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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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

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

The Company's wholly-owned subsidiary, Treasure Business Limited, acquired the entire issued share capital of HK Electric and the acquisition was completed on 29 January 2014. Following this acquisition, HK Electric has become an indirect wholly-owned subsidiary of the Company.

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2015 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group"). The consolidated financial statements of the Company for the year ended 31 December 2015 comprise the consolidated financial statements of the Company and its subsidiaries (together the "Group").

The Trust controls the Company and the sole activity of the Trust during the year ended 31 December 2015 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "consolidated financial statements of the Trust and of the Company".

The consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, significant accounting policies and the related explanatory information are common to the Trust and the Company. Information specific to the Company are disclosed separately in the relevant explanatory information in notes to the consolidated financial statements.

The Trust Group and the Group are referred as the "Groups".

3. Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 34.

(c) Business combinations and subsidiaries

The Groups apply the acquisition method to account for business combinations. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date except if related to the issue of debt or equity securities. 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 Groups' share of the identifiable net assets acquired, is recorded as goodwill (see note 3(d)). If the total consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

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

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 3(g)(ii)).

3. Significant accounting policies (continued)

(d) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(i) Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation (see note 3(e)(viii)) and impairment losses (see note 3(g)(ii)).

(ii) Assets under construction are stated at cost less impairment losses (see note 3(g)(ii)), and are not depreciated. Assets under construction are transferred to appropriate class of property, plant and equipment when completed and ready for use.

(iii) The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs (see note 3(l)).

(iv) Subsequent expenditure to replace a component of an item of property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the item's carrying amount or recognised as a separate item as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Groups and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(v) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(vi) Leasehold land held for own use under finance leases is stated at cost less accumulated amortisation (see note 3(e)(vii)) and impairment losses (see note 3(g)(ii)).

(vii) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over shorter of the estimated useful lives of the leased assets and the unexpired lease term.

(viii) Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio systems	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5

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

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

3. Significant accounting policies (continued)

(f) Leased assets and operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Groups determine that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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

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

(g) Impairment of assets

(i) Impairment of trade and other receivables and other financial assets

Trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Groups about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

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

– property, plant and equipment and interests in leasehold land;

– goodwill; and

– investments in subsidiaries in the Company's statement of financial position.

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

3. Significant accounting policies (continued)

(g) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(h) Short-term employee benefits

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

(i) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

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

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

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

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

(ii) Contributions to defined contribution retirement schemes

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

3. Significant accounting policies (continued)

(j) Inventories

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

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

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

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 3(g)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 3(o)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

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

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

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(u), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Derivative financial instruments

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

(o) Hedging

(i) Fair value hedges

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

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

3. Significant accounting policies (continued)

(o) Hedging (continued)

(ii) Cash flow hedges (continued)

When a hedging instrument expires or is sold, terminated or exercised, or the Groups revoke designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(p) Revenue recognition

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

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

The Government has approved the 2014-2018 Development Plan covering the period from 1 January 2014 to 31 December 2018. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) Fuel Clause Recovery Account

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

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

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

Fuel Clause Charges or Rebates are utilised to smooth increases in Net Tariffs paid by customers. The impact of tariff smoothing is to reduce the Net Tariffs payable by customers in certain years and increase the Net Tariffs in other years. However, the tariff smoothing has no impact on HK Electric's total earnings and the related balance on the Fuel Clause Recovery Account is expected to be recovered by Fuel Clause Charges and/or Fuel Cost Account Adjustments.

(iii) Income recognition

Electricity income is recognised based on the actual and accrued units of electricity consumed by customers during the year at the Basic Tariff, which is the unit charge agreed with the Government during the Annual Tariff Review for each financial year.

Electricity-related income is recognised when the related services are rendered.

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

(q) Translation of foreign currencies

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

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

3. Significant accounting policies (continued)

(r) Cash and cash equivalents

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

(s) Income tax

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

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

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

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

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

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

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

(t) Borrowing costs

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

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

(u) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) Other provisions and contingent liabilities

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

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

3. Significant accounting policies (continued)

(v) Related parties

(i) A person or a close member of that person's family is related to the Groups if that person:

(a) has control or joint control over the Groups;

(b) has significant influence over the Groups; or

(c) is a member of the key management personnel of the Groups.

(ii) An entity is related to the Groups if any of the following conditions apply:

(a) The entity and the Groups are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is a joint venture or an associate of the other entity (or a joint venture or an associate of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Groups or an entity related to the Groups.

(f) The entity is controlled or jointly controlled by a person identified in note 3(v)(i).

(g) A person identified in note 3(v)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a group of which it is a part, provides a key management personnel services to the Groups.

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

(w) Segment reporting

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

4. Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following developments are relevant to the Trust's and the Company's consolidated financial statements:

- Amendments to HKAS 19, *Employee benefits: Defined benefit plans: Employee contributions*
- *Annual Improvements to HKFRSs 2010-2012 Cycle*
- *Annual Improvements to HKFRSs 2011-2013 Cycle*

The adoption of these amendments to HKFRSs has no material impact on the Groups' results and financial position for the current or prior periods. The Groups have not applied any new standard or amendment that is not effective for the current accounting period.

5. Revenue

The principal activity of the Groups is the generation and supply of electricity to Hong Kong Island and Lamma Island. Revenue is analysed as follows:

	2015 $ million	2014 $ million
Sales of electricity	**11,165**	10,489
Concessionary discount on sales of electricity	**(6)**	(6)
Electricity-related income	**51**	21
	11,210	10,504

6. Segment reporting

The Groups have one reporting segment which is the generation and supply of electricity to Hong Kong Island and Lamma Island. All segment assets are located in Hong Kong. The Groups' chief operating decision-maker reviews the consolidated results of the Groups for the purposes of resource allocation and performance assessment. Therefore, no additional reportable segment and geographical information has been presented.

7. Other revenue and other net income

	2015 $ million	2014 $ million
Interest income from financial assets not at fair value through profit or loss	**46**	47
Sundry income	**32**	74
	78	121

8. Finance costs

	2015 $ million	2014 $ million
Interest on overdrafts, bank loans and other borrowings	**1,120**	1,029
Less: interest capitalised to assets under construction	**(78)**	(74)
interest transferred to fuel costs	**(17)**	(17)
Total interest expense arising from financial liabilities not at fair value through profit or loss	**1,025**	938

Interest expenses have been capitalised at an average rate of approximately 2.1% (2014: 2.1%) per annum for assets under construction.

9. Profit before taxation

	2015 $ million	2014 $ million
Profit before taxation is arrived at after charging:		
Depreciation	**2,600**	2,539
Amortisation of leasehold land	**193**	179
Costs of inventories	**3,728**	4,595
Write down of inventories	**6**	5
Staff costs	**635**	523
Net loss on disposal and written off of property, plant and equipment	**77**	90
Auditor's remuneration		
– audit and audit related work	**4**	3
– non-audit work (see note below)	**–**	6
Listing expenses	**–**	19

Non-audit work for 2014 was in relation to global offering of Share Stapled Units and acquisition of HK Electric.

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

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

	2015 $ million	2014 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**1,059**	881
Over-provision in respect of prior year	**–**	(1)
	1,059	880
Deferred tax (see note 26(b))		
Origination and reversal of temporary differences	**(309)**	(171)
	750	709

The provision for Hong Kong Profits Tax for 2015 is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Groups are exempt from any income tax in these jurisdictions.

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

	2015 $ million	2014 $ million
Profit before taxation	**4,263**	4,089
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate of 16.5% (2014: 16.5%)	**703**	675
Tax effect of non-deductible expenses	**57**	53
Tax effect of non-taxable income	**(10)**	(18)
Over-provision in respect of prior year	**–**	(1)
Actual tax expense	**750**	709

11. Directors' emoluments and senior management remuneration

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

Name of Directors	Fees $ million	Basic salaries, allowances and other benefits [11] $ million	Retirement scheme contributions $ million	Bonuses $ million	2015 Total emoluments $ million	2014 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning [2]						
Chairman	0.12	0.74	–	–	**0.86**	0.84
Wan Chi Tin						
Chief Executive Officer	0.07	6.06	0.02	7.62	**13.77**	12.21
Chan Loi Shun	0.07	2.41	–	–	**2.48**	2.28
Cheng Cho Ying, Francis	0.07	3.02	0.73	1.41	**5.23**	4.69
Chow Woo Mo Fong, Susan [8]	–	0.08	–	–	**0.08**	0.14
Shan Shewu [3]	0.07	2.03	0.02	0.50	**2.62**	–
Yuen Sui See						
Director of Operations	0.07	4.10	0.02	3.08	**7.27**	6.71
Non-executive Directors						
Li Tzar Kuoi, Victor						
Deputy Chairman to the Company Board	0.07	0.37	–	–	**0.44**	0.02
Fahad Hamad A H Al-Mohannadi [6]	0.04	–	–	–	**0.04**	–
Ronald Joseph Arculli [1]	0.14	0.06	–	–	**0.20**	0.18
Du Zhigang [4]	0.07	–	–	–	**0.07**	–
Jiang Xiaojun [4]	0.07	–	–	–	**0.07**	–
Deven Arvind Karnik [6]	0.04	–	–	–	**0.04**	–
Frank John Sixt [10]	–	0.03	–	–	**0.03**	–
Tso Kai Sum [9]	–	–	–	–	**–**	6.42
Independent Non-executive Directors						
Fong Chi Wai, Alex [2]	0.09	0.02	–	–	**0.11**	0.10
Kwan Kai Cheong [5]	0.07	0.01	–	–	**0.08**	–
Lee Lan Yee, Francis [1]	0.14	0.02	–	–	**0.16**	0.15
George Colin Magnus	0.07	0.03	–	–	**0.10**	0.09
Donald Jeffrey Roberts [1] [2]	0.16	0.02	–	–	**0.18**	0.17
Ralph Raymond Shea [7]	0.02	–	–	–	**0.02**	–
Total for the year 2015	**1.45**	**19.00**	**0.79**	**12.61**	**33.85**	
Total for the year 2014	1.03	21.11	0.68	11.18		34.00

Notes:

(1) Member of the Audit Committee.

(2) Member of the Remuneration Committee.

(3) Appointed as an Executive Director with effect from 6 January 2015.

(4) Appointed as Non-executive Director with effect from 6 January 2015.

(5) Appointed as an Independent Non-executive Director with effect from 6 January 2015.

(6) Appointed as Non-executive Director with effect from 9 June 2015.

(7) Appointed as an Independent Non-executive Director with effect from 7 October 2015.

(8) Resigned as an Executive Director and appointed as an Alternate Director to Mr. Fok Kin Ning, Canning with effect from 28 November 2014.

(9) Resigned as a Non-executive Director and Deputy Chairman of the Company Board with effect from 28 November 2014.

(10) Appointed as an Alternate Director to Mr. Li Tzar Kuoi, Victor with effect from 9 June 2015.

(11) Other benefits include electricity allowances to Directors for residential use. For Directors who are employees of the Groups, other benefits also include insurance and medical benefits entitled by the employees of the Groups.

The five highest paid individuals of the Groups included three directors (2014: four) whose total emoluments are shown above. The remuneration of the other two individuals (2014: one) who comprise the five highest paid individuals of the Groups is set out below:

	2015 $ million	2014 $ million
Salary and other benefits	**8.58**	3.88
Retirement scheme contributions	**0.60**	0.21
	9.18	4.09

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

	2015 Number	2014 Number
$1,000,001 – $1,500,000	**–**	1
$1,500,001 – $2,000,000	**–**	1
$2,000,001 – $2,500,000	**–**	1
$2,500,001 – $3,000,000	**4**	2
$3,000,001 – $3,500,000	**2**	2
$3,500,001 – $4,000,000	**–**	1
$4,000,001 – $4,500,000	**–**	1
$4,500,001 – $5,000,000	**2**	–

11. Directors' emoluments and senior management remuneration (continued)

The remuneration of Directors and senior management is as follows:

	2015 **$ million**	2014 $ million
Short-term employee benefits	**57**	56
Post-employment benefits	**3**	3
	60	59

At 31 December 2015 and 2014, there was no amount due from Directors and senior management.

12. Scheme of Control transfers

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

Pursuant to 2013 mid-term review of Scheme of Control, a Smart Power Fund was established in June 2014 to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations for communal use in non-commercial buildings. Specifically, HK Electric consented to contribute to the Smart Power Fund each year during the period from 1 January 2014 to 31 December 2018 an amount being deducted from its financial incentive under the energy efficiency incentive mechanism in the SoCA for outperforming the energy audit and energy saving targets (if any) each year during the period from 1 January 2013 to 31 December 2017.

(b) Scheme of Control transfers (to)/from the consolidated statement of profit or loss represents:

	2015 $ million	2014 $ million
Tariff Stabilisation Fund	**(84)**	169
Rate Reduction Reserve	**1**	–
Smart Power Fund		
– Injection during the year	**–**	5
– Provisional sum to be injected in the following year	**5**	5
	(78)	179

A provisional sum of $4,952,000, representing deduction of HK Electric's 2015 financial incentive (2014: $4,934,000), was transferred from the consolidated statement of profit or loss and included in the trade and other payables for injection into the Smart Power Fund in the following year.

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

$ million	**Tariff Stabilisation Fund** (see note below)	**Rate Reduction Reserve** (see note below)	**Smart Power Fund**	**Total**
At 1 January 2014	–	–	–	–
Addition upon business combination	119	–	–	119
Transfer from the consolidated statement of profit or loss	169	–	–	169
Injection for the year (see note (b) above)	–	–	5	5
At 31 December 2014 and 1 January 2015	**288**	**–**	**5**	**293**
Transfer (to)/from the consolidated statement of profit or loss	**(84)**	**1**	**–**	**(83)**
Injection for the year (see note (b) above)	**–**	**–**	**5**	**5**
At 31 December 2015	**204**	**1**	**10**	**215**

Pursuant to mid-term review of Scheme of Control, the year-end balance of the Rate Reduction Reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.

13. Distributions/dividends

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

	2015 $ million	From listing date on 29 January 2014 to 31 December 2014 $ million
Audited consolidated profit attributable to the holders of Share Stapled Units	**3,591**	3,201
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	**4,532**	4,594
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	**1,652**	530
– changes in working capital	**52**	178
– adjustment for employee retirement benefit schemes	**18**	12
– taxes paid	**(918)**	(847)
	804	(127)
(iii) capital expenditure payment	**(2,237)**	(1,662)
(iv) deducting		
– debt repayment	**(779)**	(500)
– net finance costs	**(937)**	(1,132)
	(1,716)	(1,632)
(v) deducting		
– reserve for future capital expenditure/debt service and/or compliance with covenants in credit facility agreement	**(1,436)**	(1,156)
Distributable income	**3,538**	3,218

Note 1: Pursuant to clause 1.1 of the Trust Deed, "Adjustments" includes, but not limited to (i) transfers to/from the Tariff Stabilisation Fund and the Rate Reduction Reserve under the Scheme of Control; (ii) unrealised revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (iii) impairment of goodwill/recognition of negative goodwill; (iv) material non-cash gains/losses; (v) costs of any public offering of Share Stapled Units that are expensed through the consolidated statement of profit or loss but are funded by proceeds from the issuance of such Share Stapled Units; (vi) depreciation and amortisation; (vii) tax charges as shown in the consolidated statement of profit or loss; and (viii) net finance income/costs as shown in the consolidated statement of profit or loss.

Note 2: The Trust Deed requires the Trustee-Manager (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received by the Trustee-Manager in respect of the ordinary shares from the Company, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

Note 3: The distributions received by the Trustee-Manager from the Company will be derived from the Group Distributable Income which is referred as audited consolidated profit attributable to the holders of Share Stapled Units for the relevant financial year or distribution period, after making adjustments in respect of items as set out in the Trust Deed.

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

	2015 $ million	From listing date on 29 January 2014 to 31 December 2014 $ million
Interim distribution/first interim dividend declared and paid of 19.92 cents (2014: 16.53 cents) per Share Stapled Unit/share	**1,760**	1,461
Final distribution/second interim dividend proposed after the end of the reporting period of 20.12 cents (2014: 19.89 cents) per Share Stapled Unit/share	**1,778**	1,757
	3,538	3,218

For the year ended 31 December 2015, the Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2014: 19.89 cents per ordinary share), amounting to $1,778 million (2014: $1,757 million), in lieu of a final dividend after the end of the reporting period and therefore no final dividend was proposed by the Company Board.

For the year ended 31 December 2015, the Trustee-Manager Board declared a final distribution of 20.12 cents per Share Stapled Unit (2014: 19.89 cents per Share Stapled Unit), amounting to $1,778 million (2014: $1,757 million), after the end of the reporting period.

The final distribution/second interim dividend declared after the end of the reporting period is based on the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 31 December 2015 (2014: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(c) Distributions/dividends payable to holders of Share Staples Units/shares of the Company attributable to the previous financial year, approved and paid during the year

	2015 $ million	2014 $ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 19.89 cents (2014: Nil) per Share Stapled Unit/share	**1,757**	–

14. Earnings per Share Stapled Unit/share of the Company

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/ordinary shares of the Company of $3,591 million (2014: $3,201 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2014: 8,158,354,521 Share Stapled Units/ordinary shares of the Company) in issue during the year.

15. Property, plant and equipment and interests in leasehold land

$ million	Site formation and buildings	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use under finance leases	Total
Cost							
At 1 January 2014	–	–	–	–	–	–	–
Additions upon business combination	16,148	45,891	281	3,073	65,393	6,844	72,237
Additions	8	422	45	1,692	2,167	–	2,167
Transfer	356	1,269	81	(1,706)	–	–	–
Disposals	(3)	(216)	(14)	–	(233)	–	(233)
At 31 December 2014 and 1 January 2015	**16,509**	**47,366**	**393**	**3,059**	**67,327**	**6,844**	**74,171**
Additions	**6**	**578**	**88**	**1,844**	**2,516**	**–**	**2,516**
Transfer	**37**	**1,016**	**41**	**(1,094)**	**–**	**–**	**–**
Disposals	**(5)**	**(308)**	**(15)**	**–**	**(328)**	**–**	**(328)**
At 31 December 2015	**16,547**	**48,652**	**507**	**3,809**	**69,515**	**6,844**	**76,359**
Accumulated depreciation and amortisation							
At 1 January 2014	–	–	–	–	–	–	–
Written back on disposals	(1)	(110)	(13)	–	(124)	–	(124)
Charge for the year	467	2,089	93	–	2,649	179	2,828
At 31 December 2014 and 1 January 2015	**466**	**1,979**	**80**	**–**	**2,525**	**179**	**2,704**
Written back on disposals	**(2)**	**(217)**	**(15)**	**–**	**(234)**	**–**	**(234)**
Charge for the year	**510**	**2,114**	**79**	**–**	**2,703**	**193**	**2,896**
At 31 December 2015	**974**	**3,876**	**144**	**–**	**4,994**	**372**	**5,366**
Net book value							
At 31 December 2015	**15,573**	**44,776**	**363**	**3,809**	**64,521**	**6,472**	**70,993**
At 31 December 2014	16,043	45,387	313	3,059	64,802	6,665	71,467

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to $78 million (2014: $74 million).

Depreciation charges for the year included $103 million (2014: $110 million), relating to assets utilised in development activities, which has been capitalised.

16. Goodwill

(a) Carrying amount of goodwill

	2015 **$ million**	2014 $ million
Cost		
At 1 January	**33,623**	–
Addition upon business combination	**–**	33,623
At 31 December	**33,623**	33,623

(b) Impairment test for goodwill

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

In the case of triggering events and at least annually, the Groups test whether the goodwill has suffered any impairment. Recoverable amount of the CGU, to which the goodwill has been allocated, was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 10-year period. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-lived nature of generation, transmission and distribution assets and a more appropriate reflection of future cash flows from anticipated legislative and regulatory regime of the industry. The cash flow projections are discounted using a pre-tax discount rate of 6.31% (2014: 6.65%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 10-year period are extrapolated using the terminal growth rates of 0.5% (2014: 0.5%).

There was no indication of impairment arising from review on goodwill as at 30 November 2015.

If the discount rate rose to 6.89% (2014: 6.90%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value-in-use calculation would not affect management's view on impairment test result as at 30 November 2015.

17. Investments in subsidiaries

Details of the subsidiaries at 31 December 2015 are as follows:

Name of subsidiary	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/operation	Principal activity
Century Rank Limited	US$1	100%	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US$1	100% [1]	British Virgin Islands/ Hong Kong	Investment holding
The Hongkong Electric Company, Limited	$2,411,600,000	100% [1]	Hong Kong	Electricity generation and supply
Hongkong Electric Finance Limited	US$1 HK$4,510 million Hong Kong dollar fixed rate notes US$750 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$250 million United States dollar callable zero coupon notes (see note 23)	100% [1]	British Virgin Islands/ Hong Kong	Financing

[1] Indirectly held

18. Inventories

	2015 $ million	2014 $ million
Coal, fuel oil and natural gas	**525**	572
Stores and materials (see note below)	**357**	361
	882	933

Included in stores and materials is capital stock of $205 million (2014: $213 million) which was purchased for future maintenance of capital assets.

19. Trade and other receivables

	2015 $ million	2014 $ million
Trade debtors (see note (a) below)	**678**	668
Other receivables (see note below)	**463**	452
	1,141	1,120
Derivative financial instruments (see note 24)	**2**	3
Deposits and prepayments	**17**	12
	1,160	1,135

All of the trade and other receivables are expected to be recovered within one year.

Other receivables of the Groups include unbilled electricity charges of $408 million (2014: $406 million) to be received from electricity customers.

(a) Trade receivables ageing analysis

The ageing analysis of trade debtors based on invoice date, which are neither individually nor collectively considered to be impaired, is as follows:

	2015 $ million	2014 $ million
Current and within 1 month	**625**	610
1 to 3 months	**36**	38
More than 3 months but less than 12 months	**17**	20
	678	668

Electricity bills issued to residential, small industrial, commercial and miscellaneous customers for electricity supplies are due upon presentation whereas maximum demand customers are allowed a credit period of 16 working days. If settlements by maximum demand customers are received after the credit period, a surcharge of 5% can be added to the electricity bills.

Trade debtors for electricity charges that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors for electricity charges that were past due but not impaired relate to a number of independent customers. HK Electric obtains collateral in the form of security deposits or bank guarantees from customers (see note 28(a)) and the balances are considered to be fully recoverable.

19. Trade and other receivables (continued)

(b) Impairment of trade and other receivables

The Groups' trade debtors are individually assessed for impairment. Any impairment losses are written off against the trade debtors directly. No separate account is maintained for impairment losses. During the year ended 31 December 2015, impairment of trade and other receivables of $1 million (2014: $1 million) was charged to profit or loss.

20. Bank deposits and cash

(a) Bank deposits and cash comprise:

	2015 $ million	2014 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**5,712**	3,216
Cash at bank and in hand	**265**	20
Cash and cash equivalents in the consolidated cash flow statement	**5,977**	3,236
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	**180**	1,394
Bank deposits and cash in the consolidated statement of financial position	**6,157**	4,630

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

	Note	**2015 $ million**	2014 $ million
Profit before taxation		**4,263**	4,089
Adjustments for:			
Interest income	7	**(46)**	(47)
Finance costs	8	**1,025**	938
Interest transferred to fuel costs	8	**17**	17
Depreciation	9	**2,600**	2,539
Amortisation of leasehold land	9	**193**	179
Net loss on disposal and written off of property, plant and equipment	9	**77**	90
Listing expenses	9	**–**	19
Net financial instrument revaluation and exchange losses/(gains)		**1**	(1)
Changes in working capital:			
Decrease/(increase) in inventories		**43**	(41)
Increase in trade and other receivables		**(28)**	(12)
Movement in Fuel Clause Recovery Account		**1,652**	530
Increase in trade and other payables		**37**	231
Increase/decrease in net employee retirement benefit assets/liabilities		**18**	12
Cash generated from operations		**9,852**	8,543

21. Trade and other payables

	2015 $ million	2014 $ million
Creditors measured at amortised cost (see note below)	**2,557**	2,466
Derivative financial instruments (see note 24)	**29**	22
	2,586	2,488

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

Creditors' ageing is analysed as follows:

	2015 $ million	2014 $ million
Due within 1 month or on demand	**700**	798
Due after 1 month but within 3 months	**529**	475
Due after 3 months but within 12 months	**1,328**	1,193
	2,557	2,466

22. Fuel Clause Recovery Account

The Fuel Clause Charges per unit for electricity sales was 32.3 cents from 1 January 2015 (2014: 33.1 cents). Movements on the Fuel Clause Recovery Account were as follows:

	2015 $ million	2014 $ million
At 1 January	**631**	–
Addition upon business combination	**–**	101
Transferred to profit or loss	**(1,861)**	(2,875)
Fuel Clause Charges during the year	**3,513**	3,405
At 31 December	**2,283**	631

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs (see note 3(p)(ii)).

23. Non-current bank loans and other interest-bearing borrowings

	2015 $ million	2014 $ million
Bank loans	**34,057**	36,788
Current portion	**–**	(20)
	34,057	36,768
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**4,486**	4,983
Zero coupon notes (see note (b) below)	**633**	–
	5,119	4,983
Current portion	**(900)**	(500)
	4,219	4,483
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**6,087**	6,098
Zero coupon notes (see note (b) below)	**1,954**	–
	8,041	6,098
	46,317	47,349

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 1.65% to 4.55% per annum (2014: 1.65% to 4.55% per annum).

The United States dollar fixed rate notes bear interest at 4.25% per annum (2014: 4.25% per annum).

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

The United States dollar zero coupon notes have nominal amount of US$250 million and accrual yields ranging from 4.6% to 4.8% per annum. These notes embed with issuer call options allowing issuer to early redeem the notes on 20 October 2020 and annually thereafter until the penultimate year to maturity.

(c) Details of the issuer of the Hong Kong dollar and United States dollar medium term notes are set out in note 17.

(d) Some banking facilities of the Groups are subject to the fulfilment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Groups regularly monitors its compliance with these covenants. Further details of the Groups' management of liquidity risk are set out in note 28(b). As at 31 December 2015 and 2014, none of the covenants relating to drawn down facilities had been breached.

23. Non-current bank loans and other interest-bearing borrowings (continued)

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

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

	2015 $ million	2014 $ million
After 1 year but within 2 years	**34,357**	900
After 2 years but within 5 years	**6,417**	37,397
After 5 years	**5,543**	9,052
	46,317	47,349

24. Derivative financial instruments

	2015		2014	
	Assets $ million	**Liabilities $ million**	Assets $ million	Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**–**	**(69)**	18	(47)
– Interest rate swaps	**–**	**(88)**	–	(21)
– Forward foreign exchange contracts	**3**	**(67)**	3	(28)
Fair value hedges:				
– Cross currency swaps	**313**	**(5)**	334	(7)
– Forward foreign exchange contracts	**–**	**(1)**	–	(1)
	316	**(230)**	355	(104)
Derivative financial instruments not qualifying as accounting hedges:				
– Interest rate swaps	**–**	**(6)**	–	–
	316	**(236)**	355	(104)
Analysed as:				
Current	**2**	**(29)**	3	(22)
Non-current	**314**	**(207)**	352	(82)
	316	**(236)**	355	(104)

25. Employee retirement benefits

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

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

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (the "Guaranteed Return Scheme"). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 25(b)).

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

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

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

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include discount rate, long term salary increase rate and future pension increase rate which are disclosed in note 25(a)(viii) together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 31 December 2013. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

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

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2015 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

25. Employee retirement benefits (continued)

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

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

	2015 **$ million**	2014 $ million
Present value of defined benefit obligations	**3,948**	3,976
Fair value of assets of the Schemes	**(3,941)**	(4,145)
	7	(169)
Represented by:		
Employee retirement benefit scheme assets	**(580)**	(668)
Employee retirement benefit scheme liabilities	**587**	499
	7	(169)

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

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

	2015 **$ million**	2014 $ million
At 1 January	**3,976**	–
Addition upon business combination	**–**	3,991
Current service cost	**80**	76
Interest cost	**78**	85
Employee contributions paid to the Schemes	**16**	16
Actuarial (gains)/losses due to:		
– liability experience	**(37)**	9
– change in financial assumptions	**111**	118
Benefits paid	**(276)**	(319)
At 31 December	**3,948**	3,976

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

	2015 $ million	2014 $ million
At 1 January	**4,145**	–
Addition upon business combination	**–**	4,123
Interest income on the Schemes' assets	**78**	88
Return on Schemes' assets, excluding interest income	**(84)**	176
Employer contributions paid to the Schemes	**62**	61
Employee contributions paid to the Schemes	**16**	16
Benefits paid	**(276)**	(319)
At 31 December	**3,941**	4,145

The Groups expect to contribute $65 million to the Schemes in 2016.

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

	2015 $ million	2014 $ million
Current service cost	**80**	76
Net interest income on net defined benefit asset/liability	**–**	(3)
	80	73

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

	2015 $ million	2014 $ million
Direct costs	**53**	49
Other operating costs	**27**	24
	80	73

25. Employee retirement benefits (continued)

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

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

	2015 **$ million**	2014 $ million
At 1 January	**49**	–
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**(158)**	49
At 31 December	**(109)**	49

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

	2015 **$ million**	2014 $ million
Hong Kong equities	**353**	402
European equities	**197**	205
North American equities	**500**	533
Asia Pacific and other equities	**134**	165
Global bonds	**2,638**	2,713
Deposits, cash and others	**119**	127
	3,941	4,145

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

(viii) The principal actuarial assumptions used as at 31 December (expressed as a weighted average) are as follows:

	2015	2014
Discount rate		
– The Pension Scheme	**2.1%**	2.3%
– The Guaranteed Return Scheme	**1.4%**	1.8%
Long term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

(ix) Sensitivity analysis

(a) The Pension Scheme

	2015	2014
	$ million	$ million
Actuarial assumptions	**Increase/(decrease) in defined benefit obligation**	
Discount rate		
– increase by 0.25%	**(56)**	(55)
– decrease by 0.25%	**59**	59
Pension increase rate		
– increase by 0.25%	**54**	53
– decrease by 0.25%	**(51)**	(50)
Mortality rate applied to specific age		
– set forward one year	**(64)**	(61)
– set backward one year	**65**	61

(b) The Guaranteed Return Scheme

	2015	2014
	$ million	$ million
Actuarial assumptions	**Increase/(decrease) in defined benefit obligation**	
Discount rate		
– increase by 0.25%	**(42)**	(45)
– decrease by 0.25%	**43**	46
Interest to be credited		
– increase by 0.25%	**42**	46

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position. The analysis has been performed on the same basis as for 2014.

25. Employee retirement benefits (continued)

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

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

	2015	2014
The Pension Scheme	**14.1 Years**	14.3 Years
The Guaranteed Return Scheme	**7.4 Years**	7.7 Years

(b) Defined contribution retirement schemes

	2015 $ million	2014 $ million
Expenses recognised in profit or loss	**43**	35

Forfeited contributions of $2 million (2014: $1 million) have been received during the year.

26. Income tax in the consolidated statement of financial position

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

	2015 $ million	2014 $ million
Hong Kong Profits Tax		
Addition upon business combination	**–**	186
Provision for Hong Kong Profits Tax for the year	**1,059**	881
Over-provision in respect of prior year	**–**	(1)
	1,059	1,066
Provisional Profits Tax paid	**(699)**	(847)
	360	219

(b) Deferred tax assets and liabilities

	2015 $ million	2014 $ million
Deferred tax assets	**(6)**	(3)
Deferred tax liabilities	**9,247**	9,602
Net deferred tax liabilities	**9,241**	9,599

The components of deferred tax liabilities/(assets) recognised and movements during the year are as follows:

$ million	**Depreciation allowances in excess of the related depreciation**	**Fuel Clause Recovery Account**	**Defined benefit retirement schemes**	**Others**	**Total**
At 1 January 2014	–	–	–	–	–
Addition upon business combination	9,847	(17)	(52)	(2)	9,776
Charged/(credited) to profit or loss	(93)	(87)	9	–	(171)
Charged/(credited) to other comprehensive income	–	–	8	(14)	(6)
At 31 December 2014 and 1 January 2015	**9,754**	**(104)**	**(35)**	**(16)**	**9,599**
Charged/(credited) to profit or loss	**(44)**	**(273)**	**8**	**–**	**(309)**
Credited to other comprehensive income	**–**	**–**	**(26)**	**(23)**	**(49)**
At 31 December 2015	**9,710**	**(377)**	**(53)**	**(39)**	**9,241**

The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2015 and 2014.

27. Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Groups' consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

$ million	Share capital (note 27(b))	Share premium (note 27(c))	Hedging reserve (note 27(d)(i))	Revenue reserve (note 27(d)(ii))	Proposed/ declared dividend (note 13)	Total
Balance at 1 January 2014	–	–	–	–	–	–
Changes in equity for 2014:						
Profit for the year	–	–	–	3,648	–	3,648
Other comprehensive income	–	–	(13)	–	–	(13)
Total comprehensive income	–	–	(13)	3,648	–	3,635
Issue of Share Stapled Units as part of purchase consideration of HK Electric	4	24,027	–	–	–	24,031
Issue of Share Stapled Units pursuant to global offering	4	24,122	–	–	–	24,126
Transaction costs attributable to issue of Share Stapled Units	–	(677)	–	–	–	(677)
First interim dividend paid (see note 13(b))	–	–	–	(1,461)	–	(1,461)
Proposed second interim dividend (see note 13(b))	–	–	–	(1,757)	1,757	–
Balance at 31 December 2014 and 1 January 2015	**8**	**47,472**	**(13)**	**430**	**1,757**	**49,654**
Changes in equity for 2015:						
Profit for the year	**–**	**–**	**–**	**4,172**	**–**	**4,172**
Other comprehensive income	**–**	**–**	**(16)**	**–**	**–**	**(16)**
Total comprehensive income	**–**	**–**	**(16)**	**4,172**	**–**	**4,156**
Second interim dividend in respect of previous year approved and paid (see note 13(c))	**–**	**–**	**–**	**–**	**(1,757)**	**(1,757)**
First interim dividend paid (see note 13(b))	**–**	**–**	**–**	**(1,760)**	**–**	**(1,760)**
Proposed second interim dividend (see note 13(b))	**–**	**–**	**–**	**(1,778)**	**1,778**	**–**
Balance at 31 December 2015	**8**	**47,472**	**(29)**	**1,064**	**1,778**	**50,293**

All of the Company's share premium and revenue reserve is available for distribution. The Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2014: 19.89 cents per ordinary share), amounting to $1,778 million (2014: $1,757 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

(b) Share capital

The Company

	2015	
	Number of Shares	**Nominal value $**
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	**20,000,000,000**	**10,000,000**
Preference shares of $0.0005 each		
At 1 January and 31 December	**20,000,000,000**	**10,000,000**
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	**8,836,200,000**	**4,418,100**
Preference shares of $0.0005 each		
At 1 January and 31 December	**8,836,200,000**	**4,418,100**

	2014	
	Number of Shares	Nominal value $
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January	760,000,000	380,000
Increase during the year	19,240,000,000	9,620,000
At 31 December	20,000,000,000	10,000,000
Preference shares of $0.0005 each		
At 1 January	760,000,000	380,000
Increase during the year	19,240,000,000	9,620,000
At 31 December	20,000,000,000	10,000,000

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Capital, reserves and dividends (continued)

(b) Share capital (continued)

	2014	
	Number of Shares	Nominal value $
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January	2	–
Re-designated as preference share	(1)	–
Issue of ordinary shares as part of purchase consideration of HK Electric	4,409,299,999	2,204,650
Issue of ordinary shares pursuant to global offering	4,426,900,000	2,213,450
At 31 December	8,836,200,000	4,418,100
Preference shares of $0.0005 each		
At 1 January	–	–
Re-designated as preference share	1	–
Issue of preference shares as part of purchase consideration of HK Electric	4,409,299,999	2,204,650
Issue of preference shares pursuant to global offering	4,426,900,000	2,213,450
At 31 December	8,836,200,000	4,418,100

(c) Share premium

Share premium represents the excess of Share Stapled Unit issuing price over the nominal values of ordinary and preference shares, after deducting underwriting commissions and listing expenses pursuant to global offering that have been charged to equity. The application of share premium is governed by Section 34 of Cayman Companies Law and the provisions of Company's amended and restated Memorandum and Articles of Association.

(d) Nature and purpose of reserves

(i) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 3(o)(ii).

(ii) Revenue reserve

The revenue reserve comprises the accumulated profits retained by the Company and its subsidiaries and accumulated actuarial losses on remeasurement of net defined benefit asset/liability of HK Electric.

(e) Capital management

The Groups' primary objectives when managing capital are:

– to safeguard the Groups' ability to continue as a going concern, so that the Groups can continue to provide returns for holders of Share Stapled Units and benefits for other stakeholders;

– to provide returns to holders of Share Stapled Units by securing access to finance at a reasonable cost;

– to support the Groups' stability and future growth; and

– to provide capital for the purpose of strengthening the Groups' risk management capability.

The Groups actively and regularly review and manage the capital structure, taking into consideration the future capital requirements of the Groups and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities.

The Groups monitor the capital structure on the basis of a net debt-to-net total capital ratio. For this purpose the Groups define net debt as interest-bearing borrowings (as shown in the consolidated statement of financial position) less bank deposits and cash. Net total capital includes net debt and equity which comprises all components of equity (as shown in the consolidated statement of financial position).

During 2015, the Groups' strategy, which was unchanged from 2014, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

27. Capital, reserves and dividends (continued)

(e) Capital management (continued)

The net debt-to-net total capital ratio at 31 December 2015 and 2014 was as follows:

	2015 $ million	2014 $ million
Bank loans and other interest-bearing borrowings	**47,217**	47,869
Less: Bank deposits and cash	**(6,157)**	(4,630)
Net debt	**41,060**	43,239
Total equity	**49,012**	49,191
Net debt	**41,060**	43,239
Net total capital	**90,072**	92,430
Net debt-to-net total capital ratio	**46%**	47%

28. Financial risk management and fair values of financial instruments

The Groups are exposed to credit, liquidity, interest rate and currency risks in the normal course of its business. In accordance with the Groups' treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Groups do not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

The Groups' credit risk is primarily attributable to trade and other receivables relating to electricity customers, bank deposits and over-the-counter derivative financial instruments entered into for hedging purposes. The Groups have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables relating to electricity customers, HK Electric obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. The collateral covered $445 million of trade and other receivables at 31 December 2015 (2014: $442 million). The credit policy is set out in note 19.

The Groups have defined minimum credit rating requirements and transaction limits for counterparties when dealing in financial derivatives or placing deposits to minimise credit exposure. The Groups do not expect any counterparty to fail to meet its obligations.

The Groups have no significant concentrations of credit risk in respect of trade and other receivables relating to electricity customers, as the five largest customers combined did not exceed 30% of the Groups' total revenue.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position.

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade and other receivables are set out in note 19.

Offsetting financial assets and financial liabilities

The Groups' derivative transactions are executed with financial institutions and governed by either International Swaps and Derivatives Association Master Agreements ("ISDA") or the general terms and conditions of these financial institutions, with a conditional right of set off under certain circumstances that would result in all outstanding transactions being terminated and net settled.

As these financial institutions currently have no legal enforceable right to set off the recognised amounts and the Groups do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously, all such financial instruments are recorded on gross basis at the end of the reporting period.

28. Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

The following table presents the recognised financial instruments that are subject to enforceable master netting arrangements but are not offset at the end of the reporting period.

		2015			2014		
$ million	Note	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
Financial assets							
Cross currency swaps	28(e)(i)	**313**	**(101)**	**212**	352	(30)	322
Forward foreign exchange contracts	28(e)(i)	**3**	**(2)**	**1**	3	(3)	–
Total		**316**	**(103)**	**213**	355	(33)	322
Financial liabilities							
Cross currency swaps	28(e)(i)	**74**	**(3)**	**71**	54	–	54
Interest rate swaps	28(e)(i)	**94**	**(76)**	**18**	21	(17)	4
Forward foreign exchange contracts	28(e)(i)	**68**	**(24)**	**44**	29	(16)	13
Total		**236**	**(103)**	**133**	104	(33)	71

(b) Liquidity risk

The Groups operate a central cash management system in order to achieve a better control of risk and minimise the costs of funds. The Groups' policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, to ensure that the Groups maintain sufficient reserves of cash and adequate committed lines of funding to meet liquidity requirements in the short and longer term. The Groups had undrawn committed bank facilities of $1,000 million at 31 December 2015 (2014: $1,000 million).

The following tables show the remaining contractual maturities at the end of the reporting period of the Groups' non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Groups can be required to pay.

$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
	2015					
	Contractual undiscounted cash outflows/(inflows)					
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	1,721	34,913	7,221	10,966	54,821	47,295
Creditors and accrued charges	2,413	–	–	–	2,413	2,413
	4,134	34,913	7,221	10,966	57,234	49,708
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	179	35	–	–	214	117
Gross settled						
Cross currency swaps and related interest accruals:						(225)
– outflow	360	166	352	–	878	
– inflow	(437)	(269)	(741)	–	(1,447)	
Forward foreign exchange contracts held as cash flow hedging instruments:						64
– outflow	3,148	1,611	–	2,305	7,064	
– inflow	(3,143)	(1,609)	–	(2,438)	(7,190)	
Other forward foreign exchange contracts:						1
– outflow	88	–	–	–	88	
– inflow	(88)	–	–	–	(88)	

28. Financial risk management and fair values of financial instruments (continued)

(b) Liquidity risk (continued)

	2014					
	Contractual undiscounted cash outflows/(inflows)					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	1,342	1,713	38,809	9,867	51,731	47,956
Creditors and accrued charges	2,346	–	–	–	2,346	2,346
	3,688	1,713	38,809	9,867	54,077	50,302
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	181	181	37	–	399	45
Gross settled						
Cross currency swaps and related interest accruals:						(281)
– outflow	358	359	406	117	1,240	
– inflow	(397)	(397)	(762)	(247)	(1,803)	
Forward foreign exchange contracts held as cash flow hedging instruments:						25
– outflow	3,549	44	9	–	3,602	
– inflow	(3,530)	(37)	(7)	–	(3,574)	
Other forward foreign exchange contracts:						1
– outflow	351	–	–	–	351	
– inflow	(349)	–	–	–	(349)	

(c) Interest rate risk

The Groups are exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(i) Hedging

The Groups' policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Groups also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the Groups' treasury policy. At 31 December 2015, the Groups had cross currency swaps with a total notional amount of $21,244 million (2014: $21,244 million) and interest rate swaps with a total notional amount of $25,872 million (2014: $25,872 million).

The Groups classify cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(o).

The fair values of cross currency swaps entered into by the Groups at 31 December 2015 were recognised as derivative financial instrument assets and liabilities amounting to $313 million (2014: $352 million) and $74 million (2014: $54 million) respectively. The fair values of interest rate swaps entered into by the Groups at 31 December 2015 were recognised as derivative financial instrument liabilities amounting to $94 million (2014: $21 million).

28. Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

(ii) Interest rate profile

The following table details the interest rate profile of the Groups' net interest-bearing assets and liabilities at the end of the reporting period, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

	2015		2014	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	**0.69**	**5,892**	1.33	4,610
Bank loans and other borrowings	**2.25**	**(44,120)**	2.13	(43,593)
		(38,228)		(38,983)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**–***	**265**	–*	20
Bank loans and other borrowings	**1.05**	**(3,097)**	1.04	(4,276)
Customers' deposits	**–***	**(2,001)**	–*	(1,937)
		(4,833)		(6,193)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2015, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups' profit after taxation and revenue reserve by approximately $24 million (2014: $49 million). Other components of consolidated equity would have increased/decreased by approximately $342 million (2014: $667 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2014.

(d) Currency risk

(i) Committed and forecast transactions

The Groups are exposed to currency risk primarily through purchases that are denominated in a currency other than the functional currency of the Groups. The currencies giving rise to this risk are primarily United States dollars and Japanese Yen.

The Groups use forward foreign exchange contracts to manage currency risk and classify these as cash flow hedges. At 31 December 2015, the Groups had forward foreign exchange contracts hedging committed and forecast transactions with a net fair liability value of $20 million (2014: $25 million) recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

The net fair value of forward foreign exchange contracts used by the Groups as economic hedges of monetary assets and liabilities including Groups' borrowings in foreign currencies at 31 December 2015 was a net liability of $45 million (2014: $1 million) recognised as derivative financial instruments.

The Groups' borrowings are either hedged into Hong Kong dollars by ways of forward foreign exchange contracts and cross currency swaps or are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Groups' borrowings.

(iii) Exposure to currency risk

The following table details the Groups' exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Groups.

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Financial risk management and fair values of financial instruments (continued)

(d) Currency risk (continued)

(iii) Exposure to currency risk (continued)

'million (expressed in original currencies)	**2015** USD	**2015** JPY
Bank deposits and cash	**–**	**2**
Trade and other payables	**(47)**	**(1,895)**
Bank loans and other borrowings	**(2,837)**	**–**
Gross exposure arising from recognised assets and liabilities	**(2,884)**	**(1,893)**
Notional amounts of forward foreign exchange contracts designated as hedging instruments	**102**	**1,183**
Notional amounts of cross currency swaps designated as hedging instruments	**2,736**	**–**
Net exposure arising from recognised assets and liabilities	**(46)**	**(710)**

'million (expressed in original currencies)	2014 USD	2014 JPY
Bank deposits and cash	–	2
Trade and other payables	(60)	(1,511)
Bank loans and other borrowings	(2,736)	–
Gross exposure arising from recognised assets and liabilities	(2,796)	(1,509)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	40	493
Notional amounts of cross currency swaps designated as hedging instruments	2,736	–
Net exposure arising from recognised assets and liabilities	(20)	(1,016)

(iv) Sensitivity analysis

The following table indicates that a 10 percent strengthening in the following currency against Hong Kong dollars at the end of the reporting period would have increased/(decreased) the Groups' profit after taxation (and revenue reserve) and other components of consolidated equity.

	2015		2014	
$ million	**Effect on profit after taxation and revenue reserve Increase/ (decrease)**	**Effect on other components of equity Increase/ (decrease)**	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)
Japanese Yen	**(2)**	**8**	(1)	15

A 10 percent weakening in the above currency against Hong Kong dollars at the end of the reporting period would have had an equal but opposite effect on the Groups' profit after taxation (and revenue reserve) and other components of consolidated equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Groups which expose the Groups to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2014.

28. Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement

The following table presents the fair value of the Groups' financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13: *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

– Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical financial assets or liabilities at the measurement date

– Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data is not available

– Level 3 valuations: Fair value measured using significant unobservable inputs

(i) Recurring fair value measurements

		Level 2	
	Note	**2015 $ million**	2014 $ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	28(a)	**313**	352
– Forward foreign exchange contracts	28(a)	**3**	3
		316	355
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	28(a)	**74**	54
– Interest rate swaps	28(a)	**94**	21
– Forward foreign exchange contracts	28(a)	**68**	29
Medium term notes subject to fair value hedges		**4,554**	4,568
Bank loans subject to fair value hedges		**3,097**	4,256
		7,887	8,928

(ii) Fair values of financial assets and liabilities carried at other than fair value

Trade and other receivables, trade and other payables and other external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2015 and 2014.

(iii) Valuation techniques and inputs in Level 2 fair value measurements

The fair values of forward foreign exchange contracts are determined using forward exchange market rates at the end of the reporting period. The fair values of cross currency swaps and interest rate swaps are determined by discounting the future cash flows of the contracts at the current market interest rates.

The fair values of medium term notes are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

The fair values of bank loans are estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

29. Capital commitments

The Groups' capital commitments outstanding at 31 December and not provided for in the financial statements were as follows:

	2015 $ million	2014 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**2,248**	964
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**9,588**	11,474

30. Contingent liabilities

At 31 December 2015, the Groups had no guarantee or indemnity to external parties (2014: Nil).

31. Material related party transactions

The Groups had the following material transactions with related parties during the year:

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to $37 million (2014: $36 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2015, the total outstanding balance receivable from Power Assets group was $4 million (2014: $2 million).

(b) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of 31(a) above constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

32. Statement of financial position of the Company

	Note	2015 $ million	2014 $ million
Non-current assets			
Investments in subsidiaries		**59,016**	58,338
Deferred tax assets		**6**	3
		59,022	58,341
Current assets			
Trade and other receivables		**5**	6
Bank deposits and cash		**2**	1
		7	7
Current liabilities			
Trade and other payables		**(26)**	(29)
Net current liabilities		**(19)**	(22)
Total assets less current liabilities		**59,003**	58,319
Non-current liabilities			
Bank loans		**(8,671)**	(8,646)
Derivative financial instruments		**(39)**	(19)
		(8,710)	(8,665)
Net assets		**50,293**	49,654
Capital and reserves	27(a)		
Share capital		**8**	8
Reserves		**50,285**	49,646
Total equity		**50,293**	49,654

Approved and authorised for issue by the Boards on 15 March 2016.

Wan Chi Tin
Director

Chan Loi Shun
Director

33. Substantial holders of Share Stapled Units of the Trust Group

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid and Qatar Investment Authority hold 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2015 and are considered substantial holders of Share Stapled Units of the Trust Group.

34. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Groups' accounting policies have a significant impact on the Groups' financial position and operating results. Some of the accounting policies require the Groups to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 25 and 28 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Groups' accounting policies are described below.

(a) Depreciation and amortisation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives after taking into account the estimated residual value. The Groups review annually the useful life of an asset and its residual value, if any. Interests in leasehold land held for own use under finance leases are amortised on a straight-line basis over the shorter of the estimated useful lives of the leased assets and the unexpired lease term. Both the period and methods of amortisation are reviewed annually. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(b) Impairment

The Groups review at the end of each reporting period to identify any indication that the Groups' property, plant and equipment and interests in leasehold land may be impaired and test annually whether goodwill has suffered any impairment in accordance with the accounting policy (see note 3(g)(ii)).

In considering the impairment losses that may be required for the property, plant and equipment, interests in leasehold land and goodwill of the Groups, their recoverable amounts need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets or CGU to which the goodwill has been allocated are discounted to their present value, which requires significant judgement. The Groups use all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

See note 16 for key assumptions used in goodwill impairment test for the year ended 31 December 2015.

35. Possible impact of amendments and new standards issued but not yet effective for the year ended 31 December 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements.

The Groups are in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the following developments are relevant to the Groups' financial statements but the adoption of them is unlikely to have a significant impact on the Groups' results of operations and financial position:

	Effective for accounting periods beginning on or after
• *Annual Improvements to HKFRSs 2012-2014 Cycle*	1 January 2016
• Amendments to HKAS 1, *Disclosure initiative*	1 January 2016
• Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016
• HKFRS 15, *Revenue from contracts with customers*	1 January 2018
• HKFRS 9, *Financial instruments*	1 January 2018