment recognised on the loan at 31 December 2018 and 2017.

	2018 HK$M	2017 HK$M
Share of capital commitments	**422**	475
Share of contingent liabilities	**56**	58

The Group's capital commitments in relation to its interest in a joint venture are disclosed in Note 28(B).

13. Interests in Associates

Accounting Policy No. 4(B)

The table below lists the associates of the Group at 31 December 2018:

Name	**% of Ownership Interest at 31 December 2018**	2017	**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) [(a)]	**17**	17	Mainland China	Generation of Electricity
Redback Technologies Limited (Redback) [(b)]	**22.3**	21	Hong Kong	Development of Solar Technologies

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 major associates and the Group's share of results and net assets are as follows:

	GNPJVC HK$M	**Yangjiang Nuclear [(c)] HK$M**
For the year ended 31 December 2018		
Revenue	**8,002**	**15,791**
Profit and total comprehensive income	**3,868**	**5,269**
Group's share of profit and total comprehensive income	**967**	**896**
Dividend income from associates	**1,878**	**–**
For the year ended 31 December 2017		
Revenue	7,735	703
Profit and total comprehensive income	3,695	218
Group's share of profit and total comprehensive income	924	37
Dividend income from associates	10	–

13. Interests in Associates (continued)

	GNPJVC HK$M	Yangjiang Nuclear HK$M
At 31 December 2018		
Non-current assets	**2,879**	**101,545**
Current assets	**9,835**	**12,745**
Current liabilities	**(5,469)**	**(17,316)**
Non-current liabilities	**(4,045)**	**(56,115)**
Net assets	**3,200**	**40,859**
Group's share of net assets	**800**	**6,946**
At 31 December 2017		
Non-current assets	3,491	108,003
Current assets	8,979	9,520
Current liabilities	(1,959)	(17,435)
Non-current liabilities	(3,682)	(62,778)
Net assets	6,829	37,310
Group's share of net assets	1,707	6,343

Notes:

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

(b) Due to lower forecasted demand for battery storage in Australia, management has reassessed the carrying value of Redback and full provision was included in the share of result in 2018.

(c) The share of results of Yangjiang Nuclear included amortisation of the fair value adjustment on fixed assets. The 2017 share of results related to the period from acquisition to 31 December 2017.

At 31 December 2018, the Group's share of capital commitments of its associates was HK$1,526 million (2017: HK$1,310 million).

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.

14. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(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

Certain derivative financial instruments do not qualify for hedge accounting and 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.

(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.

14. Derivative Financial Instruments (continued)

	2018		2017	
	Assets HK$M	**Liabilities HK$M**	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**88**	**65**	224	113
Foreign exchange options	**31**	**–**	18	–
Cross currency interest rate swaps	**147**	**767**	300	727
Interest rate swaps	**97**	**19**	93	84
Energy contracts	**883**	**746**	442	36
Fair value hedges				
Cross currency interest rate swaps	**3**	**455**	9	352
Interest rate swaps	**–**	**86**	–	84
Not qualifying as accounting hedges				
Forward foreign exchange contracts	**237**	**24**	225	46
Interest rate swaps	**26**	**2**	28	1
Energy contracts	**287**	**645**	754	986
	1,799	**2,809**	2,093	2,429
Current	**799**	**1,262**	1,137	789
Non-current	**1,000**	**1,547**	956	1,640
	1,799	**2,809**	2,093	2,429

At 31 December 2018, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 5 years
Foreign exchange options	Up to 3 years
Cross currency interest rate swaps	Up to 11.5 years
Interest rate swaps	Up to 9 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.

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. 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 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. 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.

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.

	2018 HK$M	2017 HK$M
Trade receivables [(a)]	**11,229**	12,228
Deposits, prepayments and other receivables [(b)]	**3,547**	2,930
Dividend receivables from		
Joint ventures	**57**	68
Associates	**949**	–
Loans to and current accounts with [(c)]		
Joint ventures	**134**	200
Associates	**1**	1
	15,917	15,427

16. Trade and Other Receivables (continued)

Notes:

(a) Trade receivables

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

	2018 HK$M	2017 HK$M
30 days or below *	**8,992**	9,465
31 – 90 days	**820**	882
Over 90 days	**1,417**	1,881
	11,229	12,228

* 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 2018, such cash deposits amounted to HK$5,474 million (2017: HK$5,218 million) and the bank guarantees stood at HK$796 million (2017: HK$798 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 most retail customers (including residential and commercial 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 Mainland China and India are due for settlement within 30 to 90 days and 15 to 60 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.

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.

<u>CLP Power Hong Kong</u>

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

	Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
At 31 December 2018				
Active accounts				
Provision on individual basis	**100%**	**1**	**(1)**	**–**
Provision on collective basis	**0% ***	**2,105**	**–**	**2,105**
Terminated accounts				
Provision on individual basis	**100%**	**8**	**(8)**	**–**
Provision on collective basis	**18%**	**4**	**(1)**	**3**
		2,118	**(10)**	**2,108**

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

CLP Power Hong Kong (continued)

	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

* 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 2018				
Current	**1%**	**4,834**	**(37)**	**4,797**
1 – 30 days	**8%**	**435**	**(35)**	**400**
31 – 60 days	**16%**	**268**	**(44)**	**224**
61 – 90 days	**23%**	**190**	**(44)**	**146**
Over 90 days	**53%**	**956**	**(509)**	**447**
		6,683	**(669)**	**6,014**
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

Mainland China

The Group's Mainland China renewable projects are experiencing delays in receipt of the Renewable National Subsidy. As at 31 December 2018, the Group had total receivables of HK$972 million (2017: HK$611 million) relating to 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 with no history of default.

16. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

India

At 31 December 2018, CLP India's renewable projects have trade receivables of HK$487 million (2017: HK$510 million) of which HK$437 million (2017: HK$466 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. Disputed trade receivables of Paguthan and Jhajjar totalling HK$850 million (2017: HK$420 million) were provided in full as there is no reasonable expectation of recovery. Further information about disputes with offtakers is disclosed in Note 30.

Movements in Provision for Impairment

	2018 HK$M	2017 HK$M
Balance at 1 January	**1,427**	1,288
Provision for impairment	**892**	441
Receivables written off during the year as uncollectable	**(641)**	(411)
Amounts reversed	**(2)**	(1)
Exchange differences	**(144)**	110
Balance at 31 December	**1,532**	1,427

(b) At 31 December 2018, other receivables included the remaining 50% consideration of Rs13.2 billion (HK$1,452 million) receivable from the sale of 40% interest in CLP India (Note 26(B)).

(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.

	2018 HK$M	2017 HK$M
Trust accounts restricted under TRAA [(a)]	**398**	347
Deposits with banks	**9,557**	7,257
Cash at banks and on hand	**2,171**	2,326
Bank balances, cash and other liquid funds [(b)]	**12,126**	9,930
Excluding:		
Cash restricted for specific purposes [(a)]	**(398)**	(347)
Bank deposits with maturities of more than three months	**(4,363)**	(3,054)
Short-term deposits and restricted cash	**(4,761)**	(3,401)
Cash and cash equivalents	**7,365**	6,529

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$963 million (2017: HK$673 million) which was mostly denominated in Renminbi (2017: Renminbi).

18. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to customers. Any 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. CLP Power Hong Kong may adjust fuel related tariff from time to time, including on a monthly basis, in accordance with the 2018 SoC 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 is classified as a current liability.

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.

	2018 HK$M	2017 HK$M
Trade payables [a]	**6,653**	7,092
Other payables and accruals	**7,294**	6,991
Advances from non-controlling interests [b]	**1,522**	1,514
Current accounts with [c]		
Joint ventures	**1**	1
Associates	**517**	271
Deferred revenue [d]	**3,074**	3,109
	19,061	18,978

Notes:

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

	2018 HK$M	2017 HK$M
30 days or below	**6,404**	6,507
31 – 90 days	**145**	146
Over 90 days	**104**	439
	6,653	7,092

At 31 December 2018, trade payables denominated in a currency other than the functional currency of the corresponding Group entities amounted to HK$681 million (2017: HK$625 million), of which HK$569 million (2017: HK$501 million) were denominated in US dollar.

(b) The advances from non-controlling interests mostly represented the advances from China Southern Power Grid International (HK) Co., Limited (CSG HK) to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power Hong Kong and CSG HK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. These advances are unsecured, interest free and repayable on demand. The advances are denominated in Hong Kong 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 (2017: HK$3 billion) (Note 15) and payments received in advance for other services. Non-current deferred revenue of HK$1,216 million (2017: HK$1,171 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 2018, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings *		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Within one year	**11,935**	8,181	**1,600**	291	**13,535**	8,472
Between one and two years	**3,858**	7,186	**4,183**	1,588	**8,041**	8,774
Between two to five years	**3,876**	6,526	**8,229**	9,173	**12,105**	15,699
Over five years	**4,364**	4,427	**17,253**	19,969	**21,617**	24,396
	24,033	26,320	**31,265**	31,021	**55,298**	57,341

* Other borrowings mainly included Medium Term Notes of HK$29,405 million (2017: HK$28,503 million) and bonds of HK$1,558 million (2017: HK$2,141 million).

Another presentation of the Group's liquidity risk is set out on pages 273 to 275.

Total borrowings included secured liabilities of HK$11,709 million (2017: HK$12,153 million), analysed as follows:

	2018	2017
	HK$M	HK$M
CLP India group (a)	**6,182**	6,785
Subsidiaries in Mainland China (b)	**5,527**	5,368
	11,709	12,153

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$12,740 million (2017: HK$14,033 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$9,002 million (2017: HK$7,881 million).

At 31 December 2018 and 2017, 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 2018, the Group had undrawn bank loans and overdraft facilities of HK$24,059 million (2017: HK$25,924 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:

	2018 HK$M	2017 HK$M
Deferred tax assets	**835**	929
Deferred tax liabilities	**(14,650)**	(14,275)
	(13,815)	(13,346)

Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

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

	2018 HK$M	2017 HK$M
Balance at 1 January, as previously reported	**(13,346)**	(12,838)
Effect on adoption of HKFRS 15 (Note 3 of Significant Accounting Policies)	**(74)**	–
Balance at 1 January, as restated	**(13,420)**	(12,838)
Acquisition of subsidiaries (Note 2)	**(19)**	–
Charged to profit or loss (Note 7)	**(449)**	(686)
Credited to other comprehensive income	**116**	110
Exchange differences	**(43)**	68
Balance at 31 December	**(13,815)**	(13,346)

21. Deferred Tax (continued)

Deferred tax assets (prior to offset)

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:

	Tax Losses [(a)]		Accruals and Provisions		Others [(b)]		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Balance at 1 January	**908**	824	**1,345**	787	**616**	558	**2,869**	2,169
Acquisition of subsidiaries	**11**	–	**80**	–	**–**	–	**91**	–
Credited to profit or loss	**2**	23	**101**	526	**297**	18	**400**	567
Credited / (charged) to other comprehensive income	**–**	–	**3**	(39)	**5**	7	**8**	(32)
Exchange differences	**(77)**	61	**(135)**	71	**(51)**	33	**(263)**	165
Balance at 31 December	**844**	908	**1,394**	1,345	**867**	616	**3,105**	2,869

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		Withholding / Dividend Distribution Tax		Intangibles		Others [(b)]		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Balance at 1 January, as previously reported	**(14,218)**	(13,089)	**(121)**	(68)	**(1,049)**	(1,120)	**(827)**	(730)	**(16,215)**	(15,007)
Effect on adoption of HKFRS 15 (Note 3 of Significant Accounting Policies)	**–**	–	**–**	–	**–**	–	**(74)**	–	**(74)**	–
Balance at 1 January, as restated	**(14,218)**	(13,089)	**(121)**	(68)	**(1,049)**	(1,120)	**(901)**	(730)	**(16,289)**	(15,007)
Acquisition of subsidiaries	**(110)**	–	**–**	–	**–**	–	**–**	–	**(110)**	–
(Charged) / credited to profit or loss	**(828)**	(1,102)	**(66)**	(52)	**101**	87	**(56)**	(186)	**(849)**	(1,253)
Credited to other comprehensive income	**–**	–	**–**	–	**–**	–	**108**	142	**108**	142
Transfer of finance lease receivables to fixed assets	**(139)**	–	**–**	–	**–**	–	**139**	–	**–**	–
Exchange differences	**118**	(27)	**4**	(1)	**14**	(16)	**84**	(53)	**220**	(97)
Balance at 31 December	**(15,177)**	(14,218)	**(183)**	(121)	**(934)**	(1,049)	**(626)**	(827)	**(16,920)**	(16,215)

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity business in India of HK$843 million (2017: HK$906 million). There is no expiry on tax losses recognised.

(b) Others mainly related to Minimum Alternate Tax credit in India and temporary differences arising from derivative financial instruments and deferred revenue.

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 (Note 18). 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 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:

	2018 HK$M	2017 HK$M
Tariff Stabilisation Fund (A)	**941**	746
Rate Reduction Reserve (B)	**11**	4
Rent and Rates Refunds (C)	**46**	227
	998	977

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

(A) Tariff Stabilisation Fund

	2018 HK$M	2017 HK$M
At 1 January	**746**	786
Transfer from Rate Reduction Reserve	**4**	2
Transfer under the SoC [(a)]		
– transfer for SoC from / (to) revenue (Note 3)	**322**	(98)
– charge for asset decommissioning [(b)]	**(131)**	56
At 31 December	**941**	746

Notes:

(a) Under the SoC Agreements, 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 a revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss (Note 3).

(b) Under the SoC, a periodic charge 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$991 million (2017: HK$860 million) (Note 23) recognised under the SoC represents a liability of the Group.

22. SoC Reserve Accounts (continued)

(B) Rate Reduction Reserve

	2018 HK$M	2017 HK$M
At 1 January	**4**	2
Transfer to Tariff Stabilisation Fund	**(4)**	(2)
Interest expense charged to profit or loss (Note 6)	**11**	4
At 31 December	**11**	4

(C) Rent and Rates Refunds

CLP Power Hong Kong has been challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. In 2018, CLP Power Hong Kong reached a settlement with the Hong Kong Government in respect of the appeals for rating years from 2001/02 to 2007/08. For the remaining years under appeal, final resolution remains subject to the application of the Lands Tribunal judgments, which were in favour of CLP Power Hong Kong, to the rent and rates amounts for each of these years.

Refunds totalling HK$2,054 million have been paid by the Hong Kong Government since 2012. These include interim refunds paid on a without prejudice basis for the appeal years 2008/09 to 2012/13 of HK$757 million, and the refunds of HK$1,297 million for the years 2001/02 to 2007/08 which have been settled (of which HK$186 million was received in 2018).

Using the refunds received from the Hong Kong Government, CLP Power Hong Kong has provided customers with the Rent and Rates Special Rebate. Including the rebate of HK$367 million paid in 2018, the Rent and Rates Special Rebate made by CLP Power Hong Kong has reached an aggregate of HK$2,008 million.

For the remaining years under appeal, CLP Power Hong Kong maintains that it will recover no less than the interim refunds received to date for these years in the final outcome of these years.

The rent and rates refunds are classified within the SoC reserve accounts, and the Rent and Rates Special Rebate to customers was offset against these refunds received.

	2018 HK$M	2017 HK$M
Rent and Rates Refunds Received	**2,054**	1,868
Rent and Rates Special Rebate	**(2,008)**	(1,641)
	46	227

In the event that the final amount recovered on conclusion of the remaining appeals is less than the total amount rebated to customers in respect of these years, 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 for the remaining years 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. Therefore in accordance with applicable accounting standards, asset retirement obligations for these assets have not been recognised by CLP Power Hong Kong.

In 2017 the Hong Kong Government released the Climate Action Plan 2030+ with a tightened carbon reduction target by 2030. As part of the new development plan agreed with the Hong Kong Government during 2018, CAPCO will retire the coal-fired generation units at Castle Peak A Station (CPA) between 2022 to 2025. Following this retirement, the removal of CPA's coal-fired generation units has become probable. It is also envisaged that with the Hong Kong Government's continued commitment to reduce carbon intensity, the removal of CAPCO's other 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 to be utilised in discharging asset decommissioning costs if and when incurred. CAPCO considers that the dismantling obligation for the CPA units is covered under the asset decommissioning liability accrued under the SoC as at 31 December 2018. While no provision for asset retirement obligations for the other generation units of CAPCO has been recognised, it is expected that if such an obligation be incurred, it will be met by the liability accrued and the cost recovery mechanism under the SoC.

Asset retirement obligations of EnergyAustralia amounted to HK$2,630 million (2017: HK$2,182 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. On an ongoing basis, we continually review and update underlying assumptions relating to forward rehabilitation estimates and timelines.

The calculation of the provision requires management judgment with respect to estimating the timing of asset removal, costs to remove infrastructure, remediate soil and groundwater, water usage and technological developments.

23. Asset Decommissioning Liabilities and Retirement Obligations (continued)

	2018 HK$M	2017 HK$M
Asset decommissioning liabilities (Note 22(A)(b))	**991**	860
Provisions for land remediation and restoration costs (note)	**2,567**	2,127
	3,558	2,987

Note: The movement of the balances, including the current portion of HK$63 million (2017: HK$55 million) under the Group's trade and other payables, is as follows:

	2018 HK$M	2017 HK$M
Balance at 1 January	**2,182**	415
Acquisition of subsidiaries (Note 2(A))	**183**	–
Additional provision	**432**	346
Effect of changes in discount rate	**56**	1,306
Amounts used	**(36)**	(15)
Unwinding of discount	**68**	63
Exchange differences	**(255)**	67
Balance at 31 December	**2,630**	2,182

24. Share Capital

	2018 Number of Ordinary Shares	2018 Amount HK$M	2017 Number of Ordinary Shares	2017 Amount HK$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 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)	–
Appropriation of reserves	–	–	–	81	(81)	–
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

Translation reserve – exchange rates movements arising from the consolidation of Group entities with different reporting currencies

Cash flow hedge / Costs of hedging – deferred fair value gains / losses on derivative financial instruments that qualify for hedge accounting; reclassify to profit or loss until settlement / amortisation of costs of hedging

Other reserves – mainly comprise revaluation reserve, other consolidated reserve arising from change in ownership interests in a subsidiary, and other legal reserves allocated from retained profits to meet local statutory and regulatory requirements of Group entities

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 2018, as previously reported	(3,313)	668	(53)	2,853	85,299	85,454
Effect on adoption of HKFRS 15 (net of tax) (Note 3 of Significant Accounting Policies)	–	–	–	–	173	173
Balance at 1 January 2018, as restated	(3,313)	668	(53)	2,853	85,472	85,627
Earnings attributable to shareholders	–	–	–	–	13,550	13,550
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(4,411)	85	(15)	–	(70)	(4,411)
Joint ventures	(463)	–	–	–	–	(463)
Associates	(352)	–	–	–	–	(352)
Cash flow hedges						
Net fair value gains	–	342	–	–	–	342
Reclassification to profit or loss	–	(723)	–	–	–	(723)
Tax on the above items	–	104	–	–	–	104
Costs of hedging						
Net fair value losses	–	–	(70)	–	–	(70)
Amortisation / reclassification to profit or loss	–	–	104	–	–	104
Tax on the above items	–	–	(6)	–	–	(6)
Fair value losses on equity investments	–	–	–	(37)	–	(37)
Remeasurement losses on defined benefit plans	–	–	–	–	(8)	(8)
Share of other comprehensive income of joint ventures and an associate	–	(3)	–	4	4	5
Total comprehensive income attributable to shareholders	(5,226)	(195)	13	(33)	13,476	8,035
Transfer to fixed assets	–	(44)	(1)	–	–	(45)
Appropriation of reserves	–	–	–	134	(134)	–
Dividends paid						
2017 fourth interim	–	–	–	–	(2,880)	(2,880)
2018 first to third interim	–	–	–	–	(4,623)	(4,623)
Change in ownership interests in a subsidiary (Note 26(B))	1,110	(25)	(2)	(1,387)	–	(304)
Balance at 31 December 2018	**(7,429)**	**404**	**(43)**	**1,567**	**91,311**[(a)]	**85,810**

Note:

(a) The fourth interim dividend declared for the year ended 31 December 2018 was HK$3,007 million (2017: HK$2,880 million). The balance of retained profits after the fourth interim dividend of the Group was HK$88,304 million (2017: HK$82,419 million).

26. Perpetual Capital Securities and Other Non-controlling Interests

(A) Perpetual Capital Securities and Redeemable Shareholder Capital

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.

The other non-controlling interests included CSG HK's pro-rata share of HK$5,115 million (2017: HK$5,115 million) of 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.

As both 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.

(B) Disposal of Interest in a Subsidiary without Loss of Control

In September 2018, the Group entered into a conditional sales and purchase agreement with CDPQ Infrastructures Asia II Pte. Ltd (CDPQ Infrastructures) to transfer 40% shareholding in CLP India for a cash consideration of Rs26.4 billion (HK$2,903 million). The transaction was completed in December and half of the consideration was received in 2018 with the remaining to be received in the first half 2019. CLP India remains as a subsidiary of the Group after the completion of the transaction. The effect of the partial disposal attributable to CLP's shareholders is summarised as follows:

	HK$M
Consideration from non-controlling interest	2,903
Less: carrying amount of non-controlling interest disposed of	(3,188)
Less: transaction costs directly attributable to the disposal	(19)
Loss on disposal debited to other reserves (Note 25)	(304)

27. Notes to the Consolidated Statement of Cash Flows

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

	2018 HK$M	2017 HK$M
Profit before income tax	**18,641**	18,127
Adjustments for:		
Finance costs	**2,049**	2,180
Finance income	**(192)**	(151)
Dividend income from equity investments	**(13)**	(9)
Share of results of joint ventures and associates, net of income tax	**(2,336)**	(1,458)
Depreciation and amortisation	**8,005**	7,368
Impairment charge	**912**	443
Net loss on disposal of fixed assets	**416**	407
Revaluation gains on investment properties	**(18)**	(369)
Fair value gain of non-debt related derivative financial instruments and net exchange difference	**(522)**	(416)
SoC items		
Special fuel rebate to customers	**–**	(786)
Increase in customers' deposits	**256**	220
Decrease in fuel clause account	**(1,382)**	(782)
Net (decrease) / increase in rent and rates refunds	**(181)**	155
Transfer for SoC	**322**	(98)
	(985)	(1,291)
Increase in trade and other receivables	**(688)**	(2,263)
Decrease in finance lease receivables	**64**	56
Increase in cash restricted for specific purposes	**(51)**	(149)
Changes in non-debt related derivative financial instruments	**694**	443
Increase in trade and other payables	**361**	3,917
Increase / (decrease) in current accounts due to joint ventures and associates	**247**	(329)
Net cash inflow from operations	**26,584**	26,506

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$M	Advances from Non-controlling Interests HK$M	Total HK$M
Balance at 1 January 2017	51,646	263	483	6,692	59,084
Cash flows changes					
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 non-controlling interest	–	–	–	(79)	(79)
Non-cash changes					
Fair value losses of derivative financial instruments to equity	–	–	152	–	152
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	–	–	–	(5,115)	(5,115)
Other non-cash movements	33	(26)	–	–	7
Balance at 31 December 2017	57,341	310	642	1,514	59,807
Balance at 1 January 2018	57,341	310	642	1,514	59,807
Cash flows changes					
Proceeds from long-term borrowings	3,906	–	–	–	3,906
Repayment of long-term borrowings	(6,660)	–	–	–	(6,660)
Increase in short-term borrowings	300	–	–	–	300
Interest and other finance costs paid	–	(1,890)	–	–	(1,890)
Settlement of derivative financial instruments	–	–	130	–	130
Decrease in advances from non-controlling interests	–	–	–	(1)	(1)
Non-cash changes					
Acquisitions of subsidiaries (Note 2)	1,209	3	–	9	1,221
Fair value gains of derivative financial instruments to equity	–	–	(80)	–	(80)
Net exchange and translation difference	(849)	(9)	26	–	(832)
Interest and other finance costs charged to profit or loss	–	1,843	39	–	1,882
Other non-cash movements	51	6	–	–	57
Balance at 31 December 2018	**55,298**	**263**	**757**	**1,522**	**57,840**

28. Commitments and Operating Lease Arrangements

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

	2018 HK$M	2017 HK$M
Fixed assets	5,226	5,367
Investment property	9	2
Intangible assets	262	28
	5,497	5,397

(B) At 31 December 2018, equity contributions to be made for a joint venture and private equity partnerships were HK$27 million (2017: equity contribution to an associate of HK$15 million) and HK$136 million (2017: HK$64 million) respectively.

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

	2018 HK$M	2017 HK$M
Within one year	198	475
Later than one year but not later than five years	500	630
Over five years	1,639	1,242
	2,337	2,347

Of the above amount, HK$1,592 million (2017: HK$1,692 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.

(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:

	2018 HK$M	2017 HK$M
Within one year	753	827
Later than one year but not later than five years	2,176	2,714
Over five years	5,219	6,192
	8,148	9,733

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.

29. Related Party Transactions (continued)

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 PPAs 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$5,543 million (2017: HK$5,380 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$791 million (2017: HK$768 million). In December 2018, another contract with similar terms was signed for the purchase of approximately 10% of additional nuclear electricity for five years from January 2019 to end of 2023.

(B) The loans to joint ventures are disclosed under Note 12. Other amounts due from and to the related parties at 31 December 2018 are disclosed in Notes 16 and 19 respectively. At 31 December 2018, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2017: 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 (2017: two) Executive Directors and nine (2017: nine) senior management personnel.

	2018 HK$M	2017 HK$M
Fees	**11**	11
Base compensation, allowances & benefits	**66**	65
Performance bonus		
Annual incentive	**60**	61
Long-term incentive	**39**	30
Provident fund contribution	**13**	12
	189	179

Note: Refer to remuneration items on page 165 of Human Resources & Remuneration Committee Report.

At 31 December 2018, the CLP Holdings' Board was composed of thirteen Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$56 million (2017: HK$52 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 (2017: two Directors) and three members (2017: three members) of Senior Management. The total remuneration of these five highest paid individuals amounted to HK$107 million (2017: HK$98 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 with a heading of "Audited" on pages 164 to 167 and 172 to 174. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

29. Related Party Transactions (continued)

(D) Interest of Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2017: 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 (2017: 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 Gujarat Urja Vikas Nigam Limited (GUVNL) under the PPA 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 Rs7,260 million (HK$813 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 PPA. 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 Rs830 million (HK$93 million) (2017: Rs830 million (HK$102 million)).

30. Contingent Liabilities (continued)

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

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. Since the matter has been pending before the Supreme Court for a long period of time, an application of early hearing was filed before the court, which was allowed. The matter should be listed for hearing in the coming months.

The PPA term expired in December 2018 and GUVNL has formally declined extension of the PPA.

While CLP India has not altered its view regarding the legal merits of the claim, in view of the expiry of the PPA and uncertainty on the timing of recoverability, it is appropriate to make a provision of Rs3,796 million (HK$450 million) in the profit or loss and against the amounts withheld by GUVNL. This will not prejudice the stance CLP India has taken all along and CLP India remains committed to pursuing this case and closing it successfully. If this is eventually achieved and the monies are recovered from GUVNL, the provision would be reversed.

At 31 December 2018, the time-barred portion of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs4,737 million (HK$530 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 the time-barred portion of the claim plus interest and tax.

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

CLP India group has invested in approximately 533MW of wind power projects 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 2018, 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 Rs2,719 million (HK$305 million) at 31 December 2018 (2017: Rs2,117 million (HK$259 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$5,335 million) or alternatively A$780 million (approximately HK$4,303 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

	2018 HK$M	2017 HK$M
Non-current assets		
Fixed assets	**108**	110
Investments in subsidiaries	**50,356**	53,074
Advance to a subsidiary	**39**	39
Other non-current assets	**3**	3
	50,506	53,226
Current assets		
Trade and other receivables	**47**	49
Dividend receivable	**4,700**	2,710
Bank balances and cash	**24**	12
	4,771	2,771
Current liabilities		
Trade and other payables	**(501)**	(422)
Bank loans and other borrowings	**(4,400)**	–
	(4,901)	(422)
Net current (liabilities) / assets	**(130)**	2,349
Total assets less current liabilities	**50,376**	55,575
Financed by:		
Equity		
Share capital	**23,243**	23,243
Retained profits	**27,133**	27,944
Shareholders' funds	**50,376**	51,187
Non-current liabilities		
Bank loans and other borrowings	**–**	4,388
Equity and non-current liabilities	**50,376**	55,575

The movement of retained profits is as follows:

	2018 HK$M	2017 HK$M
Balance at 1 January	**27,944**	28,340
Profit and total comprehensive income for the year	**6,692**	6,830
Dividends paid		
2017 / 2016 fourth interim	**(2,880)**	(2,754)
2018 / 2017 first to third interim	**(4,623)**	(4,472)
Balance at 31 December	**27,133**	27,944

The fourth interim dividend declared for the year ended 31 December 2018 was HK$3,007 million (2017: HK$2,880 million). The balance of retained profits after the fourth interim dividend of the Company was HK$24,126 million (2017: HK$25,064 million).

William Mocatta
Vice Chairman
Hong Kong, 25 February 2019

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 2018:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2018	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**	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)	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)	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**	100	Hong Kong / Mainland China	Power Projects Investment Holding
CLP Nuclear Investment Company Limited	1 ordinary share of US$1 each	**100**	100	Hong Kong / British Virgin Islands	Power Projects Investment Holding
CLP*e* Solutions Limited (formerly known as CLP Engineering Limited)	HK$49,950,000 divided into 4,995 ordinary shares	**100**	100	Hong Kong	Engineering Services
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	**100**	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)	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)	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**	100	Hong Kong	Property Investment Holding
CLP Research Institute Limited	1 ordinary share of US$1 each	**100**	100	British Virgin Islands / Hong Kong	Research and Development
CLP Innovation Enterprises Limited	1 ordinary share of HK$1 each	**100**	100	Hong Kong	Innovation Projects Investment Holding
EnergyAustralia Holdings Limited	1,585,491,005 ordinary shares of A$1 each	**100** (a)	100 (a)	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd	15 ordinary shares of A$1 each	**100** (a)	100 (a)	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd	3,368,686,988 ordinary shares of A$1 each	**100** (a)	100 (a)	Australia	Retailing of Electricity and Gas
EnergyAustralia NSW Pty Ltd	2 ordinary shares of A$1 each	**100** (a)	100 (a)	Australia	Generation of Electricity

32. Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2018	2017	Place of Incorporation / Business	Principal Activity
CLP India Private Limited (Note 26(B))	2,842,691,612 equity shares of Rs10 each	**60** [(a)]	100 [(a)]	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited (Note 26(B))	20,000,000 equity shares of Rs10 each; 2,324,882,458 compulsory convertible preference shares of Rs10 each	**60** [(a)]	100 [(a)]	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited [(b)]	RMB496,380,000	**100** [(a)]	100 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [(c)]	RMB69,098,976	**84.9** [(a)]	84.9 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [(c)]	RMB249,430,049	**84.9** [(a)]	84.9 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [(c)]	US$13,266,667	**84.9** [(a)]	84.9 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [(c)]	RMB141,475,383	**84.9** [(a)]	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

32. Subsidiaries (continued)

Summarised financial information of CAPCO and CLP India, which have material non-controlling interests, is set out below:

	CLP India (note)	CAPCO	
	2018 HK$M	**2018 HK$M**	2017 HK$M
Results for the year			
Revenue	**5,269**	**17,232**	16,105
Profit for the year	**128**	**3,061**	3,168
Other comprehensive income for the year	**(725)**	**(16)**	44
Total comprehensive income for the year	**(597)**	**3,045**	3,212
Dividends paid to non-controlling interests	**–**	**964**	952
Net assets			
Non-current assets	**11,764**	**32,235**	30,000
Current assets	**3,416**	**7,517**	8,966
Current liabilities	**(2,244)**	**(10,366)**	(11,364)
Non-current liabilities	**(4,721)**	**(11,579)**	(9,563)
Non-controlling interest	**(99)**	**–**	–
	8,116	**17,807**	18,039
Cash flows			
Net cash inflow from operating activities	**1,638**	**3,502**	3,235
Net cash outflow from investing activities	**(398)**	**(659)**	(3,795)
Net cash (outflow) / inflow from financing activities	**(1,121)**	**(2,971)**	688
Net increase / (decrease) in cash and cash equivalents	**119**	**(128)**	128

Note: CDPQ Infrastructures commenced to share the results of CLP India since 28 December 2018.

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. 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, the Group 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. The SoC Companies use 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. The SoC Companies also use 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:

	2018 **HK$M**	2017 HK$M
Increase / (decrease) in the cash flow hedge reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2017: 0.6%)	**83**	70
If Hong Kong dollar strengthened by 0.6% (2017: 0.6%)	**(83)**	(70)
Hong Kong dollar against Euro		
If Hong Kong dollar weakened by 6% (2017: 3%)	**16**	21
If Hong Kong dollar strengthened by 6% (2017: 3%)	**(16)**	(21)

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 2018, the Group's net investment subject to translation exposure was HK$69,654 million (2017: HK$69,454 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2017: 1%) average foreign currency movement, our translation exposure will vary by about HK$697 million (2017: HK$695 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 the SoC Companies) 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:

	2018 HK$M	2017 HK$M
US dollar		
If US dollar strengthened by 5% (2017: 5%)		
Post-tax profit for the year	**52**	48
Equity – cash flow hedge reserve	**46**	58
If US dollar weakened by 5% (2017: 5%)		
Post-tax profit for the year	**(52)**	(48)
Equity – cash flow hedge reserve	**(46)**	(58)
Renminbi		
If Renminbi strengthened by 2% (2017: 3%)		
Post-tax profit for the year	**19**	29
Equity – cash flow hedge reserve	**–**	–
If Renminbi weakened by 2% (2017: 3%)		
Post-tax profit for the year	**(19)**	(29)
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 purchases and sells the majority of its electricity through the pool, at the same time EnergyAustralia enters into electricity spot-price-linked derivative financial instruments (forward contracts) to manage the spot electricity price risk against forecast retail and generation exposures.

The gas market is a balancing market. To meet retail demand, EnergyAustralia procures gas supply agreements from various gas producers. The contract price of certain agreements comprising a fixed component, and a variable component that is 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 (2017: 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 2018 was HK$640 million (2017: HK$573 million). The change in the risk measure is the result of higher forward prices and increase in volatility of energy market.

Interest rate risk

The Group's interest rate risk arises from 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 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)

	2018 HK$M	2017 HK$M
Hong Kong dollar		
If interest rates were 1% (2017: 0.7%) higher		
Post-tax profit for the year	**(110)**	(95)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 1% (2017: 0.7%) lower		
Post-tax profit for the year	**110**	95
Equity – cash flow hedge reserve	**–**	–
Indian rupee		
If interest rates were 1% (2017: 1%) higher		
Post-tax profit for the year	**(10)**	(11)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 1% (2017: 1%) lower		
Post-tax profit for the year	**10**	11
Equity – cash flow hedge reserve	**–**	–
US dollar		
If interest rates were 0.5% (2017: 0.7%) higher		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**31**	33
If interest rates were 0.5% (2017: 0.7%) lower		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**(27)**	(33)

Credit risk

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

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

Liquidity risk

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

1. Financial Risk Factors (continued)

Liquidity risk (continued)

The table below analyses the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, 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 2018					
Non-derivative financial liabilities					
Bank loans	12,751	4,377	4,961	4,562	26,651
Other borrowings	2,691	5,110	10,321	19,894	38,016
Customers' deposits	5,476	–	–	–	5,476
Fuel clause account	901	–	–	–	901
Trade and other payables	15,987	–	–	–	15,987
SoC reserve accounts	–	–	–	998	998
Asset decommissioning liabilities	–	–	–	991	991
	37,806	9,487	15,282	26,445	89,020
Derivative financial liabilities – net settled					
Interest rate swaps	26	18	37	29	110
Energy contracts	1,132	380	276	301	2,089
	1,158	398	313	330	2,199
Derivative financial liabilities – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	13,312	238	570	9	14,129
Cross currency interest rate swaps	1,524	528	5,771	11,952	19,775
	14,836	766	6,341	11,961	33,904
Gross contractual amounts receivable					
Forward foreign exchange contracts	(13,283)	(230)	(582)	(9)	(14,104)
Cross currency interest rate swaps	(1,398)	(458)	(5,073)	(11,812)	(18,741)
	(14,681)	(688)	(5,655)	(11,821)	(32,845)
Net payable	155	78	686	140	1,059
Derivative financial assets – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	10,867	735	481	–	12,083
Cross currency interest rate swaps	250	4,017	2,431	370	7,068
	11,117	4,752	2,912	370	19,151
Gross contractual amounts receivable					
Forward foreign exchange contracts	(10,946)	(1,025)	(642)	–	(12,613)
Cross currency interest rate swaps	(299)	(4,089)	(2,443)	(467)	(7,298)
	(11,245)	(5,114)	(3,085)	(467)	(19,911)
Net receivable	(128)	(362)	(173)	(97)	(760)
Total payable / (receivable)	27	(284)	513	43	299

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 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	15,869	–	–	–	15,869
SoC reserve accounts	–	–	–	977	977
Asset decommissioning liabilities	–	–	–	860	860
	33,742	6,073	19,423	30,044	89,282
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 liabilities – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	297	5,909	166	–	6,372
Cross currency interest rate swaps	462	498	3,033	14,598	18,591
	759	6,407	3,199	14,598	24,963
Gross contractual amounts receivable					
Forward foreign exchange contracts	(293)	(5,885)	(161)	–	(6,339)
Cross currency interest rate swaps	(436)	(437)	(2,417)	(14,222)	(17,512)
	(729)	(6,322)	(2,578)	(14,222)	(23,851)
Net payable	30	85	621	376	1,112
Derivative financial assets – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	17,038	428	1,763	342	19,571
Cross currency interest rate swaps	1,289	316	6,503	831	8,939
	18,327	744	8,266	1,173	28,510
Gross contractual amounts receivable					
Forward foreign exchange contracts	(17,206)	(461)	(1,948)	(414)	(20,029)
Cross currency interest rate swaps	(1,409)	(415)	(6,636)	(850)	(9,310)
	(18,615)	(876)	(8,584)	(1,264)	(29,339)
Net receivable	(288)	(132)	(318)	(91)	(829)
Total (receivable) / payable	(258)	(47)	303	285	283

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.

Hedges on non-debt related transactions

The SoC Companies use forward contracts to manage its foreign exchange risk arising from fuel and nuclear purchases obligations, and payments for major capital projects. The SoC Companies hedge a high portion of highly probable forecast transactions.

EnergyAustralia uses forward electricity contracts and oil-price-linked forward contracts to mitigate exposures arising from the fluctuations in electricity and oil spot price embedded in gas contracts. In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items.

2. Hedge Accounting (continued)

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 2018 and 2017.

Cash Flow Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedging instrument assets / (liabilities) HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness: Hedging instruments HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness: Hedged items HK$M	Hedging (gains) / losses recognised in cash flow hedge reserve HK$M	Hedge ineffectiveness recognised in profit or loss [(a)] HK$M	Amount reclassified from cash flow hedge reserve and credited / (charged) to profit or loss: Hedged items affected profit or loss [(a)] HK$M	Amount reclassified from cash flow hedge reserve and credited / (charged) to profit or loss: Hedged future cash flows no longer expected to occur [(a)] HK$M
At 31 December 2018								
Debt related transactions								
Interest rate risk [(b)]	**24,259**	**(542)**	**(41)**	**38**	**41**	**–**	**34**	**–**
Foreign exchange risk	**1,608**	**35**	**145**	**(145)**	**(145)**	**–**	**141**	**–**
Non-debt related transactions								
Foreign exchange risk	**17,600**	**19**	**105**	**(105)**	**(105)**	**–**	**153**	**–**
Energy portfolio risk – electricity	**33,971**	**123**	**(40)**	**40**	**40**	**–**	**26**	**–**
Energy portfolio risk – gas	**2,244**	**14**	**166**	**(166)**	**(166)**	**–**	**373**	**–**
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	–	–	–

Fair Value Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedged items HK$M	Accumulated fair value hedge adjustments included in carrying amount of hedged items HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness: Hedging instruments HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness: Hedged items HK$M	Hedge ineffectiveness credited to finance costs HK$M
At 31 December 2018						
Debt related transactions						
Interest rate risk [(b)]	**6,963**	**(6,639)**	**299**	**(141)**	**143**	**(2)**
At 31 December 2017						
Debt related transactions						
Interest rate risk [(b)]	5,981	(5,797)	156	61	(58)	(3)

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)

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 2017	357	1	578	936
Hedging gains / (losses)	225	(15)	(231)	(21)
Reclassification to profit or loss				
Hedged items affect profit or loss	(463)	193	(129)	(399)
Transfer to hedged assets	–	4	–	4
Related deferred tax	39	(29)	108	118
Balance at 31 December 2017	158	154	326	638
Balance at 1 January 2018	158	154	326	638
Hedging (losses) / gains	(41)	250	126	335
Reclassification to profit or loss				
Hedged items affect profit or loss	(34)	(294)	(399)	(727)
Transfer to hedged assets	–	(74)	–	(74)
Related deferred tax	18	17	82	117
Exchange difference	136	–	(51)	85
Balance at 31 December 2018	**237**	**53**	**84**	**374**

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 2017	3	14	64	81
Changes due to transaction related hedged items				
Fair value losses	–	–	(24)	(24)
Reclassification to profit or loss	–	–	(3)	(3)
Changes due to time-period related hedged items				
Fair value losses	(9)	(72)	(182)	(263)
Amortisation to profit or loss	15	72	18	105
Related deferred tax	(2)	–	31	29
Balance at 31 December 2017	7	14	(96)	(75)
Balance at 1 January 2018	7	14	(96)	(75)
Changes due to transaction related hedged items				
Fair value losses	–	–	(40)	(40)
Reclassification to profit or loss	–	–	22	22
Transfer to hedged assets	–	–	(3)	(3)
Changes due to time-period related hedged items				
Fair value (losses) / gains	(8)	(60)	41	(27)
Amortisation to profit or loss	11	58	13	82
Related deferred tax	(1)	1	(5)	(5)
Exchange difference	(4)	(11)	–	(15)
Balance at 31 December 2018	**5**	**2**	**(68)**	**(61)**

3. Fair Value Estimation and Hierarchy of Financial Instruments

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

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

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

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

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

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

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

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

	Level 1 HK$M	Level 2 (note) HK$M	Level 3 (note) HK$M	Total HK$M
At 31 December 2018				
Financial assets				
Equity investments	**265**	**–**	**35**	**300**
Forward foreign exchange contracts	**–**	**325**	**–**	**325**
Foreign exchange options	**–**	**31**	**–**	**31**
Cross currency interest rate swaps	**–**	**150**	**–**	**150**
Interest rate swaps	**–**	**123**	**–**	**123**
Energy contracts	**–**	**468**	**702**	**1,170**
	265	**1,097**	**737**	**2,099**
Financial liabilities				
Forward foreign exchange contracts	**–**	**89**	**–**	**89**
Cross currency interest rate swaps	**–**	**1,222**	**–**	**1,222**
Interest rate swaps	**–**	**107**	**–**	**107**
Energy contracts	**625**	**403**	**363**	**1,391**
	625	**1,821**	**363**	**2,809**
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

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

Note: 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
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

The significant unobservable inputs of energy contracts used for fair value measurement included long term forward electricity price and cap price curve. 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 2018 and 2017, 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:

	2018			2017		
	Equity Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Equity Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	**47**	**27**	**74**	1,225	(59)	1,166
Total gains / (losses) recognised in						
Profit or loss and presented in						
fuel and other operating expenses [(a)]	**–**	**125**	**125**	–	386	386
Other comprehensive income	**–**	**633**	**633**	(280)	(4)	(284)
Purchase	**–**	**–**	**–**	15	–	15
Sales	**(12)**	**–**	**(12)**	(913)	–	(913)
Settlements	**–**	**(428)**	**(428)**	–	(296)	(296)
Transfer out of Level 3 [(b)]	**–**	**(18)**	**(18)**	–	–	–
Closing balance	**35**	**339**	**374**	47	27	74

Notes:

(a) 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$77 million (2017: HK$482 million).

(b) During 2018, the transfer of certain energy contracts out of Level 3 is because certain observable significant inputs are used in the fair value measurement instead of those unobservable ones used previously.

At 31 December 2018 and 2017, the valuation of long tenure energy contracts is sensitive to electricity pool price assumptions. A favourable and unfavourable change of 15% (2017: 15%) would cause the fair values to rise by HK$596 million (2017: HK$547 million) and decline by HK$577 million (2017: HK$548 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 presented in the respective line HK$M	Financial instruments HK$M	Financial instrument collateral HK$M	Net amount [a] HK$M
At 31 December 2018						
Financial assets						
Bank balances, cash and other liquid funds	**398**	**–**	**398**	**(398)**	**–**	**–**
Trade and other receivables	**4,766**	**–**	**4,766**	**(2,649)**	**(2,117)**	**–**
Derivative financial instruments	**2,589**	**(1,198)**	**1,391**	**(206)** [b]	**–**	**1,185**
	7,753	**(1,198)**	**6,555**	**(3,253)**	**(2,117)**	**1,185**
Financial liabilities						
Customers' deposits	**5,474**	**–**	**5,474**	**(2,117)**	**–**	**3,357**
Bank loans and other borrowings	**11,759**	**–**	**11,759**	**–**	**(3,047)**	**8,712**
Derivative financial instruments	**3,908**	**(1,198)**	**2,710**	**(206)** [b]	**–**	**2,504**
	21,141	**(1,198)**	**19,943**	**(2,323)**	**(3,047)**	**14,573**
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

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 group 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 2018 and 2017.

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

	2018 HK$M	2017 HK$M
Total debt [(a)]	**55,298**	57,341
Net debt [(b)]	**43,172**	47,411
Total equity [(c)]	**126,454**	123,021
Total capital (based on total debt) [(d)]	**181,752**	180,362
Total capital (based on net debt) [(e)]	**169,626**	170,432
Total debt to total capital (based on total debt) ratio (%)	**30.4**	31.8
Net debt to total capital (based on net debt) ratio (%)	**25.5**	27.8

Decrease in net debt to total capital mainly related to strong financial performance and proceeds received from the sale of interests in CLP India and CGN Wind Power Company Limited.

Certain entities of the Group are subject to loan covenants. For both 2018 and 2017, 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 SoC Agreement which took effect from 1 October 2008 (2008 SoC) expired on 30 September 2018. The new SoC Agreement signed on 25 April 2017 between the SoC Companies and the Hong Kong Government immediately became effective 1 October 2018 (2018 SoC) for a term of over 15 years ending on 31 December 2033.

The 2018 SoC contains key principles that are similar to the 2008 SoC, including the 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. The Fuel Cost Adjustment may be adjusted 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.

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 2008 SoC and 2018 SoC are calculated as follows:

- The annual permitted return under the 2008 SoC is 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments and 11% for renewable energy investments. Under the 2018 SoC, the annual permitted return is 8% of the SoC Companies' average net fixed assets.
- The net return under the SoC is the permitted return after the deduction or adjustment of the following items:
  (a) interest on borrowed capital arranged for financing fixed assets, up to a maximum of 8% per annum under 2008 SoC; and 7% per annum under 2018 SoC;
  (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, which under the 2008 SoC is 9.99% less an allowed interest charge up to 8% per annum on the average excess capacity expenditure being 50% of related fixed asset value; and under the 2018 SoC is 8% less an allowed interest charge up to 7% per annum on the average excess capacity expenditure being 100% of related fixed asset value;
  (d) interest on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998, up to 8% per annum under the 2008 SoC; and up to 7% per annum under the 2018 SoC; and
  (e) performance-linked incentives / penalties adjustments

	2008 SoC	**2018 SoC**
Operation performance related incentives / penalties	in the range of -0.03% to +0.03% on the average net fixed assets	in the range of -0.05% to +0.05% on average net fixed assets with more stringent targets and additional category for grid supply restoration
Energy efficiency and renewable performance incentives	a maximum of 0.07% on average net fixed assets	• a maximum of 0.315% on average net fixed assets • new incentive of 10% of renewable energy certificates sales revenue • five-year energy saving and renewable energy connections incentives with a maximum of 0.11% on the average net fixed assets at the final year of the five-year period
Demand response reduction incentive	–	a maximum of 0.025% on average net fixed assets

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.

Starting from year 2014, non-refundable contributions were made by the SoC Companies from the energy efficiency incentives earned under the 2008 SoC to an Energy Efficiency Fund (EEF) to promote energy saving for buildings. Under the 2018 SoC, 65% of the energy efficiency incentives earned are to be contributed to a CLP Community Energy Saving Fund (CESF) to support programmes in promotion of energy efficiency, use of renewable energy, the disadvantaged groups and other programmes as agreed with the Hong Kong Government.

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

	Period from 1 October to 31 December 2018 HK$M	9 months ended 30 September 2018 HK$M	12 months ended 31 December 2017 HK$M
SoC revenue	9,063	32,023	39,259
Expenses			
Operating costs	1,149	3,385	4,405
Fuel	3,081	10,021	11,901
Purchases of nuclear electricity	979	4,564	5,380
Provision for asset decommissioning	(88)	219	(56)
Depreciation	1,153	3,778	4,706
Operating interest	246	750	994
Taxation	412	1,589	1,989
	6,932	24,306	29,319
Profit after taxation	2,131	7,717	9,940
Interest on increase in customers' deposits	1	–	–
Interest on borrowed capital	266	789	976
Adjustment for performance incentives	(89)	(16)	(54)
Adjustment required under the SoC (being share of profit on sale of electricity to Mainland China attributable to the SoC Companies)	–	(43)	(79)
Profit for SoC	2,309	8,447	10,783
Transfer (to) / from Tariff Stabilisation Fund	(56)	(135)	42
Permitted return	2,253	8,312	10,825
Deduct interest on / Adjustment for			
Increase in customers' deposits as above	1	–	–
Borrowed capital as above	266	789	976
Performance incentives as above	(89)	(16)	(54)
Tariff Stabilisation Fund to Rate Reduction Reserve	4	7	4
	182	780	926
Net return	2,071	7,532	9,899
CESF / EEF contribution	(48)	(16)	(22)
Net return after CESF / EEF contribution	2,023	7,516	9,877
Divisible as follows:			
CLP Power Hong Kong	1,369	5,149	6,763
CAPCO	654	2,367	3,114
	2,023	7,516	9,877
CLP Power Hong Kong's share of net return after CESF / EEF contribution			
CLP Power Hong Kong	1,369	5,149	6,763
Interest in CAPCO	458	1,656	2,180
	1,827	6,805	8,943

Five-year Summary: CLP Group Statistics

Economic

	2018	2017	2016	2015	2014
Consolidated Operating Results, HK$M					
Revenue					
Hong Kong electricity business	**40,872**	39,485	37,615	38,488	35,303
Energy businesses outside Hong Kong	**49,793**	52,101	41,459	41,757	56,633
Others	**760**	487	360	455	323
Total	**91,425**	92,073	79,434	80,700	92,259
Earnings					
Hong Kong electricity business	**8,558**	8,863	8,640	8,260	7,777
Hong Kong electricity business related	**227**	335	203	206	71
Mainland China	**2,163**	1,238	1,521	1,977	1,579
India	**572**	647	469	614	270
Southeast Asia and Taiwan	**162**	160	274	312	297
Australia	**3,302**	2,738	1,849	836	756
Other earnings in Hong Kong	**(92)**	(65)	62	(60)	(66)
Unallocated net finance (costs) / income	**(54)**	(2)	33	17	(36)
Unallocated Group expenses	**(856)**	(607)	(717)	(643)	(586)
Operating earnings	**13,982**	13,307	12,334	11,519	10,062
Sales of investments / gains on acquisitions	**–**	–	–	6,619	1,953
Impairment and provision reversal	**(450)**	–	(203)	(1,723)	(1,736)
Property revaluation and transaction	**18**	369	497	99	245
Reversal of tax provision and tax credit	**–**	573	83	–	545
Other items affecting comparability from Australia	**–**	–	–	(858)	152
Total	**13,550**	14,249	12,711	15,656	11,221
Dividends	**7,630**	7,352	7,074	6,822	6,619
Depreciation and amortisation, owned and leased assets	**8,005**	7,368	6,909	6,765	6,791
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**113,295**	109,824	106,886	104,479	101,420
Other fixed assets	**34,650**	33,914	32,535	31,533	34,963
Goodwill and other intangible assets	**26,910**	29,087	27,653	28,257	31,129
Interests in joint ventures	**9,674**	10,383	9,971	11,250	11,176
Interests in associates	**7,746**	8,081	813	785	786
Other non-current assets	**2,739**	3,152	4,837	5,385	9,664
Current assets	**35,500**	33,710	23,538	22,284	25,525
Total assets	**230,514**	228,151	206,233	203,973	214,663
Shareholders' funds	**109,053**	108,697	98,010	93,118	88,013
Perpetual capital securities	**5,791**	5,791	5,791	5,791	5,791
Other non-controlling interests	**10,088**	7,019	1,972	2,023	2,155
Equity	**124,932**	121,507	105,773	100,932	95,959
Bank loans and other borrowings	**55,298**	57,341	51,646	55,483	67,435
SoC reserve accounts	**998**	977	860	1,009	1,131
Other current liabilities	**28,099**	27,962	26,944	25,107	27,772
Other non-current liabilities	**21,187**	20,364	21,010	21,442	22,366
Total liabilities	**105,582**	106,644	100,460	103,041	118,704
Equity and total liabilities	**230,514**	228,151	206,233	203,973	214,663

A ten-year summary is on our website.

	2018	2017	2016	2015	2014
Consolidated Statement of Cash Flows, HK$M					
Funds from operations	**26,584**	26,506	25,353	20,994	23,431
Net cash inflow from operating activities	**23,951**	24,417	23,676	19,168	21,966
Net cash (outflow) / inflow from investing activities	**(11,259)**	(16,735)	(8,296)	1,066	(18,683)
Net cash outflow from financing activities	**(11,505)**	(5,863)	(14,288)	(20,505)	(3,904)
Capital expenditure, owned and leased assets	**(10,327)**	(9,538)	(9,756)	(10,871)	(9,192)
Per Share Data, HK$					
Shareholders' funds per share	**43.16**	43.02	38.79	36.86	34.84
Earnings per share	**5.36**	5.64	5.03	6.20	4.44
Dividends per share	**3.02**	2.91	2.80	2.70	2.62
Closing share price					
Highest	**96.95**	85.30	83.90	69.75	68.00
Lowest	**75.35**	72.55	62.45	62.20	56.30
As at year-end	**88.50**	79.95	71.25	65.85	67.25
Ratios					
Return on equity, %	**12.4**	13.8	13.3	17.3	12.8
Operating return on equity, %	**12.8**	12.9	12.9	12.7	11.5
Total debt to total capital, %	**30.4**	31.8	31.5	34.0	39.6
Net debt to total capital, %	**25.5**	27.8	29.5	32.4	38.0
EBIT interest cover, times	**10**	11	10	10	6
Price / Earnings, times	**17**	14	14	11	15
Dividend yield, %	**3.4**	3.6	3.9	4.1	3.9
Dividend cover, times	**1.8**	1.8	1.7	1.7	1.5
Dividend pay-out, %					
Total earnings	**56.3**	51.6	55.7	43.5	59.0
Operating earnings	**54.6**	55.2	57.4	59.2	65.8
Total returns to shareholders [1], %	**9.6**	8.4	6.4	8.4	8.8
Group Generation Capacity [2]					
(owned / operated / under construction), MW					
– by region					
Hong Kong	**7,543**	7,483	7,483	6,908	6,908
Mainland China	**7,869**	7,985	7,181	7,072	6,740
India	**1,796**	2,948	2,978	3,048	3,056
Southeast Asia and Taiwan	**285**	285	285	285	285
Australia	**4,478**	4,505	4,505	4,505	4,533
	21,971	23,206	22,432	21,818	21,522
– by status					
Operational	**21,127**	22,118	21,560	20,336	20,176
Construction	**844**	1,088	872	1,482	1,346
	21,971	23,206	22,432	21,818	21,522

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) Ecogen (2014 to 2017) on 100% as having right to use; and (c) other stations (including Ecogen in 2018) on the proportion of the Group's equity interests.

Environmental[1]

Performance Indicators	Units	2018	2017	2016	2015	2014	GRI Standard	HKEx ESG Reporting Guide Reference
Resource Use & Emissions[2]								
Coal consumed (for power generation)	TJ	**521,568**	471,976	453,904	450,937	541,865	302-1	A2.1
Gas consumed (for power generation)	TJ	**83,359**	91,426	86,787	95,591	63,268	302-1	A2.1
Oil consumed (for power generation)	TJ	**3,774**	5,069	4,162	2,892	2,345	302-1	A2.1
Carbon dioxide equivalent (CO_2e) emissions from power generation (Scopes 1 & 2)	kT	**52,304**	48,082	46,681	46,723	53,258	305-1 305-2	A1.2
Carbon dioxide (CO_2) emissions from power generation (Scopes 1 & 2)[3]	kT	**52,048**	47,921	46,518	46,553	53,044		
Nitrogen oxides (NO_x) emissions	kT	**60.9**	59.3	58.1	56.3	74.6	305-7	A1.1
Sulphur dioxide (SO_2) emissions	kT	**76.1**	81.6	71.2	63.4	93.0	305-7	A1.1
Total particulates emissions	kT	**8.5**	8.3	8.5	9.8	11.5	305-7	A1.1
Water withdrawal							303-1	A2.2
from marine water resources	Mm^3	**5,087.3**	4,421.7	4,202.3	4,447.6	4,774.5		
from freshwater resources	Mm^3	**59.3**	52.6	48.2	48.8	52.9		
from municipal sources	Mm^3	**7.1**	6.5	6.5	6.6	6.6		
Total	Mm^3	**5,153.7**	4,480.8	4,257.0	4,503.0	4,834.0		
Water discharged							306-1	
cooling water to marine water bodies	Mm^3	**5,087.3**	4,421.7	4,202.3	4,447.6	4,774.5		
treated wastewater to marine water bodies	Mm^3	**1.6**	1.6	1.5	1.1	1.3		
treated wastewater to freshwater bodies	Mm^3	**12.3**	12.3	13.6	12.6	14.5		
wastewater to sewerage	Mm^3	**1.8**	1.9	1.6	1.6	1.8		
wastewater to other destinations	Mm^3	**0.1**	0.2	0.2	0.1	0.1		
Total	Mm^3	**5,103.1**	4,437.7	4,219.2	4,463.0	4,792.2		
Hazardous waste produced[4]	T (solid) / kl (liquid)	**1,435 / 1,685**	857 / 1,420	1,302 / 1,251	641 / 2,832	484 / 2,783	306-2	A1.3
Hazardous waste recycled[4]	T (solid) / kl (liquid)	**631 / 1,648**	469 / 1,384	260 / 1,149	203 / 1,176	89 / 1,463	306-2	
Non-hazardous waste produced[4]	T (solid) / kl (liquid)	**11,471 / 52**	20,334 / 103	8,317 / 84	11,455 / 199	21,142 / 78	306-2	A1.4
Non-hazardous waste recycled[4]	T (solid) / kl (liquid)	**3,990 / 52**	3,790 / 103	2,963 / 84	4,414 / 199	4,172 / 78	306-2	
Environmental regulatory non-compliances resulting in fines or prosecutions	number	**0**	0	0	1	1	307-1	
Environmental licence limit exceedances & other non-compliances	number	**2**	13	2	13	3	307-1	
Climate Vision 2050 Target Performance[1,3]								
on equity basis[5]								
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	**0.74**	0.80	0.82	0.81	0.84	305-4	A1.2
Total renewable energy generation capacity	% (MW)	**12.5 (2,387)**	14.2 (2,751)	16.6 (3,090)	16.8 (3,051)	14.1 (2,660)		
Non-carbon emitting generation capacity	% (MW)	**20.9 (3,987)**	22.4 (4,350)	19.2 (3,582)	19.5 (3,543)	16.7 (3,152)		
on equity & long-term capacity and energy purchase basis[5,6]								
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2 / kWh	**0.66**	0.69	0.72	N/A	N/A	305-4	A1.2
Total renewable energy generation capacity	% (MW)	**12.8 (3,039)**	13.1 (3,211)	14.9 (3,551)	N/A	N/A		
Non-carbon emitting generation capacity	% (MW)	**24.1 (5,724)**	23.2 (5,699)	20.7 (4,931)	N/A	N/A		

Notes:

1 Environmental data rounded by asset before aggregation.
2 Covers operating assets where CLP has operational control at some point during the calendar year. Jeeralang and Newport, acquired by EnergyAustralia in April 2018, were not included in the 2018 data points. They will be included in the scope for 2019 reporting.
3 CO_2 emissions of Yallourn and Hallett assets were used in 2018. Prior to 2018, CO_2e emissions of these assets were used.
4 Waste categorised in accordance with local regulations.
5 "Equity basis" includes all majority and minority share assets in the CLP Group portfolio.
6 Starting in 2018, "long-term capacity and energy purchase" is defined as a purchase agreement with duration of at least five years, and capacity or energy purchased being no less than 10MW.

All 2018 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 more detailed narrative on the "Environmental, Social and Governance" related performance indicators, please refer to Capitals chapters and the Corporate Governance Report of this Annual Report.

Social

Performance Indicators	Units	2018	2017	2016	2015	2014	GRI Standard	HKEx ESG Reporting Guide Reference
Employees								
Employees based on geographical location							102-7	B1.1
Hong Kong	number	**4,538**	4,504	4,450	4,438	4,405		
Mainland China	number	**596**	577	560	527	480		
Australia	number	**2,042**	1,998	1,983	1,998	2,143		
India	number	**458**	463	435	397	359		
Total	number	**7,634**	7,542	7,428	7,360	7,387		
Employees eligible to retire within the next five years[7]							EU15	
Hong Kong	%	**20.0%**	18.6%	17.3%	16.2%	15.4%		
Mainland China	%	**13.2%**	10.6%	12.1%	11.9%	11.1%		
Australia	%	**4.0%**	12.2%	11.4%	10.9%	9.2%		
India	%	**12.8%**	2.4%	0.9%	0.8%	1.4%		
Total	%	**16.4%**	15.1%	14.1%	13.3%	12.4%		
Voluntary staff turnover rate[8,9]							401-1	B1.2
Hong Kong	%	**2.3%**	1.9%	2.3%	2.8%	2.6%		
Mainland China	%	**4.7%**	3.0%	3.4%	2.6%	2.5%		
Australia	%	**13.6%**	13.8%	12.6%	13.7%	11.6%		
India	%	**5.6%**	3.5%	8.4%	9.8%	13.2%		
Training per employee[10]	average hours	**46.1**	46.9	49.2	57.2	43.4	404-1	B3.2
Safety[11]								
Fatalities (employees only)[12]	number	**1**	0	0	0	0	403-2	B2.1
Fatalities (contractors only)[12]	number	**1**	4	3	0	1	403-2	B2.1
Fatality Rate (employees only)[13]	rate	**0.01**	0.00	0.00	0.00	0.00	403-2	B2.1
Fatality Rate (contractors only)[13]	rate	**0.01**	0.03	0.02	0.00	0.01	403-2	B2.1
Lost Time Injury (employees only)[14]	number	**11**	11	3	8	4	403-2	
Lost Time Injury (contractors only)[14]	number	**11**	16	10	8	19	403-2	
Lost Time Injury Rate (employees only)[13,14]	rate	**0.13**	0.13	0.04	0.10	0.05	403-2	
Lost Time Injury Rate (contractors only)[13,14]	rate	**0.09**	0.14	0.07	0.06	0.15	403-2	
Total Recordable Injury Rate (employees only)[13,15]	rate	**0.19**	0.21	0.11	0.18	0.26	403-2	
Total Recordable Injury Rate (contractors only)[13,15]	rate	**0.29**	0.36	0.19[17]	0.28	0.51	403-2	
Days lost (employees only)[14,16]	number	**253**	252	9	199	105	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	**20**	28	21	6	7		

Notes:

7 The percentages given refer to full-time permanent staff within each location, who are eligible to retire within the next five years.
8 Voluntary turnover is employees leaving the organisation voluntarily and does not include dismissal, retirement, separation under a separation scheme or end of contract.
9 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.
10 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.
11 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.
12 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.
13 All rates are normalised to 200,000 worked hours, which approximately equals to the number of hours worked by 100 people in one year.
14 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.
15 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.
16 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.
17 A first aid case at CLP Power Hong Kong in 2016 was reclassified to a medical treatment case.

All 2018 data on this page have been independently verified by PricewaterhouseCoopers ***except*** *those numbers which are shaded in grey.*

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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

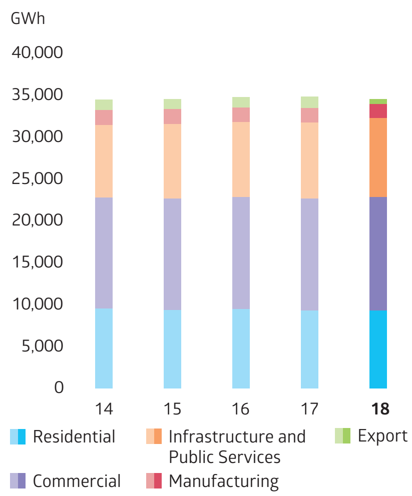
	2018	2017	2016	2015	2014
SoC Financial Statistics					
Combined Profit & Loss Statement, HK$M					
Profit for SoC	**10,756**	10,783	10,407	10,162	10,988
Transfer (to) / from Tariff Stabilisation Fund	**(191)**	42	151	124	(1,030)
Permitted return	**10,565**	10,825	10,558	10,286	9,958
Less: Interest on / Adjustment for					
Borrowed capital	**1,055**	976	952	920	856
Increase in customers' deposits	**1**	–	–	–	–
Performance incentives	**(105)**	(54)	(53)	(51)	(49)
Tariff Stabilisation Fund	**11**	4	2	2	1
Net return	**9,603**	9,899	9,657	9,415	9,150
Combined Balance Sheet, HK$M					
Net assets employed					
Fixed assets	**113,295**	109,824	106,886	104,479	101,420
Non-current assets	**198**	268	440	382	684
Current assets	**6,559**	7,606	4,061	5,327	6,770
	120,052	117,698	111,387	110,188	108,874
Less: current liabilities	**24,699**	22,565	21,474	18,565	18,518
Net assets	**95,353**	95,133	89,913	91,623	90,356
Exchange fluctuation account	**81**	(21)	(279)	113	(565)
	95,434	95,112	89,634	91,736	89,791
Represented by					
Equity	**46,569**	44,736	42,147	42,307	42,456
Long-term loans and other borrowings	**32,274**	34,251	28,885	30,730	28,340
Deferred liabilities	**15,650**	15,379	17,816	17,764	17,937
Tariff Stabilisation Fund	**941**	746	786	935	1,058
	95,434	95,112	89,634	91,736	89,791
Other SoC Information, HK$M					
Total electricity sales	**40,982**	39,161	37,120	38,087	35,969
Capital expenditure	**8,922**	8,068	7,292	7,630	7,800
Depreciation	**4,931**	4,706	4,375	4,143	3,901
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,597**	2,556	2,524	2,485	2,460
Sales analysis, millions of kWh					
Commercial	**13,425**	13,220	13,234	13,209	13,099
Manufacturing	**1,704**	1,740	1,751	1,791	1,791
Residential	**9,191**	9,217	9,394	9,228	9,450
Infrastructure and Public Services	**9,342**	8,987	8,858	8,805	8,585
Local	**33,662**	33,164	33,237	33,033	32,925
Export	**556**	1,341	1,205	1,187	1,226
Total Electricity Sales	**34,218**	34,505	34,442	34,220	34,151
Annual change, %	**(0.8)**	0.2	0.6	0.2	2.1
Local consumption, kWh per person	**5,433**	5,397	5,451	5,466	5,516
Local sales, HK¢ per kWh (average)					
Basic Tariff	**93.3**	91.8	88.9	87.1	88.6
Fuel Cost Adjustment [1]	**23.2**	21.0	24.3	27.0	22.4
Total Tariff	**116.5**	112.8	113.2	114.1	111.0
Rent and Rates Special Rebate [2]	**(1.1)**	–	–	–	–
Net Tariff [3]	**115.4**	112.8	113.2	114.1	111.0
Annual change in Basic Tariff, %	**1.6**	3.3	2.1	(1.7)	5.5
Annual change in Total Tariff, %	**3.3**	(0.4)	(0.8)	2.8	4.3
Annual change in Net Tariff, %	**2.3**	(0.4)	(0.8)	2.8	6.0

A ten-year summary is on our website.

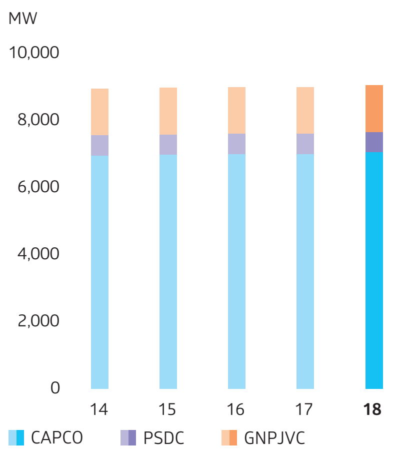
	2018	2017	2016	2015	2014
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,963**	8,913	8,913	8,888	8,888
System maximum demand					
Local, MW	**7,036**	7,155	6,841	6,878	7,030
Annual change, %	**(1.7)**	4.6	(0.5)	(2.2)	4.9
Local and Mainland China, MW	**7,316**	8,183	7,509	7,582	7,502
Annual change, %	**(10.6)**	9.0	(1.0)	1.1	(1.5)
System load factor, %	**58.8**	53.0	57.7	57.0	57.8
Generation by CAPCO stations, millions of kWh	**24,642**	25,032	26,056	25,739	27,533
Sent out, millions of kWh –					
From own generation	**23,032**	23,456	24,362	24,075	25,597
Net transfer from					
Landfill gas generation	**3**	2	4	4	3
GNPS / GPSPS / Others	**12,501**	12,426	11,501	11,612	10,084
Total	**35,536**	35,884	35,867	35,691	35,684
Fuel consumed, terajoules –					
Oil	**2,714**	3,894	3,452	2,160	1,785
Coal	**150,310**	148,065	160,661	161,988	215,367
Gas	**72,969**	75,807	74,559	71,406	42,465
Total	**225,993**	227,766	238,672	235,554	259,617
Cost of fuel, HK$ per gigajoule – Overall	**54.79**	49.30	43.77	51.25	39.66
Thermal efficiency, % based on units sent out	**36.7**	37.1	36.7	36.8	35.5
Plant availability, %	**86.4**	84.6	84.1	85.0	83.7
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	555	555
132kV	**1,642**	1,646	1,656	1,645	1,643
33kV	**22**	22	24	24	27
11kV	**13,643**	13,455	13,046	12,739	12,475
Transformers, MVA	**67,607**	66,938	65,834	63,373	61,450
Substations –					
Primary	**232**	232	230	226	224
Secondary	**14,685**	14,483	14,254	14,019	13,845
Employees and Productivity					
Number of SoC employees	**3,798**	3,831	3,808	3,817	3,807
Productivity, thousands of kWh per employee	**8,825**	8,683	8,718	8,666	8,635

Notes:
1 The Fuel Cost Adjustment has replaced the Fuel Clause Charge effective from October 2014. Commencing 1 October 2018, the Fuel Cost Adjustment is automatically adjusted on a monthly basis to reflect changes in actual price of fuel used.
2 CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 1.1 cents per unit from January 2018 to mid-February 2019, rebating to customers the refunds received from the Government in relation to CLP Power's claims against the Government's 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