港燈電力投資
HK Electric Investments

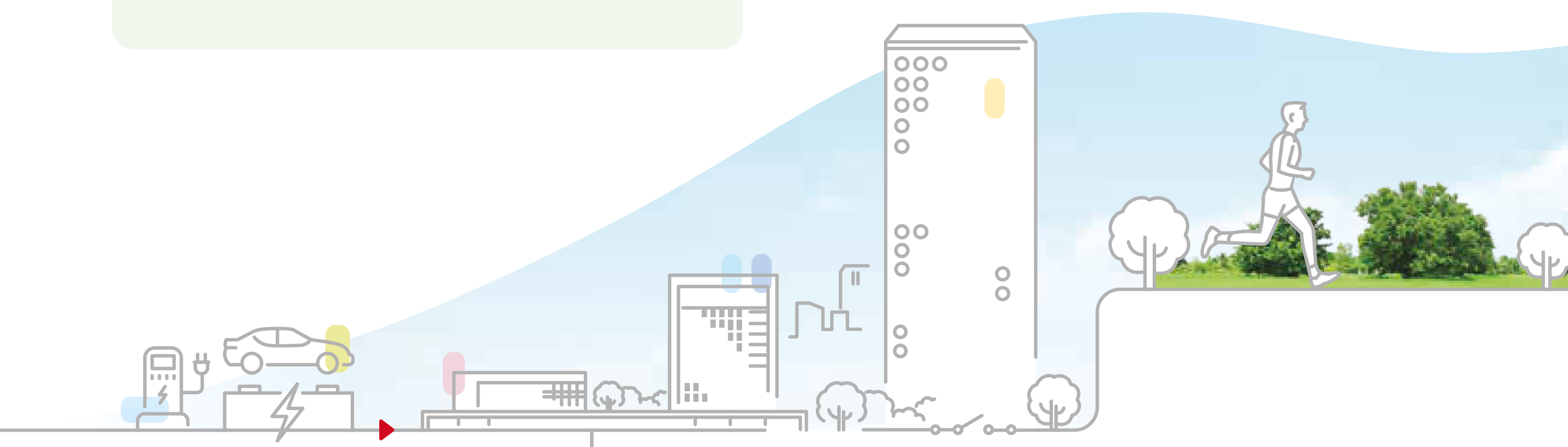
HK Electric Investments
and
HK Electric Investments Limited
(Stock Code: 2638)

A New Era of Gas Generation

Annual Report 2018

A New Era of Gas Generation

Our 2018 Annual Report cover carries a single story across both back and front, with the theme of HK Electric entering a new era of gas generation. As we move into a new Scheme of Control Agreement period, the company's sights are set on a more sustainable future for Hong Kong. We are taking all the steps necessary to achieve this, building the infrastructure essential to raising our proportion of gas-fired electricity.



HK Electric Investments, constituted in January 2014, is a fixed single investment trust in Hong Kong focusing purely on the energy sector. Our Share Stapled Units, issued by the trust and HK Electric Investments Limited (collectively known as "HKEI"), are listed on the Main Board of the Hong Kong Stock Exchange. Our trust is structured to enable us to maintain a single-minded focus on delivering stable distributions to holders of our Share Stapled Units, while ensuring we have the potential for sustainable long-term growth.

Our main operating company, HK Electric, is a vertically integrated power utility responsible for the generation, transmission, distribution and supply of electricity to about 579,000 customers in Hong Kong. Through HK Electric, we have a heritage of powering Hong Kong's economic growth for over 128 years, investing in the most appropriate technologies and fuels to support the provision of affordable, safe, reliable and clean electricity to both businesses and residential communities.

We are committed to continuing HK Electric's long tradition of community engagement and support for the underprivileged, and to remaining a positive and responsible member of the Hong Kong community.

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PERFORMANCE HIGHLIGHTS

Financials

	2018	2017
Revenue	HK$11,612 million	HK$11,693 million
Distributable Income	HK$3,538 million	HK$3,538 million
Total Distribution per SSU	HK 40.04 cents	HK 40.04 cents
Interim Distribution per SSU	HK 19.92 cents	HK 19.92 cents
Final Distribution per SSU	HK 20.12 cents	HK 20.12 cents
Total Assets	HK$107,894 million	HK$109,319 million
Net Debt-to-Net Total Capital Ratio	46%	44%
S&P Credit Rating		
HK Electric	A-/ Stable	A-/ Stable
HK Electric Investments Limited	A-/ Stable	A-/ Stable

Operations

Units Sold
10,537 millions of kWh

Supply Reliability
>99.999 %

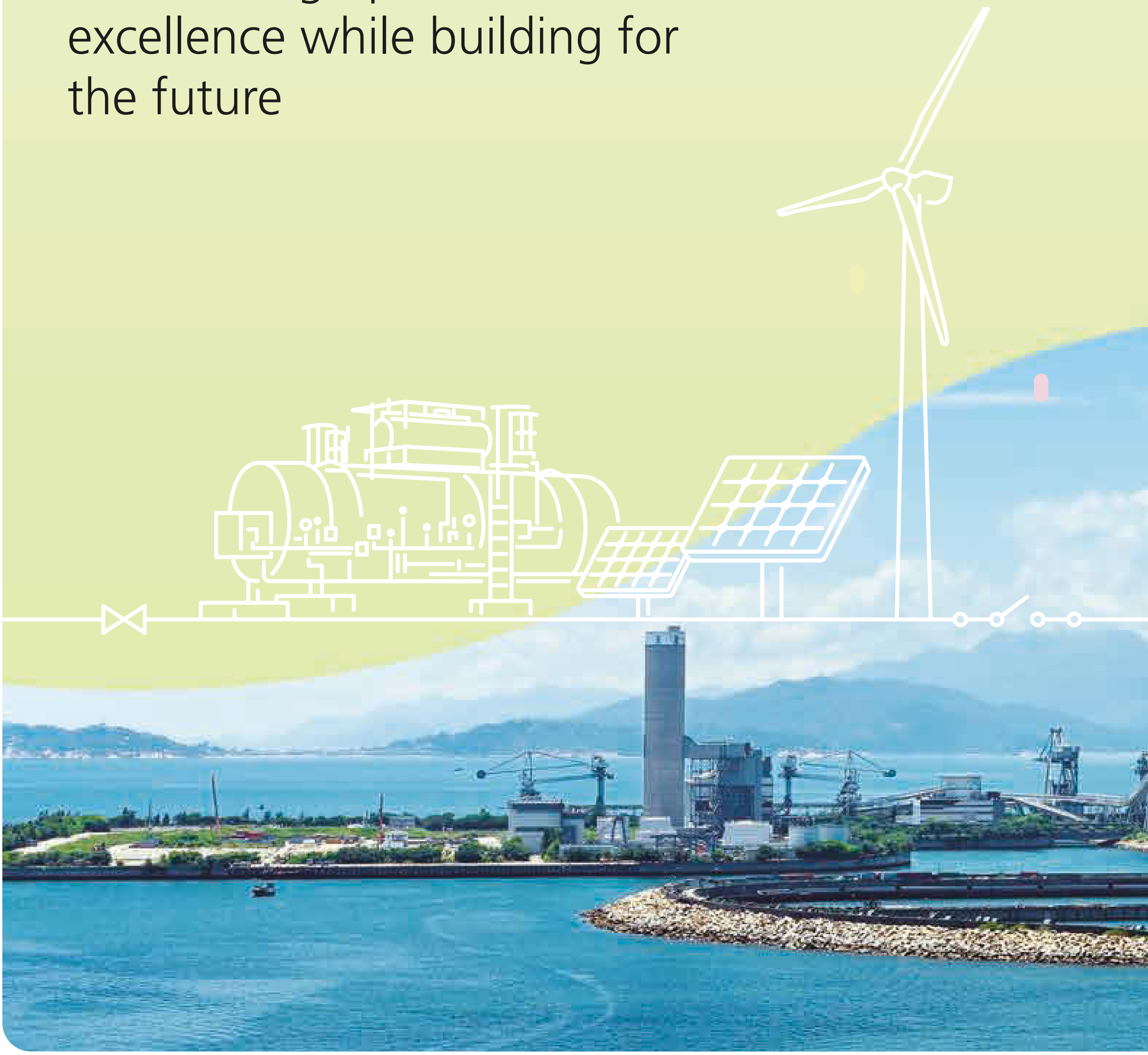
Generation Capacity
3,237 MW

Number of Customers
579,000

Network Length
6,457 km

BUSINESS REVIEW

Maintaining operational excellence while building for the future



CHAIRMAN'S STATEMENT

In 2018, we continued to uphold our track record of excellent reliability and customer service as we completed one regulatory period while preparing for the next.

2018 was a very important year for HK Electric Investments (HKEI) and its wholly owned subsidiary HK Electric, during which we moved ahead with the largest capital works programme we have ever undertaken. We launched major community-wide initiatives and continued to uphold our track record of excellent reliability and customer service as we completed one regulatory period while preparing for the next. I am delighted to present these results to you in this report.

We concluded the 2009-2018 Scheme of Control Agreement (SCA), the 10-year regulatory arrangement governing Hong Kong's power industry with a great sense of achievement. Throughout this last SCA, we were able to consistently maintain world-class standards of reliability that underpin Hong Kong's status as a global financial centre. In fact, our reliability rating has been maintained at over 99.999% for 22 consecutive years. Another remarkable result is achieving an unplanned customer minutes lost record of less than one minute every year for 10 years in a row since 2009. This quality of power supply, combined with excellence in customer service, was provided at affordable tariff levels. We pledged in 2013 to freeze tariffs until 2018 and have in fact ended the period with tariffs 16.6% lower than the 2013 level.

Low-emission power generation and environmental conservation have been among our top priorities. We continuously outperformed government targets and improved on our own performance in this regard. We have reduced emissions of nitrogen oxides, respirable suspended particulates and sulphur dioxide over the decade by 46%, 66% and 89% respectively, thanks to an increase in gas-fired electricity generation to over 30% of total output and implementation of sustainable measures to minimise emissions. In addition, we have provided our support to the community's own efforts to cut electricity consumption and preserve the environment.

With careful planning and extensive inputs from all our stakeholders we have laid the groundwork for the new SCA, which came into effect in January 2019 for a period of 15 years.

Financial results and distributions

For the year ended 31 December 2018, HKEI's EBITDA was HK$8,100 million (2017: HK$8,195 million) and audited profits attributable to SSU holders was HK$3,051 million (2017: HK$3,341 million).

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK20.12 cents (2017: HK20.12 cents) per SSU, payable on 15 April 2019 to SSU holders whose names appear on the Share Stapled Units Register on 3 April 2019. This, together with the interim distribution of HK19.92 cents (2017: HK19.92 cents) per SSU, amounts to a total distribution of HK40.04 cents (2017: HK40.04 cents) per SSU for the year.

Investing to create a green and smart city

An important development during 2018 was the approval of our HK$26.6 billion 2019-2023 Development Plan by the HKSAR Government. According to the plan, we will invest HK$16.2 billion (about 61%) to achieve our primary goal of decarbonising generation to secure Hong Kong's green energy future. Over the coming five years we will systematically move from mainly coal-fired to gas-fired generation, and put other technology and innovative design in place to help make Hong Kong a smart city.

A major capital works programme is in full swing to achieve this amid the retirement of five of our coal-fired units. L1 and L3 had retired in 2017 and 2018 respectively and three more units will follow suit by 2023. They will be replaced by three new state-of-the-art gas-fired combined-cycle generating units L10, L11 and L12.

Construction of L10 is in progress and the unit is scheduled for commissioning in early 2020. During the year, all major equipment of L10, including gas turbine, steam turbine, generator, heat recovery steam generator and transformers, was successfully installed. In tandem, construction of L11 is also moving forward, with site formation completed. The two units together will increase gas-fired electricity generation to 55% of our total output by 2022.

With the Government's approval to build L12 under the 2019-2023 Development Plan, tendering for piling works is currently underway with actual site works planned to commence in March 2019. When L12 is commissioned in 2023, the total gas-fired electricity generation will further rise to reach about 70% of our total output.

We are also moving ahead with the development of an offshore liquefied natural gas receiving terminal, using Floating Storage and Regasification Unit (FSRU) technology. The move will afford us access to a more diverse supply of gas at competitive prices from the world market. Following Government's approval of the Environmental Impact Assessment Report, the Environmental Permit was conditionally granted for the project in October 2018. Site investigation is underway, and the terminal is scheduled for completion in 2022.

Promoting conservation and renewable energy

Under the "Smart Power Services" brand, we have launched four funds and three schemes to encourage energy efficiency and conservation, and promote the local development of renewable energy in preparation for the new SCA.

With an annual injection of HK$25 million, the Smart Power Building Fund supports building owners to carry out energy efficiency improvement projects; while the newly-created Smart Power Care Fund assists the underprivileged to reduce energy consumption and expenditure through the provision of energy-efficient appliances and subsidies.

Chairman's Statement

In order to promote and support Hong Kong's aspirations to increase generation of renewable energy, we have launched a Feed-in Tariff Scheme to purchase electricity fed into the grid from customers' own renewable installations. So far we have received over 70 applications from our customers, 33 of which have been approved.

At the same time we have also introduced Renewable Energy Certificates for customers to subscribe to, so as to further encourage the community to support the use of renewable energy. The initial response to the programme has been encouraging.

Another important initiative under the 2019-2023 Development Plan is the rollout of smart meters with an associated Advanced Metering Infrastructure (AMI) to build an intelligent information exchange platform for customer energy management. We believe, once fully deployed, smart meters and AMI will help Hong Kong's transformation into a smart city. We also continued to support the use of electric vehicles by extending free charging facilities until the end of 2019 and provided businesses with advice on how to cut their own carbon footprint.

Consistently strong operating performance

Our strategy of focusing on operational excellence, investing in technology and proactive maintenance once again stood us in good stead during the year. We outperformed our targets once again and have been engaging with the Government in 2018 to kick-start reviewing new emission caps for 2024 and onward.

HK Electric once again surpassed its pledged standards in reliability as well as customer service, a record I am particularly proud of, given the extreme weather events that battered Hong Kong during the year such as super-typhoon Mangkhut.

Thanks to our robust system, emergency preparedness and our colleagues' professionalism, we were able to maintain uninterrupted power supply to our customers during the super-typhoon Mangkhut. This great performance is a testament to our world class standards and I extend my gratitude to our dedicated colleagues for working round the clock for operational continuity. We also engaged with the community to provide appropriate assistance in the aftermath. We have commenced with enhancing anti-flooding measures and retrofitting of less flood-prone equipment in low-lying substations in order to prepare for extreme weather events arising from climate change.

Outlook under the new SCA

During the course of the year, a number of planned initiatives were implemented as we face the future under the new SCA with a sense of optimism and a commitment to supporting Hong Kong's transformation to a green and smart city. Our investments in increased gas-fired generation will lay a solid foundation for greener energy, sustainable growth and long-term value for our SSU holders.

Maintaining stable operations while simultaneously undertaking such major capital works is no easy task. Our top priority for the years ahead is to ensure that all the projects in train are completed on schedule and within budget, while upholding our standards in operational performance and customer service.

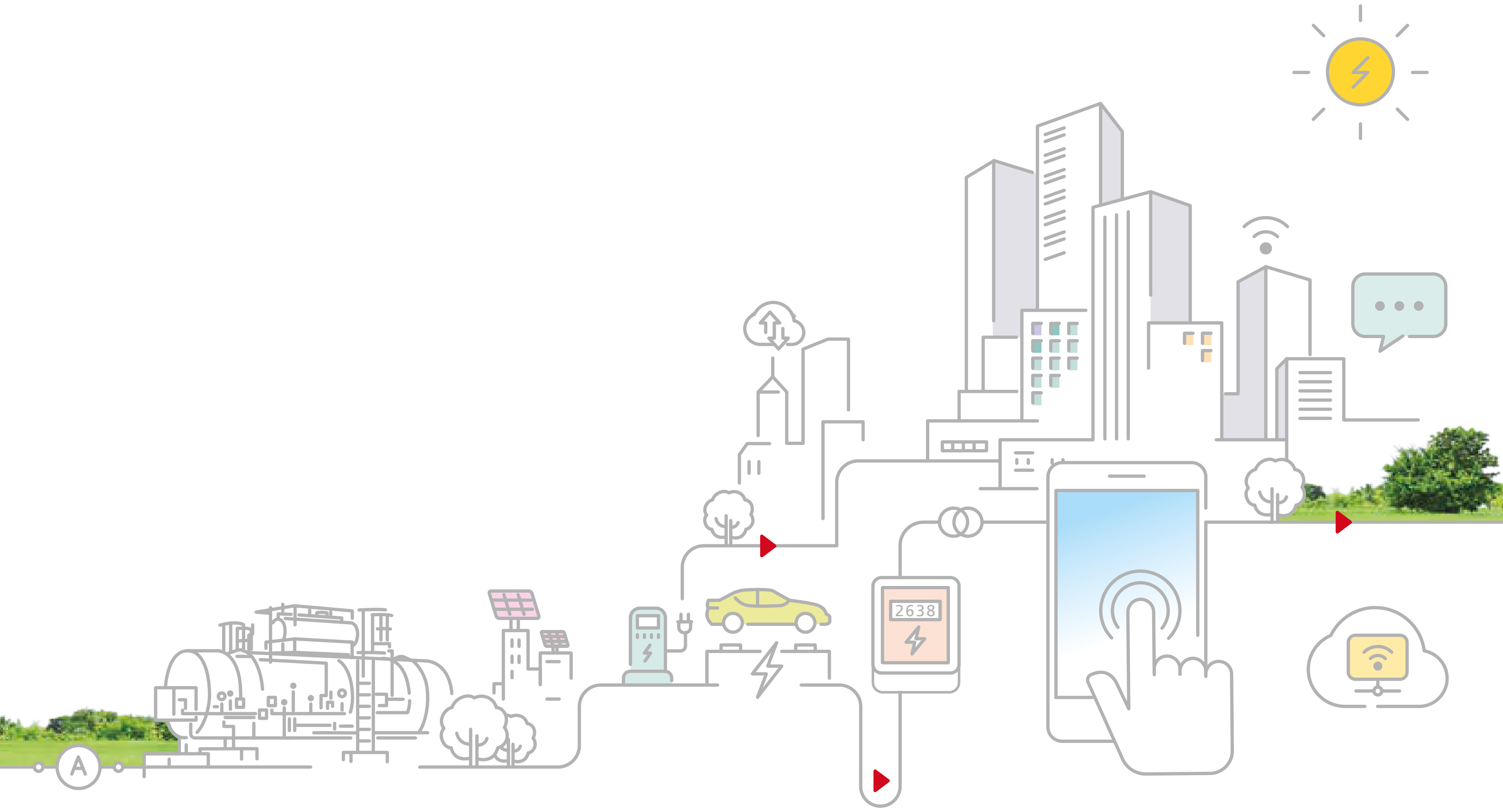
Looking ahead, we are mindful that the transition to greener energy, necessitating capital expenditures for new gas-fired units and greater consumption of natural gas, will be at the cost of a higher tariff. We will continue our endeavours to keep the tariff affordable, and we got off with a good start in 2019. Excluding the impact of the substantial reduction in the "Special Fuel Rebate" and "Special Rent & Rates Rebate", the net tariff for 2019 would have been lower than that of 2018 by 5.9%, as opposed to the actual increase of 6.8%. With the introduction of a more frequent adjustment of fuel clause charge based on the actual fuel costs from 2019, we are able to better reflect changes in fuel costs in a timely manner in our tariffs.

Under the new SCA, we see a material drop of approximately 20% in the rate of permitted return. We are also undertaking a significant capital investment programme of HK$26.6 billion under the 2019-2023 Development Plan. As such, barring unforeseen circumstances it is envisaged that there will be an approximately 20% reduction in our distributions to SSU holders in the next few years.

I have the privilege of reporting excellent operating performance every year, but these are a direct result of the joint efforts of our talented people. I would like to thank all our employees for their dedication and commitment to delivering outstanding service throughout the year.

Fok Kin Ning, Canning
Chairman
Hong Kong, 19 March 2019

LONG-TERM DEVELOPMENT STRATEGY



Over our long history we have consistently supported Hong Kong's economic journey by offering safe, reliable and affordable electricity while minimising the impact of our operations on the environment as we strive to deliver sustainable growth in long-term value to our investors.

To achieve our vision to excel in the power business in Hong Kong and continue our outstanding tradition of efficiency and sustainability performance, we are guided by the following long-term strategies:

Serve Hong Kong through world-class power provision

A fail-safe supply of electricity is critical for Hong Kong's economic success. Our priority is maintaining world-class supply reliability, delivered with unrivalled customer service standards. We are investing in Hong Kong's future by significantly increasing the proportion of green energy we generate in support of Hong Kong's Climate Action Plan 2030+. We are also innovating, deploying technology and equipment that allow us to minimise environmental impact and transform Hong Kong into a smart city.

Sustain steady growth in our asset base

Pragmatic and long-term principles guide our investment in power generation, transmission and distribution facilities. All expenditure must support our goals of maintaining reliability, enhancing efficiency and customer services while conserving the environment with low-emission energy sources. These investments will enable steady growth in our asset base which in turn generates stable and growing returns to our long-term investors.

Run our business on prudent financial and efficient principles

We embrace the values of prudent financial management and maintain an optimal capital structure with strong liquidity. We strive for operational efficiency and effectiveness and rigorously manage operating costs, including fuel costs. These principles enable us to deliver sustainable returns to our investors while allowing us to provide electricity to our customers at affordable prices.

YEAR AT A GLANCE

JAN – JUN

- A series of special thematic eco-tours emphasising family fun, digital photography and waterworks under the Green Hong Kong Green banner encourage citizens to explore Hong Kong's hidden eco-heritage treasures from new perspectives.

- HK Electric's elderly community care programme "CAREnJOY" celebrates its 10th anniversary. The programme has touched more than 7,500 single elders through home visits, talks and gatherings since its launch in 2008.
- HK Electric's annual Health and Safety Forum promotes awareness of health and safety at work with the theme "Work-Above-Ground Safety" this year. Guests from the Labour Department, Occupational Safety and Health Council, industrial undertakings and contractors share their views.

- The Environmental Impact Assessment Report for the offshore liquefied natural gas receiving terminal, jointly developed by CLP Power and HK Electric, is submitted to the Government for approval.

- The Smart Power Ambassadors Training Programme under The University of 3rd Age (U3A) Network trains retirees to become green ambassadors, who help promote environmental awareness in the community.

- A series of "Smart Power Services" is announced including Feed-in Tariff and Renewable Energy Certificates Schemes as we continue to promote energy efficiency and encourage the development of renewable energy in Hong Kong.

- HK Electric wins the "Public Service of the Year (Public Utility)" for the tenth consecutive year at the Asia Pacific Customer Service Consortium Customer Relationship Excellence Awards, in recognition of our outstanding and consistent performance in customer services.

- The Innovation Steering Committee is set up to promote continuous evolution and ensure we stay relevant in a changing business and social environment.

- To support World Environment Day, employees pledge support to a green lifestyle and organise various activities including "Book Recycling 2018" and "Low-carbon Recipe Design Contest".

- HK Electric experts deliver talks at the "Belt and Road Advanced Professional Development Programme in Power and Energy", with 30 participants attending.

Year at a Glance

JUL – DEC

- A "drum-lifting" ceremony is held to mark the completion of installation of all major components of the new gas-fired generating unit L10, a major step forward in increasing natural gas generation. Together with L11 and the newly approved unit L12, the proportion of HK Electric's gas-fired generation will increase to about 70% by 2023.

- HK Electric launches a mobile app to encourage employees to report near-miss cases and organises its first Safety and Innovation Exhibition, while achieving a milestone of 465 days' Lost-Time-Injuries free operations record.

- To enhance customer services, mobile payment services are extended with the Faster Payment System. Electricity bills are redesigned to provide customers with more account information and better communication.

- The Government approves HK Electric's 2019-2023 Development Plan. In the next five years, HK Electric will invest HK$26.6 billion in capital projects, out of which 61% will be allocated for renewing its generation portfolio from coal to gas.

好僱主約章
GOOD EMPLOYER CHARTER
2018

- HK Electric signs the Good Employer Charter as a commitment to adopting employee-oriented human resource management practices.

- "Smart Power Services" are officially launched, with four funds and three schemes catering for different sectors of the community. These include supporting building owners to carry out energy efficiency improvement projects and assisting the underprivileged to reduce energy consumption.

- HK Electric announces 2019 tariffs together with details of a more frequent Fuel Clause Charge adjustment mechanism, allowing fuel costs to be reflected in a timely manner in tariffs.

- The Hong Kong Polytechnic University and HK Electric Institute sign a new Memorandum of Understanding to foster talents for the engineering community through the joint efforts of industry and academia.

- The vast majority of HK Electric customers have uninterrupted power supply when the super-typhoon Mangkhut hits Hong Kong, thanks to enhanced precautionary measures and additional crews deployed.

- In the fourth "Green Energy Dreams Come True" competition, 13 teams of secondary school students receive company funding to showcase and implement their innovative ideas in energy efficiency and green energy. Projects include the installation of solar panels at school rooftops and building of a green memorial park at a landfill site.

CEO's REPORT

The 5-year Development Plan maps out our strategic capital expenditure in the period 2019-2023 as we put in place the systems and technology essential to make Hong Kong a smart and green city.

Wan Chi Tin
Chief Executive Officer

On the threshold of a new era

I am pleased to present the 2018 operation review of HKEI and its wholly owned subsidiary HK Electric. Our priority during the year was to conclude discussions on the outstanding aspects for the implementation of the new SCA for the period 2019-2033.

The new SCA was signed with the Government in April 2017 but discussions on its implementation continued throughout 2018 in order to finalise the details of certain new and amended provisions. For example, new targets on metrics such as supply restoration time have been introduced whilst the performance-based incentive mechanism for emissions has been phased out. Moreover, more stringent targets have been incorporated into existing clauses like performance-linked incentives and penalties for supply reliability, operational efficiency and customer services. Necessary details were settled in time for the commencement of the new SCA which came into effect in January 2019.

The new SCA puts great emphasis on energy efficiency and conservation. One of our most significant initiatives during the year was the launch of a series of funding schemes and services to promote this, as well as to encourage the development of renewable energy in the community.

Development plan for a green future

At the same time, another track of discussion was held in parallel on our 5-year Development Plan, which was subsequently approved by the Government in July 2018. The Development Plan, our largest ever at HK$26.6 billion, maps out our strategic capital expenditure essential to make Hong Kong a smart and green city.

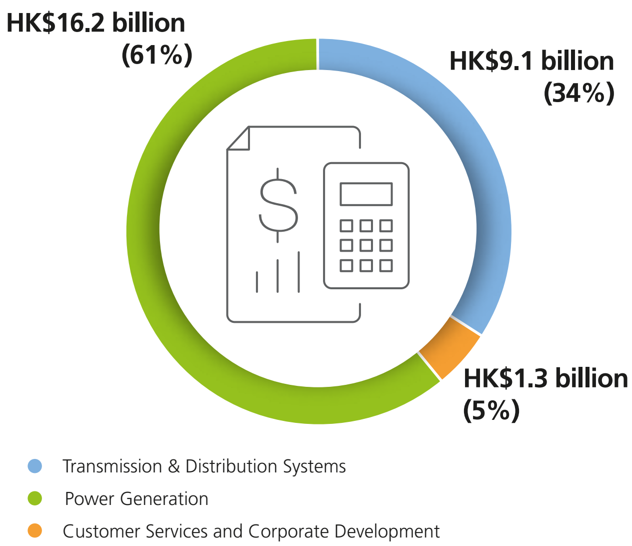
Power generation accounts for the biggest share of our investments over the next five years as we must build the infrastructure needed to increase the proportion of electricity we generate from natural gas, in support of the Government's long-term decarbonisation goals, without compromising on the reliability of our power supply or service quality.

OPERATION REVIEW

Lamma Power Station is constructing three new generating units, L10, L11 and L12, to increase its gas-firing generation capacity.

Over the past few years, we have already begun work to achieve this transition. We are in the process of constructing three new state-of-the-art gas-fired combined-cycle generating units L10, L11 and L12, at Lamma Power Station (LPS), our primary generating facility, to replace ageing coal-fired and gas-fired units. We are also developing an offshore liquefied natural gas (LNG) terminal in partnership with CLP Power to enhance security of natural gas supply, which will be of utmost importance to supply reliability in the coming years, and enable us to procure gas at more competitive prices.

HK$26.6 billion capital investment programme under 2019-2023 Development Plan



CEO's Report

A pilot project of smart meter rollout is conducted to prepare for the transition to a smart grid in future.

Another key initiative under the Development Plan is to support the rollout of smart meters and associated advanced metering infrastructure (AMI) across Hong Kong. These meters, already in operation in many developed markets, will enable us to build an intelligent information exchange platform for energy management by customers, supporting Hong Kong's transition to a smart city. A pilot project was conducted during the year and we have started to formulate the deployment strategy.

Maintaining tariff affordability is key

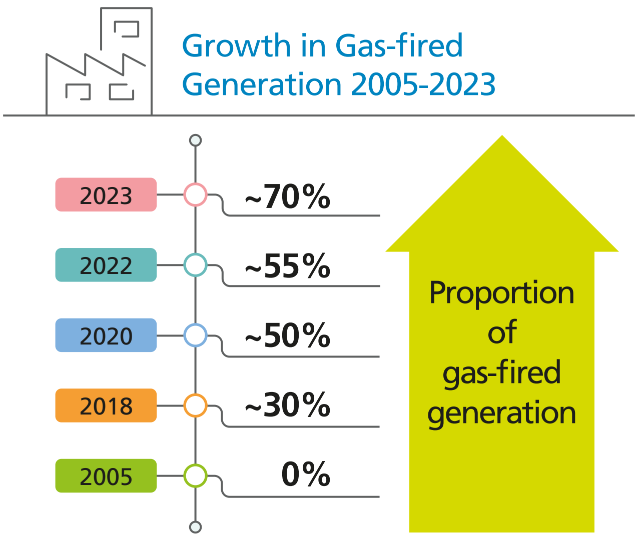
In 2018, our customer base increased slightly to 579,000 from 577,000 in 2017, though electricity sales dropped mildly to 10,537 million kWh (2017: 10,615 million kWh). Increased sales in the first half of 2018, as a result of record-breaking temperatures in May, were offset by moderate weather during summer and autumn as well as energy conservation efforts across all customer sectors.

We tried hard to maintain tariff affordability as we continued to offer customers two special rebates in 2018 that were first introduced in 2017 – "Special Rent & Rates Rebate" and "Special Fuel Rebate". However, the "Special Fuel Rebate" was smaller than that in 2017, and together with other annual adjustments, led to a mild net tariff rebound in 2018 to 112.5 cents per unit of electricity. Following two years of substantial rebates, there was no room for HK Electric to provide the same in 2019. As a result of the significant reductions in the two special rebates, net tariffs for 2019 saw a 6.8% rebound to 120.1 cents per unit of electricity. If the effect of the two special rebates was taken out, the net tariff for 2019 would have been lower than that of 2018 by 5.9% mainly resulting from the reduction of permitted rate of return.

Fuel prices, be it coal or natural gas sourced from the international market, can be very volatile with big differentials throughout the year. To address this, we have just introduced a more frequent adjustment mechanism that will allow us to reflect changes in fuel costs in our tariffs in a timelier manner. Instead of adjusting generally once a year as in the past, we will be able to adjust it on a monthly basis and inform our customers through their bills and on our website.

Generation gearing up for the future

Large scale capital works are moving full steam ahead for the construction of three gas-fired units at LPS in support of the Government's anti-climate-change and environmental objectives. A massive construction crew comprising hundreds of workers has been on site on a daily basis to handle various facets of civil, electrical and mechanical engineering works.



L10, a 380-MW combined cycle gas-fired generating unit, where works commenced in 2015, has moved to the final stages of construction. It is on schedule for the successful installation of essential equipment such as the gas and steam turbines, heat recovery steam generator and transformers during the year. Synchronisation of the unit is targeted for August 2019 with commercial operation set for 1 January 2020. In 2020, HK Electric's gas-fired generation will be increased to 50% of total output.

OPERATION REVIEW

Project teams and business partners celebrate the completion of the installation of all major equipment for L10.

The next unit in train is L11, also at 380-MW capacity which was approved by the Government in September 2016. With site formation completed, the contract for L11's superstructure works was awarded at end 2018 and construction will commence soon for the unit to be operational in 2022. The commissioning of L11 will further boost our gas-fired generation to 55% of total output, taking into account the scheduled retirement of an older gas-fired unit by then.

The construction of L12 was approved by the Government in the 2019-2023 Development Plan. Site formation will begin in 2019 for commissioning by 2023, taking total gas-fired capacity up to about 70%. With the addition of these three new gas-fired units, a total of six ageing coal-fired and gas-fired units reaching the end of their useful lives could retire by 2023 with no adverse impact on system reliability.

Good progress has also been made for the development of an offshore LNG terminal based on Floating Storage and Regasification Unit (FSRU) technology. The Environmental Impact Assessment Report of the project was approved and the Environmental Permit was issued during the last quarter of 2018.

Pre-construction work including tendering, infrastructural and site investigation activities are being completed at speed so that construction can begin as soon as possible for the terminal to be operational by 2022. When completed, this import facility will give us the flexibility and capacity to import LNG via oceanic routes and provide a second gas source to LPS, thus enhancing the much-needed security of gas supply while also strengthening our negotiating power to procure LNG at competitive prices.

The offshore LNG terminal, when completed, will be an important asset in sourcing natural gas via oceanic routes.

Promoting Energy Efficiency and Renewable Energy the SMART WAY

We fully support Hong Kong's aspiration of becoming a smart city and its efforts in combating climate change by providing meaningful green services. To put our plans into action, we launched a range of "Smart Power Services" in October 2018, targeted at promoting energy efficiency and conservation and encouraging the local development of renewable energy (RE).

From 2019, HK Electric will be investing at least HK$35 million annually on a suite of four funds and three schemes, which will prioritise aid to disadvantaged members of society as well as buildings lacking financial resources and technical expertise.

The Smart Power Services package includes subsidies for buildings to carry out energy-saving measures and for those in need to purchase new energy-efficient appliances; for installing separate meters for tenants of sub-divided units (SDUs); as well as offering tariff relief for eligible SDU tenants.

Also under the package, two initiatives were introduced to encourage the development of RE generation by domestic and commercial customers – the Feed-in Tariff (FiT) Scheme, and Renewable Energy Certificates (RECs).

Customers generating electricity

Under the FiT Scheme, customers are welcome to set up RE installations – solar power or wind energy – on their premises and have them connected to the HK Electric grid. We will then purchase all the output from these systems at special rates ranging from HK$3 to HK$5 per unit of electricity. Since the announcement of the FiT Scheme framework in April 2018, we have received more than 300 enquiries expressing interest in the scheme, including one of the city's popular theme parks.

HK Electric and Ocean Park join hands to promote the use of renewable energy in Hong Kong.

Ocean Park in Wong Chuk Hang has proposed a sizeable 200-kW solar power system consisting of more than 600 PV panels on the roof of its Polar Adventure which is expected to generate 200,000 units of electricity a year. This will serve as a role model for the deployment of renewable energy in Hong Kong.

> **We are glad to participate in HK Electric's FiT Scheme to promote RE in Hong Kong for a sustainable living environment.**
>
> **Matthias Li,**
> **Chief Executive Officer of Ocean Park**

Following Ocean Park, other organisations have also displayed keen interest to embrace the new initiative. So far, we have received over 70 applications. To ensure successful installation of customers' RE systems, we have a dedicated team of engineers to provide technical advice and support.

Our Chief Executive Officer Wan Chi-tin (third from right) and Secretary for the Environment Wong Kam-sing (third from left) join our Ambassadors to launch Smart Power Services with humorous 'doggerel' verse.

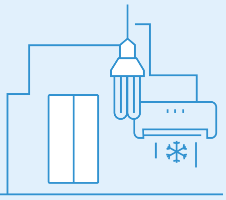
RECs to offset carbon emissions

Customers from all sectors can also enhance their eco-friendly credentials and support the development of RE in Hong Kong by purchasing RECs. This would allow them to claim the environmental benefits, e.g. zero carbon emission, associated with the electricity generated from local RE sources owned by HK Electric or FiT Scheme participants. Each unit of electricity is priced at 50 cents (a premium on top of normal electricity tariff rate) at a minimum of 100 units per REC. To this end, we have been actively communicating with our customers to support RE development via the REC mechanism.

Collaboration with NGOs

We also collaborated closely with community NGOs to implement various other schemes under the Smart Power Services umbrella and developed a mobile app to enable NGO partners to select the energy-efficient appliances best suited for specific families, submitting applications for review and approval in real time.

Smart Power Services represent our aspiration to help bring Hong Kong closer to becoming a green and smart city. It is our hope that the community embraces these new offerings and adopts a smarter style of using energy to create a healthier, more verdant city.



Smart Power Building Fund
Smart Power Energy Audit
Smart Power Loan Fund

智惜用電 smart power
ENERGY EFFICIENCY

Smart Power Building Fund supports building owners to enhance energy efficiency of communal building services. HK Electric also provides free energy audit services for non-residential customers. Fund and energy audit service participants may also apply for Smart Power Loan Fund to finance energy-saving projects.

智惜用電 smart power
EDUCATION FUND

Smart Power Education Fund promotes energy efficiency and low-carbon lifestyle. Under the Fund, Happy Green Campaign is an annual event for the younger generation through a wide array of activities.

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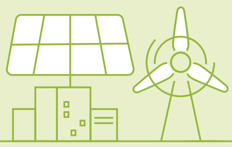
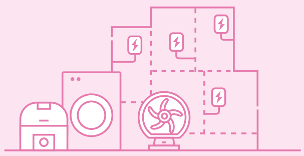


Feed-in Tariff
Renewable Energy Certificates

智惜用電 smart power
RENEWABLE ENERGY

To support the local development of RE, HK Electric will purchase all the electricity generated from customers' RE power systems at Feed-in Tariff rates and provide RECs for customers to purchase.



智惜用電 smart power
CARE FUND

Smart Power Care Fund launches three programmes to provide energy-efficient appliances, improve electrical safety and offer relief for people in need.

CEO's Report

Clean and safe operations with robotics

Over the course of the year, we continued adopting measures to meet the emission caps imposed by the Government across our generation operations while maintaining plant efficiency and availability. This was not an easy task considering the extensive capital works taking place at LPS.

Prior to L10 coming into operation, the proportion of our gas-fired generation remained at over 30% in 2018. Thanks to the continued use of natural gas and low-sulphur coal, together with emission reduction facilities such as electrostatic precipitators, LPS once again outperformed the emission targets set by the Government. In fact, emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and respirable suspended particulates (RSP) have been reduced significantly over the last decade. The combined output of the solar power system on the roofs of LPS buildings and the Lamma Winds turbine was 1.79 million units in 2018.

Our emissions reduction track record 2009-2018:

SO_2 – 89%

NO_x – 46%

RSP – 66%

The solar power system at Lamma Power Station is one of the city's largest commercial-scale renewable installations.

We are working with the Government to set emission allowances for 2024 and beyond. While these will be more stringent than those set for the years before 2024, we are confident that the increased gas-fired generation, the introduction of a second gas supply source, the adoption of emissions-reduction technologies as well as the introduction of Feed-in Tariff will put us in a strong position to achieve them.

Drones are introduced at Lamma Power Station for volumetric survey of coal stock and visual site inspections.

On the operation front, 2018 marked the year that robotics was deployed on a wider scale at LPS. Robots were used to conduct visual inspections of plant equipment in areas that are hard to access, enhancing the safety and efficiency of the entire site. For our annual coal stock survey, we employed an unmanned aerial vehicle (UAV) or drone to carry out a volumetric survey of the stock, thereby improving process efficiency and minimising disruption. A UAV and an underwater drone were also deployed to conduct internal inspection of chimney flues and circulating water inlet culverts respectively of a gas-fired combined-cycle unit (GT57) with satisfactory results. We will continue to deploy robots, UAVs and underwater drones as much as possible in areas where operational efficiency or effectiveness could be achieved.

In addition, a robotic cleaning machine was put into operation in end 2018 to facilitate the cleaning of the warehouse floors at Electric Tower. This machine, equipped with artificial intelligence, cleaned the storage areas on a regular and frequent basis. As a result, the cost and safety risks associated with manual cleaning were significantly reduced while workplace hygiene improved.

OPERATION REVIEW

A world-class supply network

Our long-standing policy of proactive maintenance of the transmission and distribution network is a critical component of our world-leading reliability record.

Our customers experienced less than one minute of unplanned power interruption on average in 2018, the 10th year that this record was achieved. Despite the extreme weather events affecting Hong Kong, 2018 saw us once again achieve reliability performance of over 99.999%.

Supply reliability stood at over 99.999% for the 22nd consecutive year

Upgrades were carried out to two key sophisticated real-time computer systems at System Control Centre – the Energy Management System and Distribution Management System – to further improve the automation and control capabilities of our generation, transmission and distribution networks.

A number of major projects are in progress across our transmission and distribution networks. The most significant of these is the work associated with supplying power to MTR's Shatin to Central Link (Hong Kong Island Section), which is under construction. For this project, we installed two 132/25-kV 26.5-MVA single phase traction transformers and associated protection and control equipment at MTR's South Ventilation Building (SOV) as well as two 132-kV single-phase cable circuits from Marsh Road 132-kV Switching Station (MRS) to SOV. Besides, we retrofitted two 132-kV load break switches at MRS to provide supply to the new train line. In addition, we commissioned 39 new distribution substations during the year, also replacing and refurbishing aged equipment in the distribution network. Older cable circuits in the Mid-Levels area were replaced with modern ones to enhance system performance and reliability.

We have established an unmanned Call-out Buffer Store using radio frequency identification technology at Electric Centre to provide timely and reliable supply of stock materials at night for emergency repairs. When super-typhoon Mangkhut struck Hong Kong last year, the unmanned Call-out Buffer Store played an important role. Learning from this experience, we now plan to expand its use to enhance reliability of supply of critical stock items during adverse weather conditions.

Minimising environmental impact

Our Environmental Management Systems were implemented and maintained in line with the latest ISO 14001:2015 requirements. During the course of the year, 57 environmental management programmes were implemented, including a fuel savings scheme.

Across our main office premises including those at LPS, raw water use was cut by 2.7% during the year, attributable to our 4R policy to reduce, reuse, recover and recycle. In addition to the utilisation of the by-products of generation such as pulverised fly ash and gypsum for industrial purposes, numerous other initiatives were run to minimise waste. For example, for reduction of waste volume to landfill, about 522 m^3 of garden waste was converted into nutrient-releasing mulch with a wood chipper in 2018 and about 910 kg of grass clippings were treated on-site with food-waste eliminators. All water discharged met statutory requirements.

Planned upgrades of our transmission and distribution network underpin our world-leading reliability record.

CEO's Report

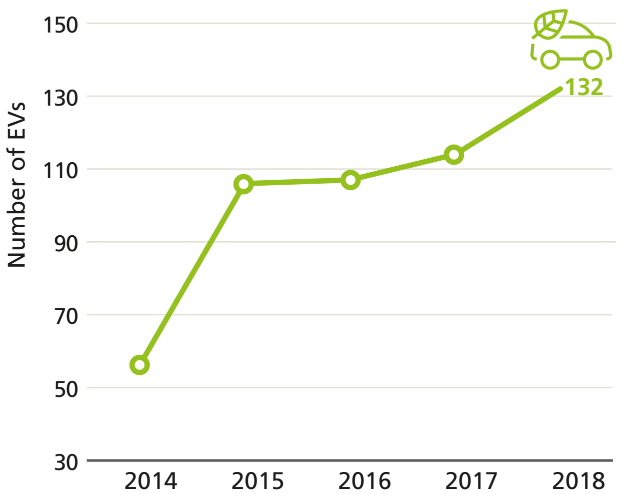
Encouraging use of electric vehicles

We have long supported the use of electric vehicles (EVs) in Hong Kong as a means to curb roadside emissions by providing charging facilities for the general public. We also provide technical support services to property operators for the installation of charging facilities at residential and commercial buildings.

To promote the wider use of EVs in Hong Kong, we have extended free charging services at our 12 charging stations until end December 2019.

We have also embraced the use of EVs in our company, replacing retiring vehicles with EVs as much as possible. About 43% of our fleet – 132 vehicles – are EVs, including 47 serving LPS alone. Through their use, our total fuel consumption was reduced by 6.5% or 9,119 litres when compared with that of 2017.

Number of EVs in HK Electric Fleet 2014-2018



We continued to innovate to explore better uses for retired EV batteries. We are running a pilot scheme at the Apleichau Industrial Estate Zone Substation to trial the effectiveness of retired EV batteries in maintaining reliable power supply during voltage dips. We are also studying other forward-thinking uses of retired EV batteries to further benefit our environment and the community.

We support the Formula E Hong Kong ePrix for the third time, to promote sustainable urban transportation.

Perfecting the customer experience

At HK Electric we have, year after year, excelled in customer service thanks to an end-to-end approach including training, customer communication and service enhancements. In order to build and improve upon our strong foundation, we have developed several new programmes over the year.

Regular training is an important part of our strategy to achieve customer service excellence.

A complete facelift was given to our electricity bills, with a newly-designed statement that enables customers to understand their bills more easily. The improved design also provides more information such as the newly-introduced monthly update on fuel clause charge, details of the FiT and Renewable Energy Certificates Schemes for those participating in the schemes, new services, as well as useful tips on efficient electricity use.

OPERATION REVIEW

New electricity bill design provides more comprehensive account information.

To provide greater convenience to our customers, HK Electric further expanded the scope of its mobile payment services with the introduction of the Faster Payment System (FPS). QR codes have been printed on our electricity bills from October 2018, and customers who have joined the FPS system can settle payment in real time by using their mobile phones.

We measure customer service performance every year against a set of 18 pledged standards and were once again successful in meeting or surpassing all of them. Average waiting times for telephone enquiries and counter services at our Customer Centre were less than 9 seconds and 3.5 minutes respectively.

We serve our customers with sincerity, courtesy and integrity.

Commendations from satisfied customers reached a record high of 1,947

Customer insights, suggestions and feedback form an important part of our process for continuous improvement. Throughout the year we collected customer feedback through "We Meet on Friday" sessions and "Give-Me-5" customer surveys. In 2018, the average customer satisfaction score was 4.6 out of 5. We visited 50 key corporate customers under the Customer Relationship Management Programme during the year to deepen our understanding of their needs.

We continued to partner with SMEs to provide advisory services and energy audits. Our efforts secured us the Best SME's Partner Award by The Hong Kong General Chamber of Small and Medium Business for the eighth consecutive year.

HK Electric carries out more than 50 energy audits for its customers during the year.

Maintaining **High Reliability** in Extreme Weather

Our response to super-typhoon Mangkhut

250 Employees on Standby

8 On-site Teams to Resume Power Services

12 Hours for each Emergency Shift

64 Outdoor Emergency Works

95 Emergency Service Calls

Anti-flooding measures in progress after super- typhoon Mangkhut.

Extreme weather events are becoming increasingly common across the world and Hong Kong is no exception. In recent years we have been hit by several major weather events including super-typhoons Hato and Mangkhut.

While extended blackouts often occur in such extreme weather events in many parts of the world, we are proud to have continued to provide reliable supply in Hong Kong, thanks to our transmission and distribution network which is mostly subterranean. After super-typhoon Hato struck in 2017, we conducted a round of review of low-lying substations, retrofitting and improving anti-flooding systems in 75 of them.

This has strengthened our resilience, ensuring that all the systems were in place to handle super-typhoon Mangkhut when it hit Hong Kong in September 2018. As the typhoon's severity became clear, a cross-divisional emergency team sprang into action to plan and prepare for the storm. Thorough inspections were carried out at LPS and substations around Hong Kong and Lamma islands to make sure that anti-flooding equipment and systems were in order, and rooftops, drains and sewers were clear. Additional manpower across our operation was put on standby while service cars were stationed strategically around town – enabling them to reach affected locations quickly, avoiding roadblocks caused by flooding and fallen trees.

A low-lying waterfront residential development, Heng Fa Chuen, was one of the worst affected areas, battered by gale-force winds from dawn on 16 September 2018, though Hurricane Signal No. 10 was hoisted only at 11 am. Waves measuring 15 metres were reported, resulting in serious flooding of communal areas and facilities. By 4 pm that day, eight blocks were without power, and some were without water or lift service.

Teams of HK Electric engineers and technicians braved the storm and arrived on site shortly after the interruption of electricity supply was reported, and at the time when Hurricane Signal No. 10 was still hoisted to fix power supply. After an intensive repair effort, electricity supply to all customers' apparatuses was restored in the small hours after midnight. And by the following day, power had been restored to all other locations across Hong Kong Island.

Our teams continued to help the community manage the aftermath of the typhoon, offering technical advice to affected areas. At the same time, immediately after the typhoon, we carried out further anti-flooding reviews which cover not only Heng Fa Chuen but other substations near the harbour.

Our emergency preparedness, the proactive measures we had in place, and the dedicated efforts of our teams who worked relentlessly round-the-clock were vital in enabling us to minimise supply interruptions.

> **We are gratified that our employees were able to restore power in the soonest possible timeframe, even in the face of this major natural disaster. Moving forward we will continue to review and upgrade our systems to handle similar events in future.**
>
> **Francis Cheng,**
> **Operations Director**

Management review after super-typhoon Mangkhut to prepare for future climate events.

SUSTAINABILITY REVIEW

As a long-standing member of the business community, we believe that Hong Kong's future is influenced by our actions, today. HKEI aims to minimise our environmental impact and serve as a force for good in the community, by operating our business in a responsible, ethical and accountable way.

Directed by the company's Corporate Social Responsibility (CSR) policy, the CSR Committee is responsible for guiding the strategy for our CSR activities as well as overseeing the company's performance in this aspect.

Nurturing stakeholder relationships

HK Electric provides information about its operations and CSR initiatives through a range of publications which are openly available to all stakeholders. In addition to the Annual Report and the Sustainability Report, we publish our annual Corporate Information Brochure, to enhance stakeholders' understanding of our business. The quarterly "HK Electric On-line" – distributed as bill inserts and provided on the HKEI website – keeps customers informed of ongoing developments.

Our online presence increased during the year. Following the introduction of the HK Electric YouTube Channel in 2017, a corporate Facebook page, "44KennedyRoad", was launched in 2018. The page provides updates on our environmental, community, health and safety initiatives and activities, as well as tips on eco-living and electric cooking.

"HK Electric On-line" is an important channel to update customers on the company's latest developments.

CEO's Report

It has always been a priority to ensure that our stakeholders understand our operations. To this end, more than 240 visits to company facilities were organised in 2018 for various stakeholder groups, including 16 LPS tours for more than 730 SSU holders and their guests to express our appreciation for their support.

Customer Liaison Group serves as a conduit to pass on customers' views and suggestions to the company.

A Stakeholder Satisfaction Steering Committee was established during the year to ensure that we address the complaints and feedback so as to improve our services. Guidelines were formulated to standardise the handling of this process which ensure that complaints, though few and far between, would receive the personal attention of the Managing Director. Our Customer Liaison Group, comprising about 50 customer representatives, serves as a channel for the company to listen to customer feedback on a regular basis.

Maintaining proper communication and good relations with other stakeholder groups including engineering, academia, politicians, media, green groups and community organisations remains an important aspect of our engagement programme. Our employees sit on engineering, community and social services committees to share our views and offer expert advice. Last year, they attended hundreds of events organised by various professional organisations, local and NGO groups.

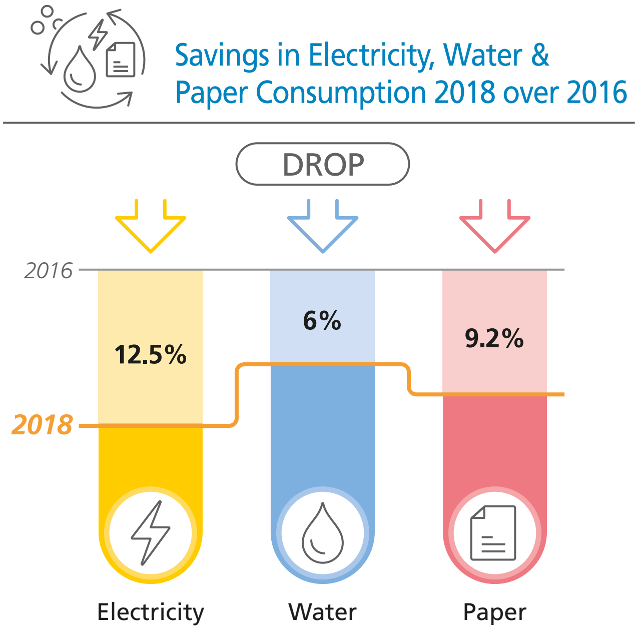
Care for the environment

We are aware of our social responsibility to protect and preserve the space we live in for the benefit of future generations. We invest substantially in both our electricity generation and corporate activities to minimise the impact of our operations on the environment. This approach has the added benefits of saving resources and reducing costs.

Reducing waste of precious resources

Initiatives we undertook to reduce our own carbon footprint are based on the 4R (reduce, reuse, recover and recycle) policy which had been integrated into all our operations.

In line with this, we aim to cut our office electricity use by 5% by 2019 from the 2016 level. This also honours our commitment to the Government's Energy Saving Charter and the newly-launched 4Ts Charter. We continued to conduct carbon audits for our buildings to examine our efforts in reducing greenhouse gas emissions.



With an ISO 50001 Energy Management System in place, we continued to adopt new measures to promote efficient electricity use, including the installation of additional energy meters to monitor consumption patterns for fine-tuning our saving plans. Power was saved at HK Electric's office buildings through measures such as optimisation of lighting in corridors and stairways. At LPS, we retrofitted more than 200 LED lamps to cut energy use by more than 13,000 units annually, and upgraded the MVAC system.

Across our major office premises, a building energy efficiency competition was organised between June and September 2018, resulting in a reduction of about 10% in the total electricity used compared with the respective months in 2017.

SUSTAINABILITY REVIEW

We have reduced our annual consumption of paper and potable water in our major office buildings by 7.5% and 2.7% respectively due to ongoing conservation efforts.

To minimise paper consumption at the customer end, we launched a new round of e-Bill and autopay promotion campaign in 2018 by offering customers who switched to e-bills and autopay services a one-off HK$50 incentive for offsetting electricity charges or for donating to one of the designated green groups.

To reduce our carbon footprint, we have implemented enhancements to our e-Transport System for company carpool to allow employees to indicate that they could give a ride to other colleagues going to the same destination when they book a company car. Those who want to share a ride can view available seat capacity of the vehicle and confirm usage online.

Upcycling: new uses for old things

A little out-of-the-box thinking is all it takes to give old or discarded products a whole new lease of life through upcycling. In 2018, we embarked on upcycling with two innovative projects.

Following a centralised rubbish bin policy in 2016 to reduce general waste and increase recycling, 500 bins were replaced by centralised bins. While some of them were donated to NGOs, in 2018, we decided to transform these discarded bins into planters, simply by drilling a few drainage holes at the base and filling them with soil. They are now blooming with fresh, green plants at the Easy Organic Farming in Yuen Long.

Another item that often gets discarded is the wooden pallets, which are used to transport materials and goods. These wooden pallets have now been refabricated and refinished to form playground equipment and donated to the same farm.

These used wooden pallets have been given a new lease of life!

"Pass It On", a recycling platform hosted on our intranet site, provides a convenient channel for colleagues to donate their unwanted but usable belongings to others.

Renewable energy education will not be complete without a visit to Lamma Winds!

Extending conservation efforts

Over the years we have also been keenly promoting energy efficiency and renewable energy through various funding schemes and educational activities, while supporting environmental projects by green groups and community organisations in the form of donations, sponsorships and voluntary services. Our 800-kW wind turbine Lamma Winds, a landmark on Lamma Island, received more than 500 visitors this year, teaching them about renewable energy generation.

We also strive to ensure that our partners and suppliers share our environmental ethos. We offered training sessions for more than 200 colleagues and suppliers so that they understand ways to incorporate these values into their operations. An audit was carried out for the overseas coal suppliers to ensure they comply with our standards.

4R & Low-Carbon
Ideas in Action

We embrace a 4R (reduce, reuse, recycle and recover) policy in our operations to minimise our environmental footprint. Successful 4R implementation extends beyond emissions control equipment and support for environmental causes: it requires commitment to integrate this philosophy into every aspect of our activities, big or small.

One of these aspects is minimising food waste at the company canteens. Our three canteens provide catering for our employees and numerous contractor staff every day, and are the perfect place to try out new ways to implement the 4R strategy.

Apart from initiatives such as encouraging employees to pre-order meals to ensure we produce only what is needed, composting food waste and donating unused food to local charities, we have also introduced the concept of “low-carbon meals” to our canteens.

A low-carbon meal creates minimal emissions because it contains lots of vegetables and fresh, seasonal ingredients that are grown locally. While a fast-food meal generates about 3.9 kg of emissions, a low-carbon meal has a carbon footprint of just 1 kg. They have proved popular among staff and we have served more than 12,000 low-carbon meals since their launch in 2013.

In June 2018, we took the concept further with a “Low-carbon Recipe Design Contest” to mark World Environment Day. HK Electric’s “masterchefs”, both male and female, responded enthusiastically, submitting more than 32 delicious recipes within just two weeks.

The winning recipe was courgette “spaghetti” with garlic, quinoa and prawns, chosen for low-carbon principles in preparation, nutritional value and creativity. It was submitted by Lucia Lou from the Transmission and Distribution division who thinks low-carbon is an attitude towards daily life, not just a meal or diet. People mistakenly believe that a “low-carbon diet” means western food or salad, but this is not the case. Many traditional Chinese dishes can also be made by following the same principles.

> **Apart from health benefits, low-carbon meals are easy and quick to prepare, which makes them ideal for busy working women like me while consuming fewer natural resources.**
>
> **Lucia Lou,**
> **a low-carbon lifestyle advocate**

We continue to explore new ways to implement the 4R philosophy in all our activities, moving us as close as possible to a zero-waste operation.

Courgette “Spaghetti” with Garlic, Quinoa and Prawns

Ingredients

Courgette:	1 piece (200g)
Prawns:	6-8 pieces
Cherry tomatoes:	¼ cup (cut in halves)
Cooked quinoa:	1 to 2 tablespoon
Crushed red pepper flakes:	some
Crushed garlic:	1 teaspoon
Black pepper:	some
Olive oil:	1 tablespoon
Salt:	1 teaspoon

SUSTAINABILITY REVIEW

Supporting the initiatives of green groups

We have always worked closely with community groups to support their energy-saving and environmental protection efforts. One of Hong Kong's most prominent programmes is WWF's Earth Hour, which we once again supported in 2018 by switching off lighting on our premises and providing system load data to the organiser for estimating the impact of the activity. The same information was also provided to Green Sense for "No Air Con Night" held on 5 October for the same purpose. Our team also participated in Green Power's "Clean up the World in Hong Kong" campaign in October by arranging company volunteers to help clear rubbish left over by hikers in country parks.

More than 600 colleagues experienced a low-carbon living month around the four basic necessities of life: apparel, diet, living and transport, to commemorate the United Nations' World Environment Day. A "Low-carbon Recipe Design Contest" brought out the creative chef in many of our employees!

Investing in the community

Volunteerism is at the heart of our corporate culture and community investment strategy. Our team of volunteers supported 99 services in 2018 with 5,105 service hours. Over the years, they have become a familiar sight across Hong Kong. In 2018, we also supported 101 projects through donations and sponsorships.

We introduced
19 New Volunteer Services
13 New NGO Partners in 2018

Following a survey on service interest of our staff, the company continued to diversify our services and the range of NGO partners we support. Fresh initiatives we supported included a Dogathon organised by The Society for the Prevention of Cruelty to Animals to raise funds for animal welfare and education programmes, a cycling event to raise funds for Pok Oi Hospital and visits to correctional institutes to extend care to the inmates. To equip our colleagues with the background and understanding of these new service beneficiaries, we conducted sharing and training sessions for volunteers prior to the services.

During the year we also continued with our four flagship community outreach initiatives.

Entering its 15th year, the Smart Power Campaign continued to encourage the smart use of electricity through a new theme and approach. In 2018, we invited and trained students to become green Key Opinion Leaders (KOLs) to help promote energy efficiency and environmental protection. They had an opportunity to learn from four celebrity KOLs who inspired the community with their passion for a green lifestyle. A board game promoting a low-carbon lifestyle was produced as education tools for over 1,000 schools. We continued to promote and expand the Happy Green Schools network to include more than 420 schools in Hong Kong.

Happy Green Community Ambassadors shadow our engineers to learn about the company's green practices.

Around 60 secondary school students were nominated "Happy Green Community Ambassadors" to learn how they could become green KOLs. Combining green education with life planning, a unique job shadowing opportunity was given to eight outstanding ambassadors: they followed green fashion designers, engineers conducting energy audits, low-carbon nutritionists and EV technicians, and also had the privilege of meeting with HK Electric's management to learn about the company's green practices.

CEO's Report

I have a dream – green energy dream.

And, the "Green Energy Dreams Come True" competition selected 13 school projects to help them realise their "green dreams" of promoting energy efficiency and renewable energy with funding and mentorship. Successful projects included the installation of solar panels on the rooftop of the school and a proposal to build a green memorial park at landfill, with the site fuelled by biogas. A new award category recognising outstanding presenting teams was added to highlight the importance of communication.

We spared no efforts in spreading green lifestyle-related messages to different sectors of the community. Leveraging the extensive U3A (University of the Third Age) network, a training programme was organised for 54 local retirees to learn more about energy efficiency and low-carbon lifestyles so they became Smart Power Ambassadors in their own communities. During the year, 978 courses attended by 16,298 U3A students were held, engaging the young-old in active ageing through lifelong learning, staying healthy and serving the community.

Under the Green Hong Kong Green project jointly organised with the Conservancy Association, monthly tours continued at the 10 eco-heritage routes on Hong Kong Island and Lamma Island. In 2018, a total of 92 eco-tours were organised for 1,160 people. Interesting new themes were introduced for greater public appeal, including "Capturing Nature with Digital Photography" and "A Century of Waterworks". Guest speakers were invited to share information and conducted topical tours which proved to be highly popular. We continued to engage, recruit and empower eco-leaders through a reward scheme, as well as refresher courses, thematic sharing and visits.

New routes and themes are introduced to the eco-tours under the popular Green Hong Kong Green project.

SUSTAINABILITY REVIEW

Through CAREnJOY, we deliver safety talks in fun-filled gatherings

Our elderly care programme, CAREnJOY celebrated its 10th year of supporting the community. Over the years, we reached out to more than 7,500 single elders on Hong Kong Island and Lamma Island through home visits, carnivals, electrical safety talks and gatherings. At the same time, about 2,200 single elders were successfully encouraged to establish their own social support networks by joining elderly centres in their neighbourhoods. With continued support from four District Councils and nine NGOs on Hong Kong Island, and two Rural Committees on Lamma Island, we visited more than 400 elders in 2018 and arranged safety talks for nearly 1,700 senior people, who learnt tips on the safe and efficient use of electricity in fun-filled afternoon gatherings.

The HK Electric Centenary Trust continued to provide funding support for the U3A programme and scholarships to secondary school students in financial need.

Holistic care for employees

We place a strong emphasis on employee health, workplace safety and the fostering of a positive culture within the organisation.

Our principles guiding safe workplace practices are stipulated in our Corporate Health and Safety Manual, which is reviewed regularly to catch up with evolving best practices. In addition to compliance with all statutory requirements, comprehensive Safety Management Systems (SMS), a Health and Safety Policy, an Alcohol and Drug Policy and a collection of corporate-wide guidelines are in place and strictly enforced. With an aim to further improve this environment, the SMS of power transmission and distribution business was further upgraded and certified to the more stringent ISO 45001:2018, shortly after it was promulgated.

We continued our 5S Good Housekeeping programme to enhance workplace efficiency, occupational health and safety, space utilisation and cleanliness. Besides ongoing surveillance visits by the HKQAA, we also conducted various safety audits and inspections regularly to identify the strengths and opportunities for improvement.

We encourage our employees and contractors to report near-miss incidents and make suggestions to mitigate potential hazards. We took this a step further this year by developing a new Near-Miss Reporting mobile app with the implementation of Chatbot that will be launched in early 2019. This service will provide an easily accessible and user-friendly method to report near-miss cases, so as to build an even safer working environment.

Achieved 465 Days Lost-Time-Injuries free operations on 11 November 2018

Work-Above-Ground drills are regularly conducted to ensure preparedness for potential emergencies.

Empowering Employees to Be
FIT AND HEALTHY

205 Health & Fitness Activities

Health Talks	**50** Participants
Interest Classes	**319** Participants
Physical Training Courses	**36** Participants
Fitness Classes	**2,710** Participants

As one of Hong Kong's largest employers we have a responsibility to promote employee wellness. We offer a range of facilities to encourage employees to embark on their own fitness journeys, including interest classes, health talks, physical training courses and other wellness activities such as Yoga, Taichi and more. Our staff are keen to use health and fitness amenities including a gym room, badminton court, billiard and table tennis rooms. These are all accessible through "Wellness i-Connect", an intranet platform, that also provides the latest health tips.

Creating a fitness mindset was part of our overall 2018 employee development theme of "Drive your own purpose", so that employees could take ownership of their emotional as well as physical well-being. In 2018, these fitness and health activities attracted more than 3,100 participants.

One of our popular initiatives was the HK Electric "Runners Club". More than 50 employees have signed up and many ran together once every two months at sports grounds as well as some of Hong Kong's favourite running routes including Bowen Road and Aberdeen Reservoir. Some runners also formed teams to represent the company in local race events. Club members have formed their own community on the HK Electric intranet site, sharing training details as well as tips and information on running.

Mr. Arthur Wong, General Manager (Group Commercial), is a keen participant. "Running is one of the easiest sports to practise – it is also a great stress reliever thanks to the endorphins released," he said.

Being involved in the "Runners Club" can foster great team spirit and I enjoy getting to know many of my colleagues, while helping beginners learn about proper running form. And the icing on the cake is the chance to enjoy some of Hong Kong's most scenic spots.

Arthur Wong,
an experienced marathon runner

We also widely promote Zero Time Exercise in our workplaces. Videos are broadcast every day during office hours through emails to remind employees to take time to carry out these exercises.

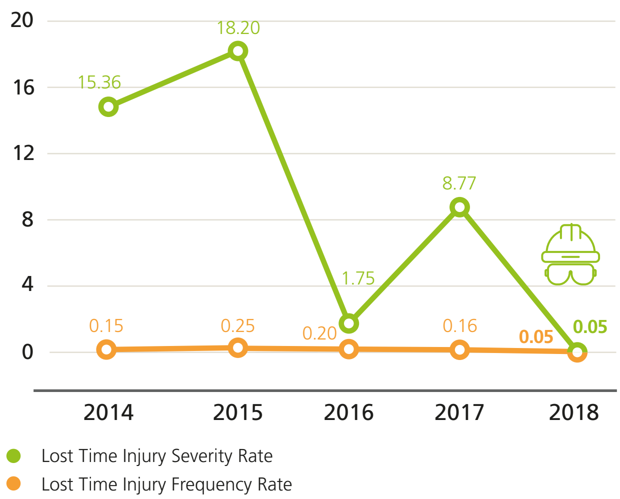
The World Health Organisation has identified that promoting health in the workplace alleviates stress, improves well-being and ultimately improves both productivity and loyalty. Our range of fitness initiatives, especially shared activities like the "Runners Club" and Zero Time Exercise, are invaluable in yielding these benefits.

SUSTAINABILITY REVIEW

Extending the same ethic to those we work with, we ran health and safety campaigns throughout the year in various parts of the company, the highlight of which was the annual Health & Safety Forum in March 2018. Members of the Labour Department and the Occupational Safety & Health Council, and experts from major industrial corporations as well as contractors shared their insights and experiences.

Lost Time Injury Severity & Frequency Rates

Per 200,000 employee-hours



We organised a company-wide Safety Climate Index survey and environmental, health and safety quizzes to understand our employees' attitudes and perceptions in health and safety as well as to engage our employees and bolster their awareness. We continued to implement a Work Safe Behaviour (WSB) programme to identify and improve safe working processes, 283 WSB observations were conducted and a number of safety initiatives are being implemented.

We recognise that health and work are closely related. A healthy workplace not only protects the physical well-being and the precious life of our people, but also enhances productivity and competitiveness. To pledge our commitment to promoting physical and mental balance, we have signed the "Joyful@Healthy Workplace Charter" launched by the Department of Health and the Occupational Safety and Health Council.

An environment that people thrive in

Last year HK Electric was once again named one of Hong Kong's top 10 most attractive employers and ranked sixth by the renowned international consulting firm, Randstad.

We are an equal opportunity employer committed to providing equity in all human resources matters. Our staff are recognised and rewarded according to their contribution, performance and skills. We do not tolerate any behaviour of discrimination, harassment, vilification or victimisation under any circumstances. With this in mind, we take every possible step to ensure that we adhere to equal opportunity principles in our recruitment process. Individuals are treated fairly and selection is based solely on objective judgment and job-related requirements.

To attract the best talent and encourage more young people to pursue careers in engineering, we participated in several local career fairs and delivered career talks at local institutions. In 2018, a total of 24 graduate trainees, management trainee and trainee technicians joined our team.

Young recruits undergo training and orientation to kick-start their careers with the company.

CEO's Report

In an effort to provide pupils with on-the-job exposure and a taste of life as an engineer, we engaged with university students in degree and higher diploma courses through our Industrial Placement, Industrial Attachment and Vacation Trainee Programmes. In total, 50 students at various stages benefitted from the three programmes.

Our efforts for employee welfare after retirement through the statutory Provident Fund Scheme were recognised through the receipt of the Good MPF Employer Award, e-Contribution Award, and Support for MPF Management Award.

We value employee views and suggestions and our Joint Consultation Committee is an important conduit to receive their ideas. 2018 saw employees voting for over 70 members to sit on six different panels of the Committee for a new two-year term.

Talent development through training

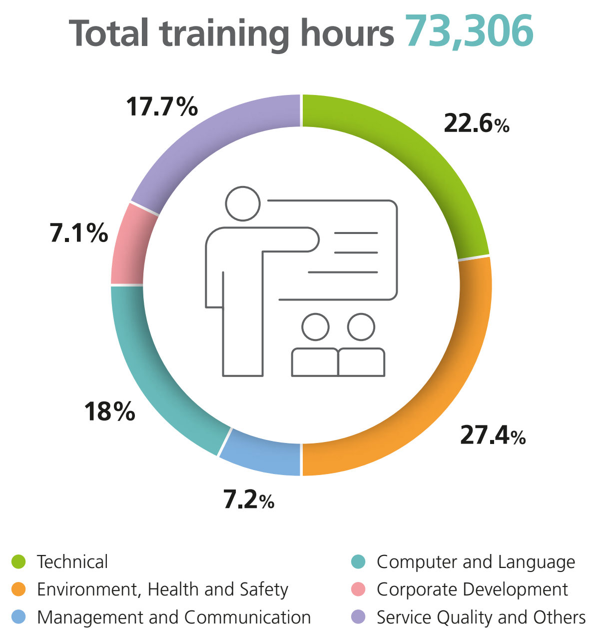
People give their best in an environment where they can learn and grow throughout their careers. In this spirit a total of 73,306 training hours were completed company-wide with an average of 38.9 hours per employee.

Starting from orientation for new recruits, we offer a range of learning and development modules based on a structured leadership competency framework. We nurture leadership pipelines through targeted advancement initiatives in the form of group projects, job rotations, coaching and mentorship, along with experiential and classroom learning.

Special programmes are in place to develop staff potential

Two new advancement tracks for high-potential employees were launched in 2018. 22 young high-potential employees were selected for a Young Talent Development Programme, and six high-calibre professionals were selected for the Professional Development Programme.

Employee Training in 2018



To foster a collaborative organisational culture and expose staff to the latest trends, a series of knowledge sharing seminars was launched in 2018. Topics included artificial intelligence, deep learning, media and community relations and desktop applications. More than 1,000 participants joined.

Meanwhile, the HK Electric Institute had another busy year, offering our employees 19 modules conducted by retirees and incumbent employees with expertise in different operational areas. This unique scheme brings together current and past employees, enabling the sharing of pertinent knowledge and wisdom with new recruits. In addition, several external experts from suppliers and consultants shared their expertise. A total of 828 participants from across the company attended the Institute's sessions during the year.

SUSTAINABILITY REVIEW

The HK Electric Institute conducts classes on a variety of topics for our engineers throughout the year.

HK Electric works in collaboration with The Hong Kong Polytechnic University (PolyU) to provide additional learning opportunities for students, with company experts freely giving their time to teach. During this academic year, lecturers from the company taught courses for undergraduate as well as post-graduate students. A new Memorandum of Understanding was signed with PolyU, ensuring that these opportunities continue to benefit the students and the industry as a whole.

We were privileged to host the Hong Kong Session of the "Belt and Road Advanced Professional Development Programme in Power and Energy" in April 2018. This was part of HK Electric's initiatives to groom the future leaders of the power industry throughout the Belt and Road area and contribute to a much greater macroeconomic cause. Our engineers delivered lectures on the design and operations of the distribution network in the workshop to 30 senior professionals from 12 Belt and Road countries and regions, supplemented by visits to LPS and the Marsh Road Station Building. We were happy to receive positive feedback from all the participants.

Sustainability Reporting

HKEI took part in a number of CSR assessments and was included in the Euronext Vigeo World 120 Index. We were awarded the "5 Years Plus Caring Company Logo" by the Hong Kong Council of Social Service.

In order to communicate openly with stakeholders about our sustainability performance, we published our 2017 Sustainability Report in April 2018. The report was prepared in accordance with GRI's Sustainability Reporting Standards and Electric Utilities Sector Disclosures as well as Stock Exchange's ESG Reporting Guide, with external independent assurance.

We also participate in the Carbon Disclosure Project, and have been reporting greenhouse gas emissions with independent verification.

As one of the pillars of the Hong Kong business community, we take various challenges facing our industry and our world seriously. Our multifaceted efforts in this regard encompass volunteerism, environmental protection, green education, care for the elderly and concern for all our stakeholder groups. We are committed to continuing in these efforts in the years to come.

Lamma Power Station plays host to senior professionals from 12 Belt and Road countries and regions.

FINANCIAL REVIEW

Financial performance

The Trust Group's revenue and audited consolidated profit for the year ended 31 December 2018 were HK$11,612 million (2017: HK$11,693 million) and HK$3,051 million (2017: HK$3,341 million) respectively.

Distribution

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK20.12 cents (2017: HK20.12 cents) per SSU. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a second interim dividend in lieu of a final dividend in respect of the Company's ordinary shares held by the Trustee-Manager, of HK20.12 cents (2017: HK20.12 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK19.92 cents (2017: HK19.92 cents) per SSU, brings the total distribution to HK40.04 cents (2017: HK40.04 cents) per SSU for the year ended 31 December 2018.

	2018 HK$ million	2017 HK$ million
Audited consolidated profit attributable to SSU holders	**3,051**	3,341
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	**5,421**	5,178
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(1,916)**	(1,317)
– changes in working capital	**(267)**	191
– adjustment for employee retirement benefit schemes	**12**	15
– taxes paid	**(535)**	(797)
	(2,706)	(1,908)
(iii) capital expenditure payment	**(3,397)**	(2,503)
net finance costs	**(883)**	(842)
Distributable income	**1,486**	3,266
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	**2,052**	272
Distributable income after adjustment of the discretionary amount	**3,538**	3,538
Interim distribution	**1,760**	1,760
Final distribution	**1,778**	1,778
Distribution amount	**3,538**	3,538
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	**HK19.92 cents**	HK19.92 cents
– Final distribution per SSU	**HK20.12 cents**	HK20.12 cents
Total distributions per SSU	**HK40.04 cents**	HK40.04 cents

In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2018, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

Notes:

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

(b) The Trustee-Manager Board has confirmed, in accordance with the Trust Deed, that (i) the auditors of the Trust Group have reviewed and verified the Trustee-Manager's calculation of the above distribution entitlement per SSU and (ii) having made all reasonable enquiries, immediately after making the above distribution to the registered unit holders of the Trust, the Trustee-Manager will be able to fulfill, from the Trust Property (as defined in the Trust Deed), the liabilities of the Trust as they fall due.

(c) Interim distribution per SSU of HK19.92 cents (2017: HK19.92 cents) was calculated based on the interim distribution amount of HK$1,760 million (2017: HK$1,760 million) and 8,836,200,000 SSUs in issue as at 30 June 2018 (30 June 2017: 8,836,200,000 SSUs). Final distribution per SSU of HK20.12 cents (2017: HK20.12 cents) was calculated based on the final distribution amount of HK$1,778 million (2017: HK$1,778 million) and 8,836,200,000 SSUs in issue as at 31 December 2018 (31 December 2017: 8,836,200,000 SSUs).

Capital expenditure, liquidity and financial resources

Capital expenditure during the year amounted to HK$3,809 million (2017: HK$2,929 million), which was funded by cash from operations and external borrowings. Total external borrowings outstanding at 31 December 2018 were HK$41,965 million (2017: HK$41,371 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2018 had undrawn committed bank facilities of HK$5,495 million (2017: HK$5,750 million) and bank deposits and cash of HK$34 million (2017: HK$1,659 million).

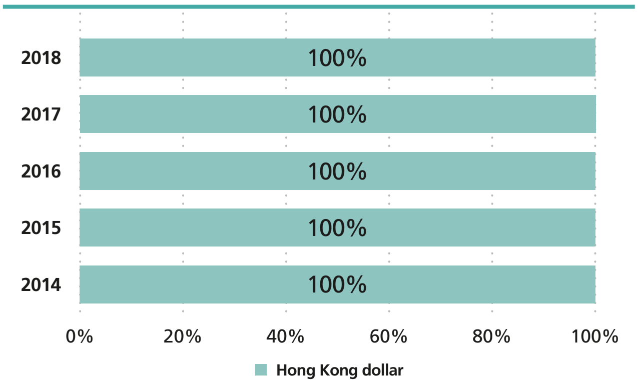
Treasury policy, financing activities, capital and debt structure

The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity bill collection, are placed on short term deposits denominated in Hong Kong dollars. The Trust Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

As at 31 December 2018, the net debt of the Trust Group was HK$41,931 million (2017: HK$39,712 million) with a net debt-to-net total capital ratio of 46% (2017: 44%). The Trust Group's financial profile remained strong during the year. On 28 February 2018, Standard & Poor's reaffirmed the "A-" long term credit ratings and the stable outlook for both the Company and HK Electric, unchanged since September 2015 and January 2014, respectively.

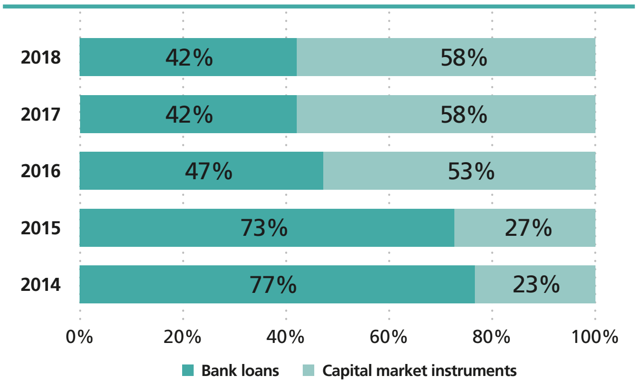
The profile of the Trust Group's external borrowings as at 31 December 2018, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:

Debt Profile by Currency

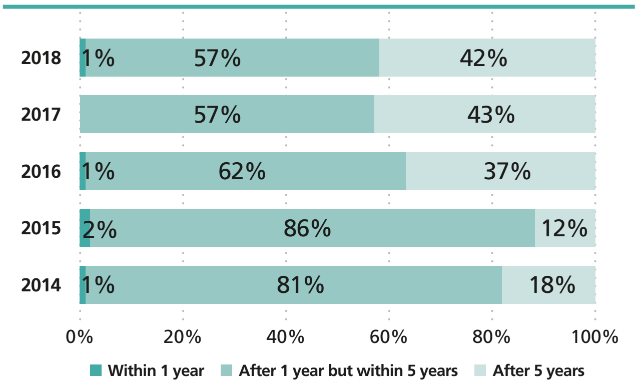


Financial Review

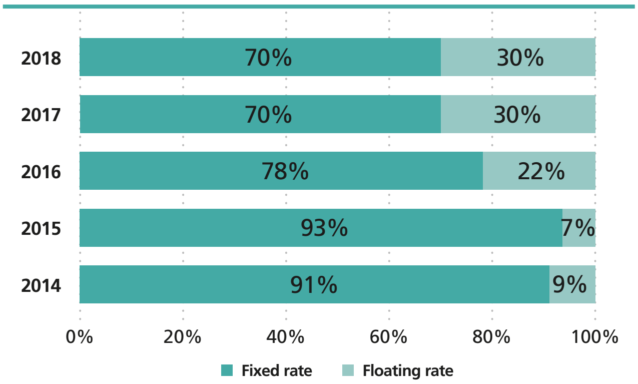
Debt Profile by Types of Borrowings



Debt Profile by Maturity



Debt Profile by Interest Rate Structure



The Trust Group's policy is to maintain a portion of its debt at fixed interest rates taking into consideration business and operational needs. Interest rate risk is managed by either securing fixed rate borrowings or employing interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the Trust Group's treasury policy. Derivative financial instruments are used primarily for managing interest rate and foreign currency risks and not for speculative purposes. Treasury transactions are only executed with counterparties with acceptable credit ratings to control counterparty risk exposure.

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 31 December 2018, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts or cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2018 amounted to HK$43,484 million (2017: HK$37,258 million).

Charge on assets

At 31 December 2018, no assets of the Trust Group were pledged to secure its loans and banking facilities (2017: Nil).

Contingent liabilities

As at 31 December 2018, the Trust Group had no guarantee or indemnity to external parties (2017: Nil).

Employees

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the year ended 31 December 2018, excluding directors' emoluments, amounted to HK$1,124 million (2017: HK$1,111 million). As at 31 December 2018, the Trust Group employed 1,763 (2017: 1,776) permanent employees. No share option scheme is in operation.

AWARDS GALLERY

27 Awards
Corporate / Community

- **Caring Company Scheme 2017/18**
  - 5 Years Plus Caring Company Logo
  - Business for Sustainability Logo
  - List of Barrier-free Companies/Organisations 2017/18 (Electric Centre, North Point)
- **Happiness-at-work Promotional Scheme 2018**
  - "Happy Company" Label
- **2018 ARC Awards International**

  Annual Report 2017
  Traditional Annual Report: Electric Power Company Category
  - Bronze

  Sustainability Report 2017
  Written Text: Sustainability Report classification
  - Silver Award

  Infographics: Sustainability Report classification
  - Bronze Award

  Specialized A.R.: Sustainability Report classification
  - Honors

  Interior Design: Sustainability Report classification
  - Honors

  Illustrations: Sustainability Report classification
  - Honors
- **2017/18 Mercury Excellence Awards**

  Annual Report 2016
  Annual Report – Overall Presentation: Energy Category
  - Bronze
- **2018 Astrid Awards**

  Annual Reports – Covers: Graphics & Text Category
  - Honors
- **ERB Manpower Developer Award Scheme**
  - Manpower Developer (2016-20)
- **The Community Chest of Hong Kong**
  - President's Award 2017/18
- **Construction Industry Council "Construction Industry Volunteer Award Scheme 2018"**
  - Merit Award for Participation
  - Most Supportive Organisation

- **2016-18 Best Corporate Volunteer Service Project Competition**
  - General Corporate Group: Merit Award
- **2018-2019 Age-friendly City Appreciation Scheme**
  - Gold Star Award
- **Social Capital Builder (SCB) Awards 2018**
  - Logo Award
- **2017/18 Family-Friendly Employers Award Scheme**
  - Special Mention 2017/18 (Gold)
  - Family-Friendly Employers 2017/18
  - Awards for Breastfeeding Support 2017/18
- **Good MPF Employer Award 2017-18**
  - Good MPF Employer Award
  - Support for MPF Management Award
  - e-Contribution Award
- **Partner Employer Award 2018/19**

  Corporate Category
  - Excellent Corporation
- **Labour Department Good Employer Charter 2018**
  - Signatory

20 Awards
Customer Service

- **HKRMA Mystery Shopper Programme**
  - 2018 Excellence Award
  - 2018 Service Retailers of the Year – Retail (Services) Category Award
- **HKRMA Service & Courtesy Award**

  Individual Category
  - Junior Frontline Level: Gold Award in Public Utilities Category
- **HKRMA Mystery Shopper Programme (Oct 2017 to Dec 2017)**
  - Service Industry Leader – Gold Award
  - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shopper Programme (Jan 2018 to Mar 2018)**
  - Service Industry Leader – Gold Award
  - Retail (Services) Category: Service Category Leader
- **HKRMA Mystery Shopper Programme (Apr 2018 to Jun 2018)**
  - Retail (Services) Category: Service Category Leader

Awards Gallery

- **2017 International Customer Relationship Excellence Awards**

  Corporate Category
  – Public Service of the Year (Public Utility)
  – Mission Critical Support Service of the Year (Public Utility)

  Individual Category
  – Customer Service Professional of the Year (Public Utilities – Contact Center)
  – Customer Service Professional of the Year (Public Utilities – Technical Center)
  – Customer Service Professional of the Year (Contact Center): Two Merits
  – Customer Service Professional of the Year (Public Utilities – Technical Center): Merit

- **HKIM Market Leadership Award 2017/2018**

  Corporate Category
  – Market Leadership in Public Services 2017/2018

- **Best SME's Partner Award 2018**

  Corporate Category
  – Best SME's Partner Award 2018

- **Hong Kong Call Centre Association Awards 2018**

  Corporate Awards
  – Mystery Caller Assessment Award – Two Gold Awards (Commerce and Utilities)

- **The Hong Kong Star Brand Award (Enterprise)**

30 Awards
Environmental

- **External Lighting Charter: Platinum Award**
  – Tamar Station Building
  – Hongkong Electric Centre
  – Lamma Power Station
  – Electric Tower
  – North Point Station Building
  – Electric Centre
  – Connaught Road Switching Station & Station Building
  – Sheung Wan Station Building
  – Marsh Road Station Building
  – Causeway Bay Station Building

- **Hong Kong Green Organisation Certification**
  – Hong Kong Green Organisation
  – Two Excellence Level Wastewi$e Certificates (T & D, Generation)
  – Good Level Wastewi$e Certificate (Projects)
  – Excellence Level Energywi$e Certificate (Lamma Power Station)
  – Six Good Level Energywi$e Certificates (T & D, Wong Chuk Hang Zone Substation, Connaught Road Zone Substation, Sai Ying Pun Zone Substation, Tin Wan Zone Substation, Causeway Bay Zone Substation)

- **CarbonCare® Label Scheme 2018**
  – CarbonCare® Star Label
  – CarbonCare® Label: Level 2 (Hongkong Electric Centre)

- **United Nations Sustainable Development Goals – Green Office Awards Labelling Scheme**
  – Spring 2018 awardees list

- **BOCHK Corporate Environmental Leadership Award 2017**
  – Manufacturing Sector: Bronze Award

- **Indoor Air Quality Certification Scheme**
  – Excellent Class Certificate: Electric Tower (Areas Equipped with MVAC System of the Whole Building)
  – Excellent Class Certificate: Electric Centre (9/F Office)
  – Good Class Certificate: Electric Centre (Areas Equipped with MVAC System of the Whole Building)
  – Good Class Certificate: Administration and Control Building, Lamma Power Station
  – Good Class Certificate: New Control Building, Lamma Power Station

25 Awards
Quality / Health / Safety

- **The 10th Best OSH Employee Award**
  – Management Group of the Organisation/Company Category: Bronze Award
- **30th Anniversary Occupational Safety & Health Council – OSH Award**
  – OSH Excellence Award
- **Occupational Safety & Health Council Safety Quiz 2018**
  Corporate Category
  – 1st Runner-up in Cup Final
  – 2nd Runner-up in Cup Final
  – Champion in Plate Final
  – 2nd Runner-up in Plate Final
  – Highest Score Award
- **The 17th Hong Kong Occupational Safety and Health Award**
  – Safety Performance Award (Other Industries)
  – Work Safe Behaviour Award: Gold Award
  – Safety Management System Award: Gold Award (Other Industries)
  – OSH Annual Report Award: Silver Award
  – Pointing and Calling Award: Bronze Award
  – Best Visual Effects Award: Gold Award
  – Best Screenplay/Best Content Award: Gold and Silver Award
  – Best Performer Award: Gold and Silver Award
  – Best Presentation Award: Gold Award
- **E&M Go! 2018 – "E&M Elite Cup" quiz competition**
  – Champion
- **24th Considerate Contractors Site Award Scheme**
  – Non-Public Works – New Works – Group A: Silver Award (Corporate Category)
  – Outstanding Environmental Management & Performance Awards: Merit Award
- **Safety Video Competition of the Construction Safety Week 2018**
  Construction safety related innovative video
  – Bronze Award
  – Merit Award
- **E&M Carnival 2018 – Online Quiz**
  – Participating Organisation Group: Champion
  – Open Division: Champion

22 Awards
Staff

- **2017 Outstanding Apprentices Award**
  – Outstanding Apprentices Merit Award
- **The Hong Kong Institution of Engineers (HKIE) – HKIE Toastmasters Club**
  – Table Topic Impromptu Speech Contest: First Place
- **The HKIE Innovation Awards for Young Members 2018**
  – Merit (Category I – An)
- **The Institution of Civil Engineers (Hong Kong Association)**
  – Technical Report Prize
- **Young Professionals Exhibition & Competition 2018**
  – Open Section: 2nd Runner-up
- **Safe Professional Driver Election 2018**
  – Safe Professional Driver Award
- **The HKIE Professional Volunteers Services Accreditation Programme 2016-17**
  Individual Category
  – 5 Grand Leadership Awards
  – 5 Gold Awards
  – 6 Silver Awards

CORPORATE GOVERNANCE

Ethical, accountable and responsible process in all our activities

BOARDS OF DIRECTORS AND MANAGEMENT TEAM

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning
Chairman

Aged 67. Appointed to the Boards of the Trustee-Manager and the Company, and as the Chairman of the Boards since December 2013. He is also the Chairman of HK Electric, a wholly-owned subsidiary of the Company. Mr. Fok is the Chairman of Power Assets. Mr. Fok is an Executive Director and Group Co-Managing Director of CK Hutchison and the Deputy Chairman of CKI. Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited and Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust"), and the Co-Chairman of Husky Energy Inc. ("Husky Energy"). All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. Mr. Fok acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

WAN Chi Tin
Chief Executive Officer

Aged 68. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013 and as Chief Executive Officer of the Company since December 2013. Mr. Wan is also Managing Director of HK Electric and a Director of all of the subsidiaries of the Company. He has worked for the Power Assets Group and the Group since 1978, holding various positions including Group Managing Director and Director of Engineering (Planning & Development) of Power Assets, a listed company, and Chief Executive Officer of Powercor Australia Limited and CitiPower Pty., associate companies of the Power Assets Group in Australia. Mr. Wan acts as an Executive Director and a Director of the substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely Power Assets and Quickview Limited respectively. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of The Hong Kong Institution of Engineers. Mr. Wan is a member of the Audit Committee of The University of Hong Kong. He was previously Vice Chairman of the Engineers Registration Board of Hong Kong.

CHAN Loi Shun

Aged 56. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013. Mr. Chan is also a Director of all the subsidiaries of the Company including HK Electric. He is an Executive Director and Chief Financial Officer of CKI and an Executive Director of Power Assets. Mr. Chan joined Hutchison Whampoa Limited ("HWL") in January 1992 and has been with the CK Group since May 1994. All the companies mentioned above, except the Trustee-Manager, HK Electric and HWL, are listed companies. Mr. Chan acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely CKI, Power Assets and Quickview Limited. Mr. Chan is a fellow of the HKICPA and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

CHENG Cho Ying, Francis

Aged 62. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Cheng is also a Director of HK Electric and serves as its Operations Director. Mr. Cheng has worked for the Group since 1979. He holds a Bachelor's degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a Fellow of The Hong Kong Institution of Engineers.

CHEN Daobiao

Aged 50. Appointed to the Boards of the Trustee-Manager and the Company in May 2018. Mr. Chen is also a Director and the Co-General Manager (Transmission & Distribution) of HK Electric. He is the Vice President of State Grid International Development Co., Limited and a director of State Grid International Development Limited. State Grid International Development Co., Limited and State Grid International Development Limited are substantial Holders of the Share Stapled Units for the purpose of Part XV of the SFO. He previously served as Senior Vice President of State Grid Shanghai Electric Power Company, Deputy Director General of the Infrastructure Department of State Grid Corporation of China ("State Grid"), Senior Vice President of Economic Information Bureau of Global Energy Interconnection Development and Cooperation Organisation in the People's Republic of China, and Vice President of CPFL Energia, a listed company in Brazil. Mr. Chen holds a Bachelor Degree in Power System and Automation from Huazhong University of Science and Technology and a Master Degree in Business Administration from Royal Melbourne Institute of Technology.

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

Boards of Directors and Management Team

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor
Deputy Chairman of the Company Board

Aged 54. Appointed to the Boards of the Trustee-Manager and the Company, and as Deputy Chairman of the Company Board in November 2014. Mr. Li is also a Director of HK Electric and a Non-executive Director of Power Assets. He is the Chairman and Group Co-Managing Director of CK Hutchison, and the Chairman and Managing Director, and the Chairman of the Executive Committee of CK Asset Holdings Limited ("CK Asset"). Mr. Li is the Chairman of CKI and CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences") and the Co-Chairman of Husky Energy. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mr. Li is also the Deputy Chairman of Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. He serves as a member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Hong Kong Special Administrative Region, and Vice Chairman of the Hong Kong General Chamber of Commerce (the "Chamber"). Mr. Li is the Honorary Consul of Barbados in Hong Kong. He acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and an honorary degree, Doctor of Laws, honoris causa (LL.D.).

Fahad Hamad A H AL-MOHANNADI

Aged 63. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Al-Mohannadi is the Managing Director and the General Manager of Qatar Electricity & Water Co. ("QEWC"), which is listed on the Qatar Stock Exchange. He has worked for QEWC since 1992 and, prior to joining QEWC, he worked at the Qatar Ministry of Electricity and Water. Mr. Al-Mohannadi is the Chairman of Board of Directors of each of Qatar Power Company, Ras Laffan Power Company, Nebras Power Q.S.C. and Umm Al Houl Power Co., and is also a Board Director of Siraj Solar Energy and a board member of Qatar Science & Technology Park. He holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 80. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Arculli is a practising solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. He was a non-official member of the Executive Council of the Hong Kong Special Administrative Region from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He has a distinguished record of public service and has served on numerous government committees and advisory bodies. Mr. Arculli is an Independent Non-executive Director of Hang Lung Properties Limited, and is a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. He was previously an Independent Non-executive Director of HKEX. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies.

DUAN Guangming

Aged 53. Appointed to the Boards of the Trustee-Manager and the Company in February 2019. Mr. Duan is also a Director of HK Electric. He is the Senior Vice President of State Grid International Development Co., Limited. Since 1994, he has worked for State Power Corporation of China, State Grid and its subsidiaries, and has previously served as Deputy Director General of Administration Office of State Grid, Director General of State Grid Representative Office in Hong Kong, Director General of State Grid Representative Office in India, and Director and General Manager of State Grid Overseas Investment Limited, responsible for international financing, overseas investments and overseas assets operation and management. State Grid and State Grid International Development Co., Limited are substantial Holders of the Share Stapled Units for the purpose of Part XV of the SFO. Mr. Duan holds a Master Degree in Heating, Gas Supply, Ventilating and Air Conditioning Engineering from Tongji University.

Deven Arvind KARNIK

Aged 51. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Karnik is the Head of Infrastructure at Qatar Investment Authority ("QIA"). Prior to joining QIA in 2013, Mr. Karnik worked for about 7 years in Hong Kong where he was a Managing Director at Morgan Stanley and a Managing Director at Dresdner Kleinwort. Mr. Karnik serves as a director of Cadent Gas Limited. Mr. Karnik also serves as an alternative director of Heathrow Airport Holdings Limited. Mr. Karnik holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in England and Wales.

ZHU Guangchao

Aged 51. Appointed to the Boards of the Trustee-Manager and the Company in May 2017. Mr. Zhu is also a Director of HK Electric. He is the Vice Chief Engineer and Director General of International Cooperation Department of State Grid, a substantial Holder of the Share Stapled Units for the purpose of Part XV of the SFO, Chairman of National Grid Corporation of the Philippines, and Vice Chairman of the Board of Directors of Redes Energéticas Nacionais, SGPS, S.A., a listed company and the national electric and gas grid corporation of Portugal. He previously served as Managing Director, President, Senior Vice President and Chief Executive Officer of State Grid International Development Co., Limited, Director General of International Cooperation Department of State Grid and Director of State Grid International Development Co., Limited, Deputy Director General of State Grid Representative Office in the Philippines, Chief Executive Adviser, Board Director and Deputy Chief of Project Team of National Grid Corporation of the Philippines, and Deputy Director General of Finance Department of State Grid. Mr. Zhu holds a Master Degree in Power System and Automation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 62. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Fong is also a Director of HK Electric. Mr. Fong was CEO of the Chamber from 2006 to 2011. Prior to joining the Chamber, he served in the civil service for over 25 years, holding various senior positions in the Government of Hong Kong. Mr. Fong has a long record of public service providing both operational and policy-formulation expertise. Mr. Fong is an Independent Non-executive Director of Glory Mark Hi-Tech (Holdings) Limited, a listed company. He was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Fong holds a Bachelor of Social Science degree in Business and Economics, a Master of Technology Management degree in Global Logistics Management, a Master of Science degree in Global Finance and a Doctor of Business Administration degree.

KWAN Kai Cheong

Aged 69. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Kwan is also a Director of HK Electric. He is President of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of Utopa Limited, a commercial property operator in the People's Republic of China. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), Panda Green Energy Group Limited (formerly known as United Photovoltaics Group Limited), Win Hanverky Holdings Limited and CK Life Sciences and a Non-executive Director of China Properties Group Limited, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited and Dynagreen Environmental Protection Group Co., Ltd., both being listed companies. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

Boards of Directors and Management Team

LEE Lan Yee, Francis

Aged 78. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Lee is also a Director of HK Electric. Mr. Lee was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He had served the Power Assets Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr. Lee was responsible for all the engineering activities of the Power Assets Group, including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

George Colin MAGNUS

Aged 83. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Magnus is also a Director of HK Electric. He was previously the Chairman of Power Assets from 1993 to 2005, a Non-executive Director from 2005 to 2012 and an Independent Non-executive Director until January 2014. He is a Non-executive Director of CK Hutchison. He is also a Non-executive Director of CKI having served previously as Deputy Chairman of the company. He was previously Deputy Chairman and then a Non-executive Director of Cheung Kong (Holdings) Limited and HWL. All of these companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong (Holdings) Limited and HWL, are listed companies. Mr. Magnus acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Magnus is also a Director of Husky Energy, a listed company. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 67. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Roberts is an Independent Non-executive Director of CK Asset, a listed company. He joined the HWL Group in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. Mr. Roberts is a Member of the Listing Committee of the Main Board and Growth Enterprise Market of the Stock Exchange. In the past, he has been a member of the Executive Committee of the Canadian Chamber of Commerce in Hong Kong and is currently Governor of the chamber. He has served in the past as a Governor of the Canadian International School of Hong Kong for 12 years and also on its finance committee. Mr. Roberts served as a member, including as the Deputy Chairman, of the Professional Conduct Committee of the HKICPA for nine years. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Alberta and British Columbia and also a Fellow of the HKICPA.

Ralph Raymond SHEA

Aged 85. Appointed to the Boards of the Trustee-Manager and the Company in October 2015. Mr. Shea is also a Director of HK Electric. He is an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He is a solicitor of England and Wales and of Hong Kong.

ALTERNATE DIRECTORS

WOO Mo Fong, Susan

(alias CHOW WOO Mo Fong, Susan)

Aged 65. Appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman of the Boards of the Trustee-Manager and the Company, in November 2014. She is also an Alternate Director of HK Electric. Mrs. Chow was an Executive Director of the Trustee-Manager and the Company from December 2013 to November 2014 and a Director of HK Electric from January 1996 to November 2014. Mrs. Chow is a Non-executive Director of CK Hutchison and an Alternate Director of CKI. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. CK Hutchison and CKI are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mrs. Chow is a qualified solicitor and holds a Bachelor's degree in Business Administration.

Frank John SIXT

Aged 67. Appointed Alternate Director to Mr. Victor T K Li, the Deputy Chairman of the Company Board and Non-executive Director of the Trustee-Manager and the Company, in June 2015. He is also an Alternate Director of HK Electric. Mr. Sixt is an Executive Director, Group Finance Director and Deputy Managing Director of CK Hutchison, the Non-executive Chairman of TOM Group Limited and an Executive Director of CKI. He is also a Director of HTAL and Husky Energy, and an Alternate Director of HTAL. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mr. Sixt acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

MANAGEMENT TEAM OF THE COMPANY

CHOI Wai Man

Aged 59, General Manager (Customer Services), has been with the Group since October 1981. He has over 37 years of experience in electricity supply and customer services. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. He is a Chartered Engineer, and a Fellow of The Hong Kong Institution of Engineers and a member of The Institution of Engineering and Technology in the United Kingdom.

IP Sung Tai

Aged 60. General Manager (Transmission & Distribution), has been with the Group since October 1981. He has over 35 years of experience in electricity supply. He holds a Master of Science degree in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineering and Technology in the United Kingdom and the Institution of Engineers in Australia.

LAU Chi Kwong

Aged 62. General Manager (Projects), has been with the Group since August 1977. He has over 30 years of experience in project management. He holds an Associateship in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers and the Institution of Engineering and Technology in the United Kingdom.

LEUNG Wing Hung

Aged 64. General Manager (Generation), has been with the Group since October 1978. He has over 40 years of experience in electricity generation. Mr. Leung holds a Bachelor of Science degree in Mechanical Engineering, an Associateship in Electrical Engineering, a Master of Science degree in Mechanical Engineering and an Engineering Doctorate degree in Engineering Management. He is a Chartered Engineer registered with the Engineering Council in the United Kingdom, a member of The Hong Kong Institution of Engineers, and a member of the Institution of Mechanical Engineers, the Institution of Engineering and Technology and the Institution of Gas Engineers and Managers in the United Kingdom.

WAN Wai Kin, Mullar

Aged 60, General Manager (Information Technology), has been with the Group since July 1993. He has over 37 years of local and overseas experience in software engineering, consulting and information technology management. He holds a Master of Science degree in Information Management. He is a member of the Hong Kong Computer Society and a Fellow of The British Computer Society.

WONG Kim Man

Aged 58. Chief Financial Officer, has been with the Group since September 2010. He has over 30 years of experience in financial management and accounting. He holds a Bachelor's and a Master's degree in Business Administration. He is also a member of the HKICPA and the American Institute of Certified Public Accountants.

Boards of Directors and Management Team

WONG Yuk Keung, Arthur

Aged 61. General Manager (Group Commercial), has been with the Group since January 1982. He was engaged in the construction of Lamma Power Station upon joining the Power Assets Group and subsequently worked in and was promoted to the head of the various departments in the Group Commercial Division. He holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering and a Master's degree in Business Administration.

WU Kwok Kwong, Dennis

Aged 54. General Manager (Human Resources), joined the Group in June 2014. He has over 25 years of experience in human resources management and administration gained from organisations in both private and public sectors in Hong Kong. He holds a Master of Science degree in Training and is a Professional Member of the Hong Kong Institute of Human Resource Management and a Member of the Institute of Hospitality (UK).

YEE Tak Chow

Aged 64. General Manager (Corporate Development), has been with the Group since August 1976. He had worked on a number of energy infrastructure projects both in and outside Hong Kong, including stationing in Saudi Arabia and Japan for three years. Between 2005 and 2008, he worked for the Power Assets Group's investments outside Hong Kong. He holds a Master's degree in Information Technology. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, the Institution of Engineers in Australia, and the Institution of Engineering and Technology in the United Kingdom.

YEUNG Yuk Chun, Mimi

Aged 55. General Manager (Public Affairs), has been with the Group since July 2003. She has over 32 years of experience in journalism and corporate communications. She holds a Bachelor of Arts degree and a Master's degree in Public Administration.

TRUSTEE-MANAGER SECRETARY AND COMPANY SECRETARY

NG Wai Cheong, Alex

Aged 49. Group Legal Counsel and Company Secretary, has been with the Group since November 2008. He is also the Group Legal Counsel and Company Secretary of Power Assets. He has over 20 years of experience in legal, regulatory and compliance fields. Mr. Ng holds a Bachelor's degree in Science and a Bachelor's degree in Laws. He was admitted as a solicitor in Hong Kong and in England and Wales.

COMBINED CORPORATE GOVERNANCE REPORT

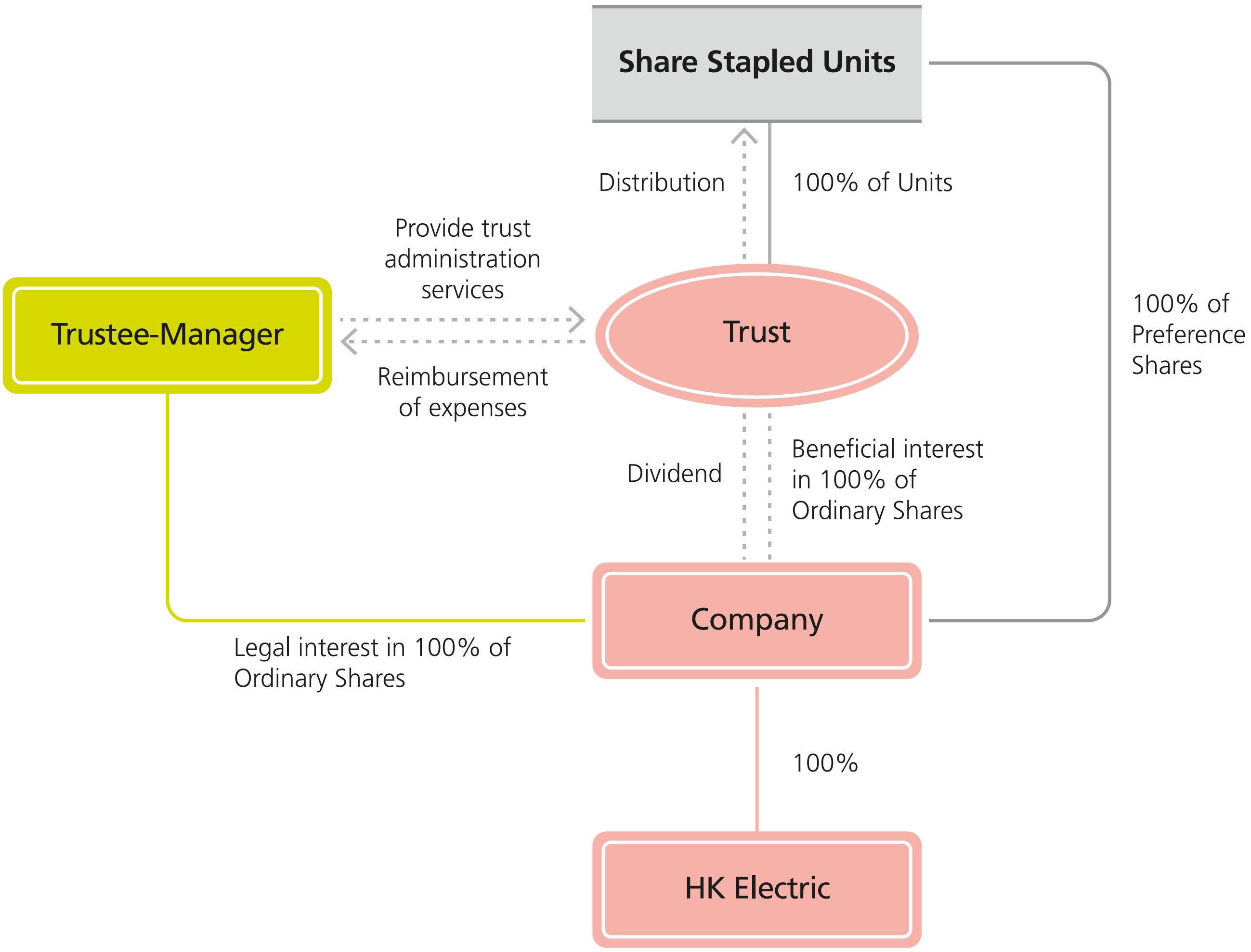
The Boards of the Trustee-Manager and the Company present their corporate governance report on a combined basis for the year ended 31 December 2018.

Structure of the Trust Group and the Share Stapled Units

The Trust, managed by the Trustee-Manager, was constituted under the laws of Hong Kong on 1 January 2014 by the Trust Deed. The Trustee-Manager, as the trustee-manager of the Trust, holds the legal interests in the ordinary shares of the Company whilst the beneficial interests in such ordinary shares form a component of the Share Stapled Units. Each Share Stapled Unit is jointly issued by the Trust and the Company and is a combination of: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner in its capacity as trustee-manager of the Trust; and (c) a specifically identified preference share of the Company stapled to the unit. The chart on page 52 is a simplified version of the structure of the Trust Group and the Share Stapled Units.

The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

Combined Corporate Governance Report



Corporate Governance

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

The Boards delegate their respective responsibility for performing corporate governance duties to the Trustee-Manager Audit Committee and the Company Audit Committee. The governance structure of the Trustee-Manager and the Group was reviewed by the Trustee-Manager Audit Committee and the Company Audit Committee at the meetings held in March and July 2018, together with the compliance status of the Corporate Governance Code for the year 2017 and the first six months of 2018, and the Corporate Governance disclosure in the 2017 Corporate Governance Report and the 2018 interim report. The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2018, except as noted hereunder.

Boards of Directors

Each of the Trustee-Manager Board and the Company Board, led by the Chairman, is responsible for approval and monitoring of strategies and policies, approval of annual budgets and business plans, evaluation of the performance, and oversight of management of the Trustee-Manager and the Company respectively. The Trust Deed requires that the directors of the Company and the directors of the Trustee-Manager shall at all times comprise the same individuals. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer. The Boards consider that the senior management of the Trust Group comprises only the Executive Directors.

The current Directors and their biographical information are set out in the "Boards of Directors and Management Team" section on pages 44 to 50 of the Annual Report. An updated list of Directors containing their biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of HKEX.

The Trustee-Manager Board and the Company Board hold meetings on a combined basis, and they meet at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means or by their alternate directors in accordance with the articles of association of the Trustee-Manager and the Company. Throughout the year, the Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions. During the year, the Boards held four meetings, and the Chairman had two meetings with the Non-executive Directors without the presence of Executive Directors.

Directors receive at least fourteen days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to the Directors no less than three days prior to a regular meeting. The Company Secretary assists the Chairman in seeing that Directors receive adequate information on each matter set out in the agenda and acts as co-ordinator for management in providing clarification sought by Directors. The minutes of Board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors within a reasonable time after each meeting for their comments before being formally signed by the chairman of the meeting. Copies of the final versions of Board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

Combined Corporate Governance Report

During 2018 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2018 annual general meeting are as follows:

Directors	Company: Board Meetings	Company: Audit Committee Meetings	Company: Remuneration Committee Meeting	Company: Meetings between Chairman and Non-executive Directors	Trustee-Manager: Board Meetings	Trustee-Manager: Audit Committee Meetings	Trustee-Manager: Meetings between Chairman and Non-executive Directors	Combined 2018 Annual General Meeting
Executive Directors								
Fok Kin Ning, Canning (Chairman)	4/4	–	1/1	2/2	4/4	–	2/2	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	–	4/4	–	–	√
Shan Shewu (Note 1)	2/2	–	–	–	2/2	–	–	√
Chen Daobiao (Note 2)	2/2	–	–	–	2/2	–	–	–
Non-executive Directors								
Victor T K Li (Deputy Chairman)	3/4	–	–	2/2	3/4	–	2/2	√
Fahad Hamad A H Al-Mohannadi	4/4	–	–	2/2	4/4	–	2/2	×
Ronald Joseph Arculli	2/4	3/3	–	2/2	2/4	3/3	2/2	√
Jiang Xiaojun	4/4	–	–	2/2	4/4	–	2/2	√
Deven Arvind Karnik	4/4	–	–	2/2	4/4	–	2/2	√
Zhu Guangchao	3/4	–	–	1/2	3/4	–	1/2	√
Independent Non-executive Directors								
Fong Chi Wai, Alex	3/4	–	1/1	2/2	3/4	–	2/2	√
Kwan Kai Cheong	4/4	–	–	2/2	4/4	–	2/2	√
Lee Lan Yee, Francis	4/4	3/3	–	2/2	4/4	3/3	2/2	√
George Colin Magnus	4/4	–	–	2/2	4/4	–	2/2	√
Donald Jeffrey Roberts	4/4	3/3	1/1	2/2	4/4	3/3	2/2	√
Ralph Raymond Shea	4/4	–	–	2/2	4/4	–	2/2	√

Notes:
(1) Mr. Shan Shewu resigned as an Executive Director of the Trustee-Manager and the Company on 22 May 2018.
(2) Mr. Chen Daobiao was appointed as an Executive Director of the Trustee-Manager and the Company on 22 May 2018.

Directors at all times have full and timely access to information of the Trust Group. A financial summary outlining the Group's financial position and performance and containing the actual and budgeted results from different operations, with major variances explained, is sent to Directors each month for their information. Directors also have independent access to management team for information on the Trust Group and unrestricted access to the services of the Company Secretary, who advises the Boards on governance matters and board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the expense of the Trustee-Manager or the Company, as appropriate. Insurance coverage in respect of Directors' liability has been arranged by the Trustee-Manager and the Company.

On or prior to 31 December 2018, neither the Trustee-Manager nor the Company had a nomination committee as provided for in code provision A.5. The Trustee-Manager and the Company did not consider it necessary to have a nomination committee as the full Boards were responsible for reviewing the structure, size and composition of the Boards, appointment of new Directors and succession plan of Directors in accordance with the Group's board diversity policy which sets out the approach in achieving a diversified Board. For any appointment of new director or appointment of director to an executive office during the year ended 31 December 2018, credentials of candidates were put forward to the Boards for consideration, and the appointment was subject to the approval of the Boards. Under the board diversity policy, appointment to the Boards should be based on merit that the selected candidate will bring to the Boards with an aim to build an effective and complementary board with the skills, experience, expertise and diversity of perspectives appropriate for the Group's businesses. The Boards would also take into consideration the benefits of various aspects of diversity, including gender, age, cultural and education background, professional experience and qualifications and other factors that may be relevant from time to time. Additional considerations would be taken into account when reviewing potential candidates for Independent Non-executive Directors, which include their independence according to the requirements of the Listing Rules, and whether they are able to devote sufficient time to Boards and committee meetings. The board diversity policy was revised on 1 January 2019 (which is available on the Company's website) to enhance the approach in achieving and maintaining the Boards diversity.

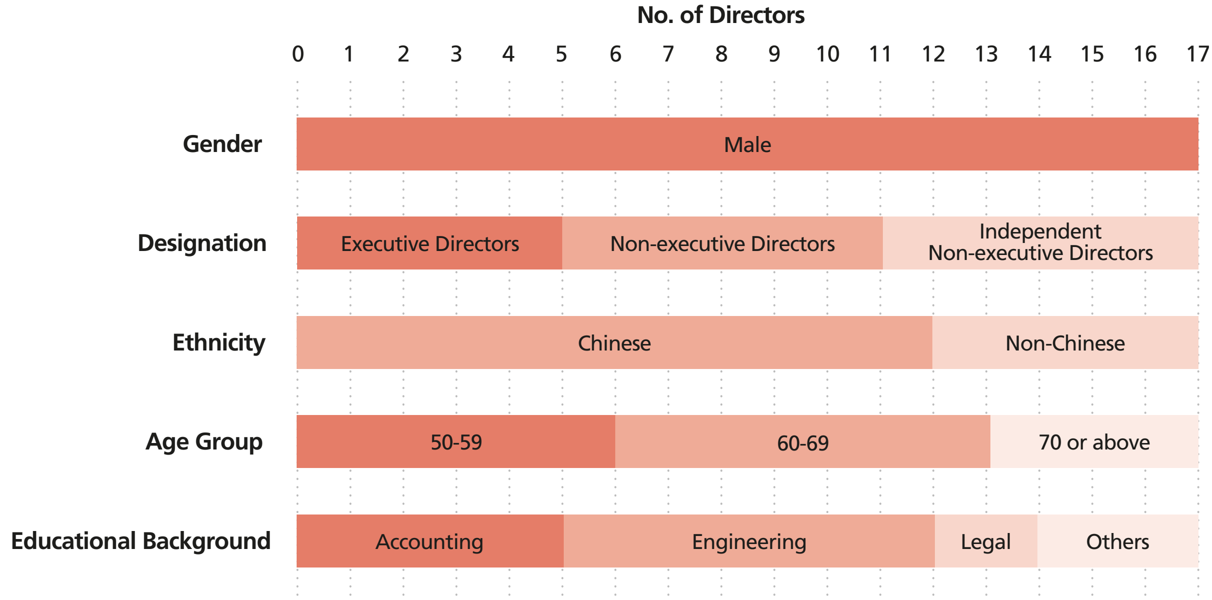
On 1 January 2019, the Company established its Nomination Committee which comprises all Directors and chaired by the Chairman of the Company Board. The Nomination Committee's responsibilities are to review the structure, size, diversity profile and skills matrix of the Company Board, to facilitate the Company Board in conduct of the selection and nomination process, to assess the independence of Independent Non-executive Directors having regard to the criteria under the Listing Rules, and to make recommendations to the Company Board on the appointment or re-appointment of Directors and succession planning for Directors. The terms of reference of the Nomination Committee of the Company are published on the Company's website and HKEX's website. The procedures for the selection and nomination of Directors are set out in the Director Nomination Policy adopted by the Trustee-Manager and the Company on 1 January 2019, which is also published on the Company's website.

The Trustee-Manager does not have a nomination committee as provided for in code provision A.5, since in accordance with clause 29.1 of the Trust Deed and article 82 of the Trustee-Manager's articles of association, the Trustee-Manager Board shall at all times comprise the same individuals who serve as Directors of the Company, and the requirement to establish a nomination committee is hence considered irrelevant to the Trustee-Manager.

Combined Corporate Governance Report

The diversity profile of the Boards as at 31 December 2018 is as follows:

Board Diversity



Newly appointed Directors receive briefings and a package of orientation materials on the operations and businesses of the Group, together with information relating to duties and responsibilities of directors under statutory regulations and the Listing Rules.

All Directors have been appointed on annual twelve-month basis (save for the initial period which is for a period up to 31 December in the year of appointment), subject to retirement from office by rotation and re-election at the annual general meeting once every three years pursuant to the Trust Deed and the articles of association of the Company.

Pursuant to the Trust Deed and the Company's articles of association, any director appointed by the Company Board either to fill a casual vacancy or as an addition shall also be appointed a director of the Trustee-Manager. Any Director appointed to fill the casual vacancy shall hold office only until the next following general meeting of the Company or the next following general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting. In the case of an addition, the additional Director shall hold office only until the next following annual general meeting of the Company or the next following annual general meeting of the Trust, as the case may be, and shall be eligible for re-election at that meeting.

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed, article 16.21 of the Company's articles of association and code provision A.4.2 of the Corporate Governance Code and offering themselves for re-election at the forthcoming combined annual general meeting are Mr. Fok Kin Ning, Canning, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Deven Arvind Karnik and Mr. Ralph Raymond Shea. Mr. Chen Daobiao and Mr. Duan Guangming, being Directors appointed subsequent to the last annual general meeting, will retire in accordance with clause 29.2(g) of the Trust Deed and article 16.3 of the Company's articles of association and offer themselves for re-election at the forthcoming combined annual general meeting. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to Holders of Share Stapled Units dated 4 April 2019. None of these Directors has a service contract which is not determinable by the Trustee-Manager or the Company within one year without payment of compensation (other than statutory compensation).

Directors' Training and Commitment

The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

The Company also arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Trust Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions and completion of courses organised by professional bodies on the relevant topics also count towards continuous professional development training. The Directors have provided to the Trustee-Manager and the Company their records of continuous professional development training during 2018, and they have participated in training activities in the following manner:

1. Reading materials and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials and seminars on corporate governance and financial reporting
3. Reading materials and seminars on risk management, internal control and sustainable growth

	1	2	3
Executive Directors			
Fok Kin Ning, Canning	√	√	√
Wan Chi Tin	√	√	√
Chan Loi Shun	√	√	√
Cheng Cho Ying, Francis	√	√	√
Shan Shewu *(Resigned on 22 May 2018)*	√	√	√
Chen Daobiao *(Appointed on 22 May 2018)*	√	√	√
Non-executive Directors			
Victor T K Li	√	√	√
Fahad Hamad A H Al-Mohannadi	√	√	√
Ronald Joseph Arculli	√	√	√
Jiang Xiaojun	√	√	√
Deven Arvind Karnik	√	√	√
Zhu Guangchao	√	√	√
Independent Non-executive Directors			
Fong Chi Wai, Alex	√	√	√
Kwan Kai Cheong	√	√	√
Lee Lan Yee, Francis	√	√	√
George Colin Magnus	√	√	√
Donald Jeffrey Roberts	√	√	√
Ralph Raymond Shea	√	√	√

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Trust Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

Combined Corporate Governance Report

Directors' Securities Transactions

The Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

Senior managers, and other nominated managers and staff who, because of their respective positions in the Company, are likely to be in possession of inside information regarding the Trust Group and its securities are also required to comply with the Model Code.

Reminders are sent during each year to Directors, senior managers and other nominated managers and staff that they should not deal in the securities of the Trust and the Company during the "black-out period" specified in the Model Code.

The Trustee-Manager and the Company have established a policy relating to inside information and securities dealing explaining the meaning of inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism for all employees of the Group to comply with when they are in possession of confidential or unpublished inside information in relation to the Trustee-Manager and the Trust Group. Such policy is available on the intranet of the Company.

Directors' Responsibility for Financial Reporting and Disclosure

Annual and Interim Reports and Financial Statements

The Directors of the Trustee-Manager and the Company acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Trust Group, the Group and the Trustee-Manager, as appropriate. The interim and annual results of the Trust Group, the Group and the Trustee-Manager are published in a timely manner within the limits of two months and three months respectively after the end of the relevant periods.

Accounting Policies

The Directors consider that in preparing financial statements, the Trustee-Manager and the Company ensure statutory requirements are met and apply appropriate accounting policies that are consistently adopted and make judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors of each of the Trustee-Manager and the Company are responsible for ensuring the Trustee-Manager and the Group, as appropriate, keep proper accounting records which disclose at any time the respective financial position of the Trust Group, the Group and the Trustee-Manager from which the respective financial statements of the Trust Group, the Group and the Trustee-Manager could be prepared in accordance with statutory requirements and the appropriate accounting policies.

Safeguarding Assets

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

Going Concern

The Directors of the Trustee-Manager and the Company consider that the Trustee-Manager and the Group respectively have adequate resources to continue in operational existence for the foreseeable future and are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon each of their abilities to continue as going concerns. The financial statements of the Trust Group, the Group and the Trustee-Manager have accordingly been prepared on a going concern basis.

Disclosure

The Boards are aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures and authorises their publication as and when required.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals. During 2018 the Chairman of the Boards was Mr. Fok Kin Ning, Canning and the Company's Chief Executive Officer was Mr. Wan Chi Tin. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust.

The Chairman is elected by members of the Boards for a term of one year until the conclusion of each annual general meeting whereupon the Chairman is subject to re-election. Both the Chairman and the Chief Executive Officer are subject to retirement from their directorship by rotation and re-election every three years at the annual general meeting.

The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Boards to ensure that each Board acts in the best interests of the Trust and the Group, as appropriate. The Chairman approves board meeting agendas and ensures that meetings of the Boards are planned and conducted effectively and that all Directors are properly briefed on issues arising at board meetings. In addition to board meetings, the Chairman schedules meeting(s) annually with Non-executive Directors (and starting from the year 2019, with Independent Non-executive Directors only) without the presence of Executive Directors. The Chairman also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Company Board for all Group operations. The Chief Executive Officer attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with other Executive Directors and the general managers, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

Independent Non-executive Directors

The Boards must be satisfied that an Independent Non-executive Director does not have any material relationship with the Trust Group. They are guided by the criteria of independence as set out in the Listing Rules in determining the independence of Independent Non-executive Directors.

Mr. Kwan Kai Cheong, Mr. Donald Jeffrey Roberts and Mr. Ralph Raymond Shea, all Independent Non-executive Directors, have each provided a confirmation of his independence to the Trustee-Manager and the Company pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider Mr. Kwan, Mr. Roberts and Mr. Shea to be independent.

Mr. Fong Chi Wai, Alex, Mr. Lee Lan Yee, Francis and Mr. George Colin Magnus, all Independent Non-executive Directors, have each made a similar confirmation and stated that, during the two years immediately prior to his appointment on 5 December 2013, he was director of HK Electric, a wholly-owned subsidiary of the Company. In addition, Mr. Magnus has also stated that he had been a director (other than an Independent Non-executive Director) of Power Assets, a connected person of the Company, until he was re-designated as an Independent Non-executive Director of Power Assets on 28 September 2012. The Boards have considered these directorships and are satisfied with Mr. Fong's, Mr. Lee's and Mr. Magnus' independence having regard to all relevant factors including that all of them have not held any executive or management function or position in the Group since their appointment as Independent Non-executive Directors in December 2013 and that Mr. Lee and Mr. Magnus have not held any executive or management function or position in the Power Assets group since their designation as Non-executive Directors in August 2008 and November 2005 respectively.

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

As at 31 December 2018, the interests or short positions of the Directors and chief executives of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Stapled Units

Name of Director	Capacity	Nature of Interests	Number of SSUs Held	Approximate % of Issued SSUs
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 (Note 1)	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000 (Note 2)	0.02%
Donald Jeffrey Roberts	Interest of controlled corporation	Corporate	1,398,000 (Note 3)	0.02%
Ronald Joseph Arculli	Interest of controlled corporation	Corporate	502	≃0%

Notes:

(1) Such SSUs comprise:
 (a) 2,700,000 SSUs held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOF"). By virtue of the terms of the constituent documents of LKSOF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOF; and
 (b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.

(2) Such SSUs are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

(3) Such SSUs are held by a company which is equally owned by Mr. Donald Jeffrey Roberts and his wife.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Business

None of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business in the generation, transmission, distribution and supply of electricity in Hong Kong.

Remuneration Committee of the Company

The Remuneration Committee of the Company is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman) and Mr. Fong Chi Wai, Alex (an Independent Non-executive Director).

The Remuneration Committee's principal responsibilities include the review and consideration of the Company's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. It reports to the Company Board at the next board meeting after decisions and recommendations have been made. Committee members may seek independent professional advice at the expense of the Company to discharge their duties. The terms of reference of the Remuneration Committee are published on the Company's website and HKEX's website.

The Group's Human Resources Division assists the Remuneration Committee by providing relevant remuneration data and market conditions for the committee's consideration. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration is performance-based and, coupled with an incentive system, is competitive to attract and retain talented employees.

The Remuneration Committee held a meeting in December 2018, during which it assessed the performance of the full time Executive Directors and senior management of the Group and considered and determined the performance-based bonus payable to them in respect of the 2018 financial year and their remuneration for the next year. The committee also considered and approved the remuneration package for each of Mr. Wan Chi Tin as Chief Executive Officer, Mr. Chan Loi Shun as Executive Director, Mr. Cheng Cho Ying, Francis as Operations Director and Mr. Chen Daobiao (as Co-General Manager (Transmission & Distribution) with effect from 22 May 2018). None of the Directors and senior management participated in the determination of their own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2019 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2018 financial year are shown in note 11 to the financial statements on page 116 of the Annual Report. The remuneration paid to members of the management team for the 2018 financial year is disclosed by bands also in note 11 on page 117 of the Annual Report.

The Trustee-Manager does not have a remuneration committee as provided for in code provision B.1, since under the terms of their letters of appointment the Directors of the Trustee-Manager are not entitled to any remuneration.

Trustee-Manager Audit Committee and Company Audit Committee

The Trustee-Manager and the Company established their respective audit committee, and the Trust Deed requires that the memberships of both committees must be the same.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Company Secretary acts as secretary to both committees. None of the committee members is a partner or former partner of KPMG, the external auditor of the Trust, the Trustee-Manager and the Company.

The Trustee-Manager Audit Committee and the Company Audit Committee report directly to the Trustee-Manager Board and the Company Board respectively. The principal responsibilities of the Audit Committees are to assist the Boards in fulfilling their audit duties through the review and supervision of financial reporting, risk management and internal control systems, the review of financial information, and the consideration of issues relating to external auditor and their appointment. The Company Audit Committee also oversees the Company's whistle-blowing procedure under which employees and external parties can use in confidence to raise concerns about improprieties in matters related to the Group.

The respective terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee were amended on 1 January 2019 to incorporate the amendment to the code provision C.3.2 in the Corporate Governance Code to extend the cooling off period for former partner of the listed issuer's existing audit firm before he acts as a member of its audit committee effective on 1 January 2019. The revised terms of reference of the Audit Committees are published on the Company's website and HKEX's website.

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Each of the Trustee-Manager Audit Committee and the Company Audit Committee held three meetings on a combined basis in 2018. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2017, the audit fee and auditor engagement letter for the 2017 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees in relation to the audit of the 2017 financial statements, the Group's risk management report as of December 2017, the assessment and declaration in respect of the effectiveness of the risk management and internal control systems of the Group for the year 2017 and for the half year to 30 June 2018, the effectiveness of the Company's internal audit function, the internal audit plan for 2018, the 4-year cycle audit plan for 2018 to 2021, the financial statements for the six months ended 30 June 2018, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the 2017 Corporate Governance Report, the corporate governance disclosure in the 2018 interim report, the disclosure in the Sustainability Report 2017, the continuous professional development activities undertaken by Directors and senior managers during 2017 and the six months ended 30 June 2018, KPMG's 2018 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's outstanding litigation and claims as at 31 December 2017 and 30 June 2018, and the statistics on bribery activities and illegal or unethical behaviour of the Group for the year 2017, for the half year to 30 June 2018 and for the nine months period to 30 September 2018.

Representatives from KPMG were invited to attend two of the meetings of the Trustee-Manager Audit Committee and the Company Audit Committee and they discussed the 2017 audited financial statements, the 2018 audit plan and various accounting issues with the members of the Audit Committees.

Company Secretary

The Company Secretary of the Trustee-Manager and the Company supports the Boards by ensuring good information flow within the Boards and that board policy and procedures are followed. The Company Secretary is responsible for advising the Boards through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates induction and professional development of Directors.

The appointment and removal of the Company Secretary is subject to approval of the Boards. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, an employee of the Group, has been appointed as the Company Secretary of the Trustee-Manager and the Company since their incorporation in September 2013, and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2018, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

Risk Management and Internal Control

Introduction

The Trustee-Manager Board and the Company Board have overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Trustee-Manager's and Company's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the Trustee-Manager Audit Committee and the Company Audit Committee to ensure appropriate and effective risk management and internal control systems are in place.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee assists the Trustee-Manager Board and the Company Board respectively in meeting its responsibility for maintaining effective systems of risk management and internal control. The Audit Committees review all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Company's accounting, internal audit, and financial reporting functions. They review the process by which the Trustee-Manager and the Company evaluate their control environment and their risk assessment process, and the way in which business and control risks are managed. The Audit Committees review the effectiveness of the internal audit function and its annual work plans, and consider the reports of the Chief Executive Officer and an Executive Director on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the Audit Committees before they make their recommendation to the Trustee-Manager Board and the Company Board for approval of the annual financial statements.

At the meetings held in March and July 2018, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the year 2017 and for the half year ended 30 June 2018 respectively, and considered the systems are effective and adequate.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the Trustee-Manager's and the Company's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks at corporate and operating unit levels in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 74 to 77 of the Annual Report.

The management encourage a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Trustee-Manager and the Company have a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Trustee-Manager's and the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Executive Directors review operational and financial reports and key operating statistics of each division and hold regular meetings with division general managers to review their reports.

Budgets are prepared annually by the management of each division and are subject to review and approval firstly by the Chief Executive Officer and then by the Company Board. Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors.

The Group Finance Division has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The Treasury Department, reporting to an Executive Director, is in charge of the treasury function overseeing investment and funding activities. It regularly reports on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Boards have approved and adopted a treasury policy governing the management of financial risks (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities. The treasury policy is reviewed by the Audit Committees from time to time.

The Group Legal and Company Secretarial Department, reporting to the Chief Executive Officer, is in charge of legal and company secretarial functions, overseeing, among other things, the Trust Group's compliance of the Listing Rules and other legal and regulatory requirements.

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and internal controls in business operations. Staff members of the department are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, the Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Audit Committees. Its internal audit reports on the Group's operations are also reviewed and considered by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work

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performed includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity efficiency review and laws and regulations compliance review. The Internal Audit Department follows up audit recommendations on implementation by the operating units and the progress is reported to the Audit Committees.

With the assistance of Internal Audit Department, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last annual assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committees which enables them to assess control of the Company and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Company's processes for financial reporting and Listing Rules compliance. They also review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Division general managers and department heads conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their findings to the Audit Committees and the Boards.

The Chief Executive Officer and other Executive Directors also have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The Group Finance Division, working with each division, is responsible for arranging appropriate insurance coverage for the Trustee-Manager and the Trust Group.

Reports from the external auditor on material non-compliance with procedures and significant internal control weaknesses, if any, are presented to the Trustee-Manager Audit Committee and the Company Audit Committee. These reports are considered and reviewed and appropriate action is to be taken if required.

There are also procedures including pre-clearance on dealing in the Trust Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

The Company entered into an agreement dated 14 January 2014 with Power Assets for sharing of support services, pursuant to which the Company shares the relevant financial and accounting, treasury and internal audit services with Power Assets to support risk management and internal control functions outlined above.

Code of Conduct

The Trustee-Manager and the Group recognise the need to maintain a culture of corporate ethics and place great emphasis on employees' ethical standards and integrity in all aspects of the Group's operations. The Group's Code of Conduct, posted on the Company's intranet for reference by all employees, aims to give guidance in dealing with ethical issues, provides mechanisms to report unethical conduct and helps to foster a culture of honesty and accountability. Employees are required to adhere to the standards set out in the Code of Conduct.

The Trustee-Manager and the Group prohibit any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Trustee-Manager's and the Group's business is prohibited. An anti-bribery and anti-corruption control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws and the Code of Conduct. There is a whistle-blowing procedure, which is set out in the Code of Conduct, to allow employees and external parties such as customers, suppliers, debtors and creditors to report possible improprieties, and actual or alleged violations, including fraud and illegal acts. Investigations are carried out on all reported cases, the results of which are reported to the Company Audit Committee and the Chief Executive Officer, and disciplinary and remedial actions are taken as appropriate. During 2018, there were four reported cases, not involving any breaches of the Code of Conduct or any bribery or corruption cases.

It is the responsibility of each Director and employee to avoid situations that may lead to or involve a conflict of interest. They should make full disclosure in case any of their dealings may have a conflict of interest with the activities of the Trustee-Manager and the Group. It is the responsibility of all Directors and employees who have access to and in control of the Trustee-Manager's and the Group's information to provide adequate safeguard to prevent any abuse or misuse of that information. The use of inside information to secure personal advantage is strictly prohibited.

The Trustee-Manager and the Group promote fair and open competition, and procurement of supplies and services are conducted in a manner of high ethical standards. There are procurement and tendering procedures in place to ensure impartial selection of suppliers and contractors, and that the hire of services and purchase of goods are based solely upon price, quality, suitability and need.

Sustainability Reporting

The Trustee-Manager and the Group are firmly committed to sustainable development and consider sustainability reporting to be one of the important platforms for stakeholder engagement. The Trust Group's Sustainability Report 2018 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2018 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting.

The Trust Group's Sustainability Report 2018 is available on the Company's website and HKEX's website.

External Auditor

Independence

KPMG, the external auditor, have confirmed that they have been, for the year ended 31 December 2018, independent of the Trustee-Manager, the Trust Group and the Group in accordance with the independence requirements of the HKICPA.

Rotation of Engagement Partner

KPMG adopt a policy of rotating the engagement partner servicing their client companies in accordance with the requirements under the HKICPA's Code of Ethics for Professional Accountants.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 80 to 85 and pages 166 and 167 of the Annual Report.

Remuneration

An analysis of the fees of KPMG is shown in note 9 to the consolidated financial statements of the Trust and the Company on page 114 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 174 of the Annual Report.

Re-appointment

A resolution for re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditor since the respective dates of incorporation of the Trustee-Manager and the Company and the date of constitution of the Trust.

Distribution Policy

The Boards have adopted a distribution policy which outlines the principles of payment on distribution on 1 January 2019. The distribution policy states that the Boards have a single-minded focus on delivering stable distribution to Holders of Share Stapled Units in accordance with the stated intention contained in the Trust Deed and the amended and restated articles of association of the Company. The level of such distribution from time to time will depend on prevailing business conditions and the Company's capital requirements and earning performance.

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Holders of Share Stapled Units

The Trustee-Manager and the Company have established a range of communication channels between themselves and Holders of Share Stapled Units and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, news releases, the Company's website at www.hkei.hk and meetings with investors and analysts. All Holders of Share Stapled Units have the opportunity to put questions to the Boards at general meetings, and at other times by e-mailing or writing to the Company. The Boards have adopted a communication policy which provides a framework to promote effective communication with Holders of Share Stapled Units. The policy is available on the website of the Company.

Holders of Share Stapled Units may at any time notify the Company by mail or email of any change in their choice of language (English or Chinese or both) or means of receiving (printed copies or through the Company's website) corporate communications from the Trustee-Manager and the Company.

The Trustee-Manager and the Company handle registration of Share Stapled Units and related matters for Holders of Share Stapled Units through Computershare Hong Kong Investor Services Limited, the share stapled units registrar, whose contact details are set out on page 181 of the Annual Report.

Pursuant to the Company's articles of association, any two or more shareholders of the Company (or a shareholder of the Company if such shareholder is a recognised clearing house or its nominees) may requisite for the convening of an extraordinary general meeting, provided that such requisitionists hold as at the date of deposit of the requisition not less than, for as long as the Trust Deed remains in force, 5% or, thereafter, one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. The requisition stating the objects of the meeting should be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong. Pursuant to the Trust Deed, the Trustee-Manager may (and the Trustee-Manager shall at the request in writing of registered holders of units of the Trust holding not less than 5% of the units (as a component of the Share Stapled Units) of the Trust for the time being in issue and outstanding) at any time convene an extraordinary general meeting of registered holders of units at such time or place in Hong Kong. The registered holders of units of the Trust and shareholders of the Company can also refer to the detailed requirements and procedures as set forth in the relevant sections of the Trust Deed and the articles of association of the Company when making any requisitions or proposals for transaction at the general meetings of the Trust and the Company. Pursuant to article 16.5 of the Company's articles of association, a shareholder of the Company may propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, the procedures for which are posted on the Company's website.

2018 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2018 annual general meeting was held at Harbour Grand Kowloon on 9 May 2018.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to Holders of Share Stapled Units on 4 April 2018 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committees and the Remuneration Committee respectively were available at the meeting to answer questions from the Holders of Share Stapled Units. Representatives from KPMG, the external auditor, also attended the meeting and were available to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to Holders of Share Stapled Units during the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by Holders of Share Stapled Units at the meeting and the percentage of votes cast in favour of each of them is set out below:

Ordinary Resolutions

- Audited Financial Statements of the Trust and the Company and of the Trustee-Manager, the Combined Report of the Directors, and the Independent Auditor's Reports for the year ended 31 December 2017 (99.9992%);
- Election of Mr. Victor T K Li (97.9971%), Mr. Chan Loi Shun (97.8527%), Mr. Jiang Xiaojun (99.7664%), Mr. Kwan Kai Cheong (96.5159%), Mr. Shan Shewu (97.9030%) and Mr. Zhu Guangchao (99.7052%) as Directors;
- Re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company and authorisation of Directors of the Trustee-Manager and the Company to fix auditor's remuneration (99.2011%); and
- General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (92.5285%).

The results of the poll, which included the number of Share Stapled Units voted for and against each resolution, were posted on the Company's and HKEX's websites on the same day of the meeting.

Company's Website

The Company maintains a website at www.hkei.hk. It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published information, such information including financial results, notices of meetings, announcements required under the Listing Rules, circulars to Holders of Share Stapled Units, sustainability publication, press releases and other necessary announcements are uploaded onto the Company's website.

Trust Deed and Memorandum and Articles of Association

No changes were made to the Trust Deed and the memorandum and articles of association of each of the Trustee-Manager and the Company during the year ended 31 December 2018.

The current versions of the Trust Deed, and the memorandum and articles of association of each of the Trustee-Manager and the Company are available on the Company's website and HKEX's website.

Key Dates	
Announcement of 2018 interim results	24 July 2018
Payment of 2018 interim distribution (HK19.92 cents per Share Stapled Unit)	17 August 2018
Announcement of annual results for the year ended 31 December 2018	19 March 2019
Record date for 2018 final distribution	3 April 2019
Payment of 2018 final distribution (HK20.12 cents per Share Stapled Unit)	15 April 2019
Closure of registers (annual general meeting)	9 May 2019 to 15 May 2019 (both days inclusive)
2019 annual general meeting	15 May 2019

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Interests and Short Positions of Holders of Share Stapled Units

As at 31 December 2018, Holders of Share Stapled Units (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

Substantial Holders of Share Stapled Units
Long Positions in Share Stapled Units

Name	Capacity	Number of SSUs Held		Approximate % of Issued SSUs
Power Assets Holdings Limited	Interest of controlled corporation	2,948,966,418	(Note 1)	33.37%
Hyford Limited	Interest of controlled corporations	2,948,966,418	(Notes 1 and 2)	33.37%
Cheung Kong Infrastructure (BVI) Limited	Interest of controlled corporations	2,948,966,418	(Note 2)	33.37%
CK Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 2)	33.37%
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
CK Hutchison Global Investments Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
CK Hutchison Holdings Limited	Interest of controlled corporations	2,948,966,418	(Note 3)	33.37%
State Grid Corporation of China	Interest of controlled corporations	1,855,602,000	(Note 4)	21.00%
State Grid International Development Co., Limited	Interest of controlled corporation	1,855,602,000	(Note 4)	21.00%
State Grid International Development Limited	Beneficial owner	1,855,602,000	(Note 4)	21.00%
Qatar Investment Authority	Interest of controlled corporation	1,758,403,800		19.90%

Notes:

(1) Power Assets is deemed to be interested in 2,948,966,418 SSUs which are beneficially owned by its direct wholly-owned subsidiary, Quickview Limited. Hyford Limited is deemed to be interested in 2,948,966,418 SSUs which interests are duplicated in the 2,948,966,418 SSUs in which Power Assets is interested, as Hyford Limited is entitled to exercise or control the exercise of more than one-third of the issued shares of Power Assets through its direct and indirect wholly-owned subsidiaries.

(2) CKI is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (1) above as it holds more than one-third of the issued share capital of Cheung Kong Infrastructure (BVI) Limited, which holds more than one-third of the issued share capital of Hyford Limited. Its interests are duplicated in the interest of CK Hutchison in HKEI described in Note (3) below.

(3) CK Hutchison is deemed to be interested in the 2,948,966,418 SSUs as referred to in Note (2) above as it holds more than one-third of the issued voting shares of CK Hutchison Global Investments Limited ("CKHGI"). Certain subsidiaries of CKHGI hold more than one-third of the issued voting shares of Hutchison Infrastructure Holdings Limited which in turn holds more than one-third of the issued share capital of CKI.

(4) State Grid International Development Limited is a direct wholly-owned subsidiary of State Grid International Development Co., Limited and an indirect wholly-owned subsidiary of State Grid Corporation of China ("State Grid"), and the interests of State Grid International Development Limited and State Grid International Development Co., Limited of 1,855,602,000 SSUs each are duplicated in the 1,855,602,000 SSUs held by State Grid.

Save as disclosed above, as at 31 December 2018, there was no other person (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

Public Float

According to information that is available to the Trustee-Manager and the Company and within the knowledge of the Directors, the percentage of the Share Stapled Units which are in the hands of the public exceeds 25% of the total number of issued Share Stapled Units.

Connected Transaction in 2018

Framework Agreement for proposed hotel development at Ap Lei Chau, Hong Kong

On 27 February 2018, HK Electric, an indirect wholly-owned subsidiary of the Company, entered into a framework agreement (the "Framework Agreement") with CK Asset Holdings Limited ("CKA") for the proposed development of a hotel, including its ancillary facilities, (the "Hotel Development") at the eastern portion of the property located at 2 Yi Nga Drive, Ap Lei Chau, Hong Kong (the "Property") which is the site of HK Electric's former operational headquarters and carpark building (the "Transaction").

Pursuant to the Framework Agreement, CKA was appointed as the project manager of the Hotel Development and would (or would through its subsidiaries) be responsible for overseeing, amongst other things, the construction of the Hotel Development and its business and financial performance. No remuneration will be payable to CKA for the services to be provided by it in its capacity as the project manager in view of the opportunity for participation in the Hotel Development in the manner as set out in the Framework Agreement.

The Property and the Hotel Development will at all times be owned by HK Electric, and CKA will not have any property or other interest in the land and/or the hotel erected thereon.

Pursuant to the Framework Agreement, each of CKA and HK Electric (or through their respective subsidiaries) will provide funding in the amount of HK$550 million and HK$113.41 million respectively for the sum of premium amount of HK$663.41 million payable to the Government for the lease modification of the Property (the "Premium Amount"). Each party will be entitled to a return to be paid, from time to time, from its Pro Rata Portion of Free Cash Flow (as defined in the announcement issued by the Trustee-Manager and the Company dated 27 February 2018 (the "February 2018 Announcement") as attributed to its funding amount, provided that CKA's entitlement will cease on the date on which an internal rate of return of 9% has been achieved for the funding amounts made by CKA for the Hotel Development (the "Termination Date") and HK Electric will be entitled to all return of the Hotel Development thereafter.

In addition, CKA has granted to HK Electric an option (the "Option"), exercisable in HK Electric's sole discretion within a period of 3 months from the date of the Framework Agreement, to require CKA to assume all or part of HK Electric's portion of funding for the Premium Amount, in which case CKA will be entitled to the Pro Rata Portion of Free Cash Flow as attributed to the exercise of the Option, provided that CKA's entitlement will still cease on the Termination Date. On 28 May 2018, the Boards announced that HK Electric did not exercise the Option, and accordingly, the Option lapsed on 26 May 2018.

Given Mr. Li Ka-shing, Mr. Victor T K Li (who is a Director of the Trustee-Manager and the Company) and the Li Trust (as defined in the February 2018 Announcement) have been deemed as a group of connected persons by the Stock Exchange and they directly and/or indirectly hold an aggregate of approximately 31.47% of the issued share capital of CKA as at the date of the February 2018 Announcement, CKA may be regarded as a connected person of the Trust Group under the Listing Rules. As such, the Transaction constituted a connected transaction for the Trust Group under Chapter 14A of the Listing Rules. As all of the applicable percentage ratios of the Trust Group for the Transaction, based on its contributions to the total funding amount (including the Premium Amount, HK Electric's contribution for the Hotel Development prior to the Framework Agreement for an amount of HK$31.1 million and any other amounts as may be made for the Hotel Development in the future), exceed 0.1% but are less than 5%, the Transaction is subject to Trust Group's compliance with the announcement and reporting requirements, but is exempt from the independent Holders of Share Stapled Units' approval requirements, under Chapter 14A of the Listing Rules.

Holders of Share Stapled Units have been informed of the entering into of the Framework Agreement and the lapse of Option in the announcements posted on the Company's website and HKEX's website on 27 February 2018 and 28 May 2018 respectively.

Combined Corporate Governance Report

Disclosure under the Trust Deed

Pursuant to the Trust Deed, the Trustee-Manager Board confirms that:

(i) Any charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2018 are in accordance with the Trust Deed;

(ii) The connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or obtained from independent third parties, with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Holders of Share Stapled Units as a whole; and

(iii) It is not aware of any violation of duties of the Trustee-Manager which would have a material adverse effect on the business of the Trust or on the interests of all Holders of Share Stapled Units as a whole.

Conflict of Interests

The Trustee-Manager and the Company have implemented the following measures to deal with potential conflict of interest issue between (1) the Trust; and (2) any unitholder holding 30% or more of the units in issue, or any Director or shareholder of the Trustee-Manager holding 30% or more of the issued shares in the Trustee-Manager:

(i) If a Director has a conflict of interest in a matter to be considered by the Trustee-Manager Board or the Company Board which the relevant board has determined to be material, the matter will be dealt with by a physical board meeting instead of a circulating written resolution and independent non-executive directors who, and whose associates, have no material interest in the transaction must be present at that board meeting;

(ii) Pursuant to clause 2.6 of the Trust Deed and article 90 of the articles of association of the Trustee-Manager, a Director of the Trustee-Manager must give priority to the interest of all the registered holders of units as a whole over the interest of the Company in the event of a conflict between the interest of all the registered holders of units as a whole and the interest of the Company; and

(iii) The Trustee-Manager Audit Committee and the Company Audit Committee comprising majority of Independent Non-executive Directors regularly review the internal control systems and internal audit reports of the Trustee-Manager and the Company.

The Company and Power Assets entered into a non-competition deed on 14 January 2014 (the "Non-Competition Deed") pursuant to which Power Assets agreed to the Company that save for the exceptions provided therein, Power Assets would not, and it would procure that none of its members would carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Power Assets has provided the Company with a written confirmation in respect of compliance by the Power Assets group with the terms of the Non-Competition Deed during the year ended 31 December 2018 and its consent to the inclusion of such confirmation in the Annual Report. A committee comprising all Independent Non-executive Directors has been formed with the responsibility to overseeing compliance by the Power Assets group with the Non-Competition Deed, and the committee has confirmed its view that Power Assets complied with the terms of the Deed during the year under review.

COMBINED REPORT OF THE DIRECTORS

The Boards have pleasure in submitting the annual report together with the audited consolidated financial statements of the Trust and of the Company for the year ended 31 December 2018 (the "consolidated financial statements of the Trust and of the Company").

The Trustee-Manager Board also presents the audited financial statements of the Trustee-Manager for the year ended 31 December 2018.

Principal activities

The Trust is a fixed single investment trust, with its activities being limited to investing in securities and other interests in the Company.

The principal activity of the Company is investment holding, whilst the principal activities of the Group are the generation and supply of electricity in Hong Kong Island and Lamma Island. Particulars of the Company's subsidiaries are set out in note 17 to the consolidated financial statements of the Trust and of the Company.

The Trustee-Manager, an indirect wholly-owned subsidiary of Power Assets, has a specific and limited role to administer the Trust, and is not actively engaged in running the business managed by the Trust Group.

Business review

A review of the business of Trust Group (of which the Group forms part) during the year and an indication of likely future developments in the Trust Group's business are provided in the Chairman's Statement on pages 6 to 8, CEO's Report on pages 14 to 35, Financial Review on pages 36 to 38 and Performance Highlights on pages 2 and 3.

The principal risks and uncertainties facing the Trust Group and how the Trust Group manages these risks and uncertainties are described in Risk Management and Risk Factors on pages 74 to 77.

The Trust Group's relationships with its key stakeholders, environmental policies and performance is discussed in the CEO's Report on pages 14 to 35, whilst its compliance with the relevant laws and regulations that have a significant impact on the Trust Group are included in Risk Factors on pages 76 and 77 and Combined Corporate Governance Report on pages 51 to 70.

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

Results

The results for the year ended 31 December 2018 and the financial position as at that date of the Trust Group and the Group are set out in the consolidated financial statements of the Trust and of the Company on pages 86 to 165.

The results for the year ended 31 December 2018 and the financial position as at that date of the Trustee-Manager are set out in the financial statements of the Trustee-Manager on pages 168 to 175.

Distributions and dividends

Distributable income

Distributable income and distributable income per Share Stapled Unit are set out in note 13 to the consolidated financial statements of the Trust and of the Company.

Distribution per Share Stapled Unit

The Trustee-Manager Board has declared a final distribution by the Trust of HK20.12 cents (2017: HK20.12 cents) per Share Stapled Unit for the year ended 31 December 2018, payable on 15 April 2019 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 3 April 2019. This, together with the interim distribution of HK19.92 cents (2017: HK19.92 cents) per Share Stapled Unit, brings the total distribution to HK40.04 cents per Share Stapled Unit for the year ended 31 December 2018 (2017: HK40.04 cents).

In order to enable the Trust to pay the interim distribution and the final distribution, the Company Board declared the payments of a first interim dividend and a second interim dividend, in respect of each of the Company's ordinary shares held by the Trustee-Manager, of HK19.92 cents (2017: HK19.92 cents) and HK20.12 cents (2017: HK20.12 cents) respectively for the year ended 31 December 2018.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2018.

COMBINED REPORT OF THE DIRECTORS

Share capital and Share Stapled Units

Share capital

Details of the share capital of the Company are set out in note 28(b) to the consolidated financial statements of the Trust and of the Company. There was no movement during the year.

Details of the share capital of the Trustee-Manager are set out in note 8 to the financial statements of the Trustee-Manager. There was no movement during the year.

Share Stapled Units

There was no movement in the number of issued Share Stapled Units, or individually units in the Trust, or ordinary shares, or preference shares of the Company, during the year.

Donations

Charitable and other donations made by the Trust Group during the year amounted to HK$2 million (2017: HK$2 million).

Five-year financial summary

A five-year summary of the results and of the assets and liabilities of the Trust Group and the Group is set out on page 176.

Major customers and suppliers

Sales to the five largest customers combined was less than 30% of the Trust Group's total revenue for the years ended 31 December 2018 and 2017.

Purchases from the largest supplier of revenue items for the year represented 26.7% (2017: 25.3%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 72.2% (2017: 74.6%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2018.

At no time during the year have the Directors, their close associates or any Holders of Share Stapled Units (which to the knowledge of the Boards own more than 5% of the number of issued Share Stapled Units) had any interest in the above major customers and suppliers.

Directors

The Directors of the Trustee-Manager and the Company in office during the year ended 31 December 2018 and up to the date of this report were Mr. Fok Kin Ning, Canning, Mr. Li Tzar Kuoi, Victor, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Ronald Joseph Arculli, Mr. Chan Loi Shun, Mr. Chen Daobiao (appointed on 22 May 2018), Mr. Cheng Cho Ying, Francis, Mr. Duan Guangming (appointed on 26 February 2019), Mr. Fong Chi Wai, Alex, Mr. Jiang Xiaojun (resigned on 26 February 2019), Mr. Deven Arvind Karnik, Mr. Kwan Kai Cheong, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus, Mr. Donald Jeffrey Roberts, Mr. Shan Shewu (resigned on 22 May 2018), Mr. Ralph Raymond Shea and Mr. Zhu Guangchao.

Mr. Shan Shewu and Mr. Jiang Xiaojun, both resigned as Directors of the Trustee-Manager and the Company during the year and up to the date of this report due to their other business commitments, have no disagreement with the Boards and do not have any matters in relation to their resignations that should be brought to the attention of the Holders of Share Stapled Units.

During the same period, Ms. Woo Mo Fong, Susan (alias Chow Woo Mo Fong, Susan) served as the Alternate Director to Mr. Fok Kin Ning, Canning, and Mr. Frank John Sixt served as the Alternate Director to Mr. Li Tzar Kuoi, Victor.

Permitted indemnity

Pursuant to the Trust Deed the Directors of the Trustee-Manager shall be entitled to be indemnified out of the Trust property or any part thereof against any actions, costs, claims, damages, expenses, penalties or demands to which they may be put as Directors of the Trustee-Manager of the Trust, save where occasioned by the fraud, wilful default or negligence of the Directors.

The articles of association of each of the Company and the Trustee-Manager provides that every Director shall be entitled to be indemnified out of the assets of the Company or the Trustee-Manager (excluding, for the avoidance of doubt, the Trust property) respectively against any losses or liability incurred or sustained by him as a Director.

A Directors Liability Insurance is currently in place, and was in place during the year to protect the directors of the Trustee-Manager, the Company and their subsidiaries against potential costs and liabilities arising from claims brought against them.

Directors' material interest in significant transaction, arrangement and contract

No transaction, arrangement and contract of significance in relation to the Trust Group's business to which the Trustee-Manager, the Company or their parent companies, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had, directly or indirectly, a material interest, subsisted at the end of the year or at any time during the year.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Trust Group were entered into or existed during the year.

Arrangement to purchase Share Stapled Units, shares or debentures

At no time during the year was the Trustee-Manager or the Company or any of their parent companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Share Stapled Units, or shares in, or debentures of, the Trustee-Manager, the Company or any other body corporate.

Equity-linked agreements

No equity-linked agreements were entered into by the Trust Group or the Trustee-Manager during the year or subsisted at the end of the year.

Purchase, sale or redemption of Share Stapled Units

Pursuant to the Trust Deed, the Holders of Share Stapled Units have no right to demand for repurchase or redemption of their Share Stapled Units. Unless and until expressly permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time, the Trustee-Manager shall not repurchase or redeem any Share Stapled Units on behalf of the Trust.

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the year ended 31 December 2018.

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's amended and restated articles of association and the laws of the Cayman Islands which would oblige the Company to offer new Share Stapled Units on a pro-rata basis to existing Holders of Share Stapled Units.

On behalf of the Boards of
HK Electric Investments Manager Limited
and
HK Electric Investments Limited

Fok Kin Ning, Canning
Chairman
Hong Kong, 19 March 2019

RISK MANAGEMENT

Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives.

Risk management framework

The Group has in place an Enterprise Risk Management (ERM) framework to effectively identify, assess, mitigate and monitor key business, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organisation with on-going monitoring and review in place.

Governance and oversight

The Group is committed to fostering a risk aware and control conscious environment. Responsibility for risk management resides at all levels within the organisation. The Company Board, through the Company Audit Committee, oversees the overall management of risks. The Risk Management Committee, supported by Internal Audit, assists the Company Board and Company Audit Committee to review and monitor key risks of the Group. Management is responsible for identifying and assessing risks of strategic nature. Operating units are responsible for the identification and management of risks in their activities. The top-down and bottom-up approaches complement each other and enable us to identify and manage the Group's key risks in an effective manner, including material emerging risks at corporate and business unit levels.

Independent Assurance from Internal and External Auditors

"Top-down"

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

Identify and Manage Risks at Corporate Level

"Bottom-up"

Operating Units

Identify, Manage and Report Risks at Business Unit Level

Risk Management Framework Governance

COMPANY BOARD (Through Company Audit Committee)	**Company Board/ Company Audit Committee Oversight** • Has overall responsibility for the Group's risk management and internal control systems • Determine and evaluate the nature and extent of the risks that the Group is willing to accept in pursuit of the Group's strategic and business objectives • Discuss the risk management and internal control systems with management to ensure management has performed its duty to have effective systems
RISK MANAGEMENT COMMITTEE (Chaired by the Chief Executive Officer)	**Risk Review, Communication and Confirmation to Company Board/Company Audit Committee** • Oversee the Group's risk profile and assess if key risks are appropriately mitigated • Ensure that an ongoing review of the effectiveness of the risk management and internal control systems have been conducted and provide such confirmation to the Company Board, via the Company Audit Committee
MANAGEMENT	**Risk & Control Monitoring** • Responsible for designing, implementing and monitoring the risk management and internal control systems • Identify and monitor key corporate risks • Provide confirmation to the Risk Management Committee on the effectiveness of the systems
OPERATING UNITS	**Front-Line Risk and Control Ownership** • Design, implement and monitor risks at business unit level, escalate promptly on relevant risk issues • Provide assurance to the Risk Management Committee on the effectiveness of risk management and internal control activities at business unit level • Seek continuous process improvement and re-assessment

Risk management process

The risk management process is integrated into our day-to-day activities and is an ongoing process involving all parts of the Group from the Company Board down to individual employees.

The risk identification process takes into account internal and external factors including economic, political, social, technological, environmental and new or updated Group strategy and new regulations, as well as our stakeholders' expectations in these aspects. Risks are grouped into different categories to facilitate analysis. Each risk identified is analysed on the basis of likelihood and impact in accordance with the risk appetite set by the Company Board. Action plans are in place to manage risks. The risk assessment process also includes a review of the control mechanisms for each risk and a rating of the effectiveness of each control. The Group compiles a risk register which is updated and monitored on an ongoing basis, taking into account emerging risks which may have a material impact on the Group.

A risk management report that highlights key corporate and business level risks and action plans is reviewed by the Risk Management Committee half-yearly and presented to the Company Audit Committee for reporting to the Company Board. Significant changes in key risks on a day-to-day basis are handled as they arise and reported to management.

Fundamental to the achievement of our business goals is how we can effectively manage existing and emerging risks in different economic, social and political environments. A description of the Group's risk factors is shown on pages 76 to 77 of this Annual Report. The Group works to continually improve its risk management framework in order to keep pace with the changing business environment.

RISK FACTORS

Risks and uncertainties can affect the Group's business, financial condition, operating results or growth prospects leading to a divergence from expected or historical results. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with its stakeholders with the aim of understanding and addressing their concerns.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

Global and Hong Kong economic environment

Macro economic growth remains moderate at a global level. Escalating trade protectionism, heightened uncertainty over economic policy, rising geopolitical tensions and volatility in financial market movements have, however, added uncertainties to the world economy and global financial market. Growth in the Hong Kong economy has been affected by the US-China trade war which has had a dampening effect on Hong Kong's exports.

The prevailing global uncertainty may adversely affect the business of customers or potential customers, or cause a slowdown in economic activities in Hong Kong, which, in turn, may lead to a lower demand for electricity and related services in Hong Kong. This may adversely affect the Group's financial position, potential income, asset value and liabilities.

To address uncertainty in the global and Hong Kong economies, the Group pursues prudent and pragmatic strategies in financial management and capital investment. The Group also strives for efficiency and cost effectiveness in all aspects of its operations to enhance its financial performance.

Health and safety

The nature of the Group's operations exposes it to a range of health and safety risks.

Major health and safety incidents resulting in fatalities, injuries or ill health to members of the public or employees or damage to the Group's properties could have significant consequences. These may include widespread distress and harm or significant disruption to the Group's operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

The Group has in place a Health and Safety Management System to manage its exposure and protect its employees, customers, contractors, visitors and the public by conducting its business in a safe and socially responsible manner. Sustainable improvements are made to strengthen the organisation's culture and commitment to health and safety.

Environmental compliance

In 2008, the Government stipulated emission allowances for the power sector up to 2010 and beyond through the Technical Memorandum for Allocation of Emission Allowances in respect of Specified Licences under the Air Pollution Control Ordinance ("APCO"). Six subsequent Technical Memoranda issued in 2010, 2012, 2014, 2015, 2016 and 2017 have further tightened the emission allowances starting from 2015, 2017, 2019, 2020, 2021 and 2022 respectively. Further tightening of emission allowances from 2024 onward is being considered by the Government.

Although compliance with emission allowance requirements is no longer linked to the rate of return under the new Scheme of Control Agreement ("SCA") effective 1 January 2019, failure to comply with these requirements could still result in legal action against the Group under the APCO.

The Group has in place an Environmental Management System with a monitoring and reporting mechanism run by a dedicated team to ensure compliance with relevant environmental regulations, address public concerns and closely monitor and control the emission of pollutants from the power plant.

Reliability of supply

The Group can be exposed to risks in relation to supply interruptions. Extensive damage in generation or network facilities caused by severe earthquake, storm, flood, landslide, extreme weather phenomenon due to climate change, fire, sabotage, terrorist attack, failure of critical information and control systems that support the power system or any other unplanned event could lead to a prolonged and extensive power outage.

The loss of cash flow resulting from supply interruption, and the cost of recovery from damage to network and generation assets could be considerable. Such an incident could damage customer goodwill and lead to claims and litigation. Substantial increases in the number or duration of supply interruptions could result in increases in the costs associated with the operation of the Group's supply networks, which could have an adverse effect on the business, financial condition and efficiency of operations as well as the reputation of the Group.

The Group conducts thorough risk assessment including the emerging risk of climate change, physical security and cybersecurity, adopts resilient designs, performs reliability centered maintenance and upgrades of its power supply equipment, undertakes reliability reviews, provides comprehensive training to operational staff and deploys sophisticated information technology control and asset management systems. It also conducts drills on contingency plans on a regular basis to ensure supply reliability is maintained at appropriate standards.

Cyber security

The Group's critical utility and information assets are exposed to attack, damage or unauthorised access in the cyber world. The fact that cyber-attacks occur with greater frequency and intensity around the world has increased the risk posed by cybercrime to the Group. Failure to protect the Group's critical utility and information assets from targeted or non-targeted cyber-attacks can result in reputational damage, financial loss and disruptions in operations.

The Group has taken a risk-based and integrated approach to combating cyber security risks. A robust Cyber Security Management Framework has been established with the implementation of an Information Security Management System that enables the Group to proactively identify, prevent, detect, respond to and recover from cybersecurity attacks. Resources and development efforts are focused on the three pillars of cybersecurity management, namely people, process and technology, to ensure the confidentiality, integrity and availability of corporate information assets and critical infrastructure.

Electricity market

The operations of the Group's electricity business in Hong Kong are subject to the SCA with the Government, which provides for a permitted level of earnings based principally on average net fixed assets for electricity-related operations.

The last SCA, with a 10-year duration, expired on 31 December 2018. The new SCA commenced on 1 January 2019, with a longer term of 15 years from 2019 to 2033. The Government's policies on air quality, climate change mitigation, fuel mix and electricity market competition for the medium to long term are all factors affecting the Group's results and growth.

The Group has established a mechanism to review these factors on a regular basis and continuously engages in discussions with the Environment Bureau as well as various stakeholders on electricity market and regulatory issues.

Fuel supply

Our generating units in Lamma Power Station mainly rely on coal and natural gas as fuel sources. Any interruptions or shortage in the supply of coal or natural gas or substandard fuel quality may result in significant disruption to the operations of our generating units. This could have an adverse effect on the reliability of supply, business, financial condition as well as the reputation of the Group. Possible fuel price volatility also poses a risk to the Group.

The Group has a fuel supply strategy and fuel quality control system in place to maintain reliable supply and sufficient stock of appropriate quality to meet its generation requirements.

Interest rates and currency markets

The Group is exposed to interest rate risk primarily on its interest-bearing liabilities. The US Federal Reserve has raised interest rates four times in 2018 and Hong Kong has followed suit to raise its interest rates. The Group is exposed to currency risk that mainly arises from the import of fuel and capital equipment. Volatility in interest rates and currency markets may adversely affect the Group's financial conditions and results of operations.

The Group's treasury policy guides the measures it undertakes to manage these exposures. Details of the Group's current practices to manage interest rate and currency risks are in the Financial Review on pages 36 to 38.

Laws and regulations

The Group's main operating company, HK Electric, engages in the generation, transmission, distribution and supply of electricity in Hong Kong, and is subject to strict compliance with Hong Kong laws and regulations relating to, amongst other things, development, construction, licensing and operation of our power facilities. Furthermore, it must comply with the conditions contained in its operational and construction licenses and permits. Failure to do so could expose the Group to prosecution and litigation and result in fines, sanctions, criminal penalties and/or the suspension, revocation or non-renewal of licenses or permits. Moreover, changes in laws and regulations may cause it to incur additional capital expenses or other obligations or liabilities in order to comply with such changes, or may possibly have material and adverse impact on its business, financial condition and operating results.

The Compliance Committee, chaired by the Chief Executive Officer, is responsible for overseeing the Group's compliance functions. A Compliance Framework is in place to manage its compliance obligations under a consistent and structured approach across the Group. As part of the Framework, a Regulatory Compliance and Monitoring Programme with designated responsible parties has been implemented to proactively monitor the Group's compliance obligations and status as well as any changes in laws and regulations and their implications.

FINANCIAL STATEMENTS

Upholding strong financial performance

KPMG

INDEPENDENT AUDITOR'S REPORT

To the Holders of Share Stapled Units of HK Electric Investments and HK Electric Investments Limited

(HK Electric Investments is a trust constituted under the laws of Hong Kong; HK Electric Investments Limited is incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of HK Electric Investments (the "Trust"), HK Electric Investments Limited (the "Company") and its subsidiaries (together the "Trust Group") and of the Company and its subsidiaries (the "Group") set out on pages 86 to 165 (together referred to as the "consolidated financial statements of the Trust and of the Company"). As explained in note 2 to the consolidated financial statements of the Trust and of the Company, the consolidated financial statements of the Trust and of the Company together comprise the consolidated statement of financial position of the Trust Group and of the Group as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Trust Group and of the Group for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Trust and of the Company give a true and fair view of the consolidated financial position of the Trust Group and of the Group as at 31 December 2018 and of the Trust Group's and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Trust Group and of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements of the Trust and of the Company in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the Trust and of the Company of the current period. These matters were addressed in the context of our audit of the consolidated financial statements of the Trust and of the Company as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Existence and accuracy of property, plant and equipment

Refer to note 15 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(e), (f) and (g)(ii).

The key audit matter	How the matter was addressed in our audit
A wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited ("HK Electric"), is engaged in the generation, transmission and distribution of electricity in Hong Kong (the "Hong Kong electricity business"), which requires substantial capital investment in property, plant and equipment. The Scheme of Control Agreement entered into by HK Electric and the Government of the HKSAR provides for HK Electric to earn a permitted return calculated based on 9.99% of average net fixed assets, except for renewable energy fixed assets for which the permitted return is 11.00%. The Development Plan under the Scheme of Control Agreement governs HK Electric's capital expenditure on the Hong Kong electricity business over the Scheme of Control Agreement period. HK Electric's property, plant and equipment is specialised in nature and certain items are self-constructed. The cost of self-constructed property, plant and equipment comprises, inter alia, the costs of materials and direct labour, overheads capitalised and borrowing costs. The Directors have implemented internal controls over the capitalisation of costs in property, plant and equipment. We identified assessing the existence and accuracy of property, plant and equipment as a key audit matter because property, plant and equipment is the most significant asset of the Trust Group and the Group and is critical to the operations of Hong Kong electricity business and because, due to the terms and conditions of the Scheme of Control Agreement, property, plant and equipment is a key focus of management and the users of the consolidated financial statements of the Trust and of the Company.	Our audit procedures to assess the existence and accuracy of property, plant and equipment included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the existence and accuracy of property, plant and equipment; • assessing the Trust Group's and the Group's capitalisation policy for expenditure relating to property, plant and equipment with reference to the requirements of the prevailing accounting standards; • selecting a sample items of property, plant and equipment acquired and capitalised during the year ended 31 December 2018 and inspecting relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards and to evaluate the date on which costs were capitalised; • assessing whether the additions to property, plant and equipment for the year ended 31 December 2018 were consistent with the Development Plan agreed between HK Electric and the Government of the HKSAR which governs the level of capital expenditure over a period of time; • forming an expectation of the value of costs capitalised for the current year based on the prior year's capitalisation ratio and the level of capital work undertaken during the current year, comparing our expectation with the actual costs capitalised for the current year and discussing with management the nature of and reasons for any significant variances; and • physically inspecting a sample of additions to property, plant and equipment during the current year.

INDEPENDENT AUDITOR'S REPORT

Assessment of potential impairment of goodwill relating to the Hong Kong electricity business

Refer to note 16 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(d) and (g)(ii).

The key audit matter

The Company acquired the Hong Kong electricity business operated by HK Electric from Power Assets Holdings Limited in 2014. The goodwill arising on this acquisition amounted to HK$33.6 billion.

Management assessed goodwill for potential impairment as at 30 November 2018 by comparing the carrying amount of the cash-generating unit to which goodwill has been allocated with the recoverable amount determined by assessing the value-in-use ("VIU") by preparing a discounted cash flow forecast. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate.

We identified the assessment of potential impairment of goodwill relating to the Hong Kong electricity business as a key audit matter because the carrying value of the goodwill is material to the consolidated financial statements of the Trust and of the Company and also because management's assessment of the value of the future cash flows expected to be derived from the Hong Kong electricity business involves certain critical judgements in respect of the assumptions made which are inherently uncertain and could be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill relating to the Hong Kong electricity business included the following:

- evaluating management's cash flow forecast by comparing the assumptions adopted by management with our understanding of the Hong Kong electricity business and by comparing key assumptions and estimates with relevant underlying documentation, which included comparing future revenue growth and operating profit with the Development Plan agreed between HK Electric with the Government of the HKSAR and comparing components of the discount rate with market data and industry reports;

- evaluating management's rationale for adopting cash flow projections over a period greater than five years with reference to the guidance in the prevailing accounting standards;

- engaging our internal valuation specialists to assess whether the discount rate applied in the cash flow forecast was within the range adopted by other companies in the same industry;

- performing sensitivity analyses on the discount rate and terminal growth rate applied and the assumptions for revenue adopted by management in the cash flow forecast to assess the impact of changes in these key assumption on the conclusion reached in management's impairment assessment and considering whether there were any indicators of management bias in the assumption adopted; and

- comparing the actual results for the current year with management's forecasts for the previous year in order to assess the historical accuracy of the management's forecasting process.

Fuel Clause Recovery Account

Refer to note 22 to the consolidated financial statements of the Trust and of the Company and the accounting policy 3(q)(ii).

The key audit matter	How the matter was addressed in our audit
Under the Scheme of Control Agreement, any difference between the standard cost of fuel, as agreed with the Government of the HKSAR, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account as Fuel Cost Account Adjustments. Fuel Clause Charges (or Rebates) are charged (or given) to electricity 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 of the Fuel Clause Recovery Account at the end of the reporting period 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. We identified the Fuel Clause Recovery Account as a key audit matter because it is a specific item in the Scheme of Control Agreement and is a key factor in the calculation of Fuel Clause Charges (or Rebates) which affect the Net Tariff payable by electricity customers and because the balance of the Fuel Clause Recovery Account is material as at 31 December 2018.	Our audit procedures to assess the balance of the Fuel Clause Recovery Account included the following: • engaging our internal Information Risk Management specialists to assess the design, implementation and operating effectiveness of the information technology automated controls that govern the interface between the Trust Group's and the Group's meter reading system which records units of electricity sold and the Trust Group's and the Group's accounting system; • forming an expectation of the amount of Fuel Clause Charges to electricity customers based on the units of electricity sold during the reporting period and comparing our expectation with the actual Fuel Clause Charges recorded by the Trust Group and the Group; • evaluating the actual cost of fuel for the year ended 31 December 2018 by inspecting supplier invoices, on a sample basis; • evaluating the accrued charges for unbilled fuel costs at 31 December 2018 by inspecting, on a sample basis, the amounts settled subsequent to 31 December 2018 and relevant underlying documentation; and • recalculating of the balance of the Fuel Clause Recovery Account as at 31 December 2018 taking into account the balance brought forward at the start of the financial year, Fuel Clause Charges, Fuel Costs Account Adjustments and interest.

Information other than the consolidated financial statements and auditor's report thereon

The Directors of HK Electric Investments Manager Limited (the "Trustee-Manager", in its capacity as the trustee-manager of the Trust) and the Directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements of the Trust and of the Company and our auditor's report thereon.

Our opinion on the consolidated financial statements of the Trust and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT

In connection with our audit of the consolidated financial statements of the Trust and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements of the Trust and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors of the Trustee-Manager and the Directors of the Company are responsible for the preparation of the consolidated financial statements of the Trust and of the Company that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements of the Trust and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements of the Trust and of the Company, the Directors are responsible for assessing the Trust Group's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Trust Group and the Group or to cease operations or have no realistic alternative but to do so.

The Directors are assisted by the Audit Committees of the Trustee-Manager and of the Company in discharging their responsibilities for overseeing the Trust Group's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Trust and of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements of the Trust and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust Group's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust Group's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements of the Trust and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust Group and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements of the Trust and of the Company, including the disclosures, and whether the consolidated financial statements of the Trust and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust Group and the Group to express an opinion on the consolidated financial statements of the Trust and of the Company. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committees of the Trustee-Manager and of the Company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committees of the Trustee-Manager and of the Company with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committees of the Trustee-Manager and of the Company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the Trust and of the Company of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG

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

19 March 2019

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

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $ million	2017 $ million
Revenue	5	**11,612**	11,693
Direct costs		**(5,484)**	(5,384)
		6,128	6,309
Other revenue and other net income	7	**54**	24
Other operating costs		**(1,096)**	(1,053)
Operating profit		**5,086**	5,280
Finance costs	8	**(967)**	(848)
Profit before taxation	9	**4,119**	4,432
Income tax:	10		
Current		**(458)**	(660)
Deferred		**(301)**	(134)
		(759)	(794)
Profit after taxation		**3,360**	3,638
Scheme of Control transfers	12(b)	**(309)**	(297)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company		**3,051**	3,341
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	14	**34.53 cents**	37.81 cents

The notes on pages 91 to 165 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the year are set out in note 13.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	2018 $ million	Restated (Note) 2017 $ million
Profit for the year attributable to the holders of Share Stapled Units/ shares of the Company	**3,051**	3,341
Other comprehensive income for the year, after tax and reclassification adjustments		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes:		
Remeasurement of net defined benefit asset/liability	**(148)**	327
Net deferred tax credited/(charged) to other comprehensive income	**24**	(54)
	(124)	273
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**15**	33
Cost of hedging – changes in fair value	**(30)**	(32)
Net deferred tax credited to other comprehensive income	**2**	–
	(13)	1
	(137)	274
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(43)**	(415)
Reclassification adjustments for amounts transferred to profit or loss	**6**	36
Cost of hedging – changes in fair value	**(333)**	85
Cost of hedging – reclassified to profit or loss	**(54)**	(22)
Net deferred tax credited to other comprehensive income	**71**	56
	(353)	(260)
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	**2,561**	3,355

Note: The Groups have initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated except for certain hedging requirements. See note 4(b).

The notes on pages 91 to 165 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE TRUST AND OF THE COMPANY

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $ million	2017 $ million
Non-current assets			
Property, plant and equipment		**65,049**	64,412
Interests in leasehold land held for own use under finance leases		**6,010**	6,090
	15	**71,059**	70,502
Goodwill	16	**33,623**	33,623
Derivative financial instruments	24	**568**	809
Employee retirement benefit scheme assets	25(a)	**593**	648
		105,843	105,582
Current assets			
Inventories	18	**989**	1,011
Trade and other receivables	19	**1,028**	1,067
Bank deposits and cash	20(a)	**34**	1,659
		2,051	3,737
Current liabilities			
Trade and other payables and contract liabilities	21	**(2,447)**	(2,652)
Fuel Clause Recovery Account	22	**(855)**	(2,771)
Current portion of bank loans and other interest-bearing borrowings	23	**(440)**	–
Current tax payable	27(a)	**(137)**	(214)
		(3,879)	(5,637)
Net current liabilities		**(1,828)**	(1,900)
Total assets less current liabilities		**104,015**	103,682
Non-current liabilities			
Bank loans and other interest-bearing borrowings	23	**(41,525)**	(41,371)
Derivative financial instruments	24	**(411)**	(184)
Customers' deposits		**(2,195)**	(2,130)
Deferred tax liabilities	27(b)	**(9,353)**	(9,149)
Employee retirement benefit scheme liabilities	25(a)	**(393)**	(288)
Provisions	26	**(747)**	(503)
		(54,624)	(53,625)
Scheme of Control Fund and Reserve	12(c)	**(648)**	(335)
Net assets		**48,743**	49,722
Capital and reserves			
Share capital	28(b)	**8**	8
Reserves		**48,735**	49,714
Total equity		**48,743**	49,722

Approved and authorised for issue by the Boards on 19 March 2019.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 91 to 165 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of the Company					
$ million	Share capital (note 28(b))	Share premium (note 28(c))	Hedging reserve (note 28(d)(i))	Revenue Reserve (note 28(d)(ii))	Proposed/ declared distribution/ dividend (note 13)	Total
Balance at 1 January 2017	8	47,472	573	74	1,778	49,905
Changes in equity for 2017:						
Profit for the year	–	–	–	3,341	–	3,341
Other comprehensive income	–	–	(259)	273	–	14
Total comprehensive income	–	–	(259)	3,614	–	3,355
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
Interim distribution/first interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed final distribution/second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2017 and 1 January 2018	**8**	**47,472**	**314**	**150**	**1,778**	**49,722**
Changes in equity for 2018:						
Profit for the year	**–**	**–**	**–**	**3,051**	**–**	**3,051**
Other comprehensive income	**–**	**–**	**(366)**	**(124)**	**–**	**(490)**
Total comprehensive income	**–**	**–**	**(366)**	**2,927**	**–**	**2,561**
Amounts transferred to the initial carrying amount of hedged items, net of tax	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Final distribution/second interim dividend in respect of previous year approved and paid (see note 13(c))	**–**	**–**	**–**	**–**	**(1,778)**	**(1,778)**
Interim distribution/first interim dividend paid (see note 13(b))	**–**	**–**	**–**	**(1,760)**	**–**	**(1,760)**
Proposed final distribution/second interim dividend (see note 13(b))	**–**	**–**	**–**	**(1,778)**	**1,778**	**–**
Balance at 31 December 2018	**8**	**47,472**	**(54)**	**(461)**	**1,778**	**48,743**

The notes on pages 91 to 165 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**2018** **$ million**	2017 $ million
Operating activities			
Cash generated from operations	20(b)	**6,291**	7,408
Interest paid		**(760)**	(726)
Interest received		**19**	2
Hong Kong Profits Tax paid		**(535)**	(797)
Net cash generated from operating activities		**5,015**	5,887
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		**(3,397)**	(2,503)
Capitalised interest paid		**(142)**	(118)
Decrease/(increase) in bank deposits with more than three months to maturity when placed		**875**	(875)
Net cash used in investing activities		**(2,664)**	(3,496)
Financing activities			
Proceeds from bank loans	20(c)	**365**	1,500
Repayment of bank loans	20(c)	**–**	(2,785)
Issuance of medium term notes	20(c)	**–**	3,123
Redemption of medium term notes	20(c)	**–**	(300)
New customers' deposits	20(c)	**311**	316
Repayment of customers' deposits	20(c)	**(246)**	(243)
Distributions/dividends paid		**(3,538)**	(3,538)
Net cash used in financing activities		**(3,108)**	(1,927)
Net (decrease)/increase in cash and cash equivalents		**(757)**	464
Cash and cash equivalents at 1 January		**784**	316
Effect of foreign exchange rate changes		**7**	4
Cash and cash equivalents at 31 December	20(a)	**34**	784

The notes on pages 91 to 165 form part of these consolidated financial statements.

As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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

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

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2018 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 2018 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 2018 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "consolidated financial statements of the Trust and of the Company".

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued 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 35.

(c) Subsidiaries

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

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

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

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

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 3(g)(ii)).

(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(u)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(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 the shorter of the estimated useful lives of the leased assets and the unexpired lease term.

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

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical 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.

(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) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(1) Policy applicable from 1 January 2018

The Groups recognise a loss allowance for expected credit losses (“ECLs”) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables). Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Groups in accordance with the contract and the cash flows that the Groups expect to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– trade and other receivables and fixed rate financial assets: effective interest rate determined at initial recognition or an approximation thereof;

– variable rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Groups are exposed to credit risk.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(1) Policy applicable from 1 January 2018 (continued)

Measurement of ECLs (continued)

In measuring ECLs, the Groups take into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Groups' historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Groups recognise a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Groups compare the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Groups consider that a default event occurs when (i) the debtor is unlikely to pay its credit obligations to the Groups in full, without recourse by the Groups to actions such as realising security (if any is held); or (ii) the receivables are 90 days past due and the debtor does not response to the Groups' collection activities as historical experience indicates that receivables that meet those criteria are generally not recoverable. The Groups consider both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Groups.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Groups recognise an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 3(q)(iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Groups assess whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

(1) Policy applicable from 1 January 2018 (continued)

Basis of calculation of interest income (continued)

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

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

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Groups determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(2) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at fair value through profit or loss (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– 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 existed, any impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, the impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did 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 non-current assets

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

– property, plant and equipment 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.

– 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).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(g) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

– 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 consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the revenue reserve and will not be reclassified to profit or loss.

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

(ii) Contributions to defined contribution retirement schemes

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

(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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(k) Trade and other receivables

A receivable is recognised when the Groups have an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 3(g)(i)).

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less 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(p)(i)), interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Groups' accounting policy for borrowing costs (see note 3(u)).

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(p)(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, and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Groups recognise the related revenue (see note 3(q)). A contract liability would also be recognised if the Groups have an unconditional right to receive consideration before the Groups recognise the related revenue. In such cases, a corresponding receivable would also be recognised (see note 3(k)).

(o) Derivative financial instruments

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

(p) Hedging

The Groups designate certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges), or as hedging instruments to hedge changes in the fair value of a recognised asset or liability (fair value hedges). The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the Groups apply a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

(i) Fair value hedges

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

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

Forward element of forward foreign currency contracts and foreign currency basis spread of financial instruments may be separated and excluded from the designated hedging instruments. If the Groups exclude the forward element of a forward foreign exchange contract or the foreign currency basis spread of a financial instrument (the "excluded elements") from the designation of a hedging instrument, then the excluded elements may be separately accounted for as a cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity to the extent that it relates to the hedged items.

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

For all other hedged forecast transactions, the amount accumulated in the hedging reserves is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(q) Revenue recognition

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

The earnings of the Groups' major subsidiary, HK Electric, are regulated by the HKSAR Government (the "Government") under a Scheme of Control Agreement ("SoCA") which provides for a permitted level of earnings based principally on a return on HK Electric's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The 2009-2018 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.

In July 2018, the Government approved the 2019-2023 Development Plan covering the period from 1 January 2019 to 31 December 2023. Similar to the 2014-2018 Development Plan, 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

Income is classified by the Groups as revenue when it arises from the sale of electricity, the provision of services or the use by others of the Groups' assets under leases in the ordinary course of the Groups' business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Groups are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Groups' revenue and other income recognition policies are as follows:

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

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

(3) Interest income is recognised on a time apportioned basis using the effective interest method. For financial assets measured at amortised cost, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(g)(i)).

(r) Translation of foreign currencies

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

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Groups initially recognised such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(s) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Groups' cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 3(g)(i).

(t) Income tax

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

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

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

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

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

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

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

(u) 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.

(v) Provisions and contingent liabilities

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

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

(w) Related parties

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

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

(2) has significant influence over the Groups; or

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

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

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

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

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

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

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

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

(7) A person identified in note 3(w)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(x) 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

(a) Overview

The HKICPA has issued a number of new HKFRSs and 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:

– HKFRS 9, *Financial instruments*
– HKFRS 15, *Revenue from contracts with customers*
– HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Groups have not applied any amendment, new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

The adoption of HKFRS 9 and HKFRS 15 does not have a material impact on the Groups' results and financial positions for the current or prior periods. Details of the changes in accounting policies are discussed in note 4(b) for HKFRS 9 and note 4(c) for HKFRS 15.

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Groups have applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification and measurement of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The measurement categories for all financial assets and financial liabilities of the Groups remain the same under HKFRS 9. The carrying amounts for all financial assets and financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Groups did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the incurred loss accounting model in HKAS 39.

The Groups apply the new ECL model to financial assets measured at amortised cost including cash and cash equivalents and trade and other receivables.

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

For further details on the Groups' accounting policy for accounting for credit losses, see note 3(g)(i).

The adoption of the ECL model under HKFRS 9 does not have material impact on the carrying amounts of the Groups' financial assets and opening balance of equity as at 1 January 2018.

(iii) Hedge accounting

The Groups have elected to adopt the new general hedge accounting model in HKFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking. The adoption of HKFRS 9 has not had a significant impact on the consolidated financial statements of the Trust and of the Company in this regard.

For an explanation of how the Groups apply hedge accounting, see note 3(p).

Cost of hedging

Under HKFRS 9, forward element of forward foreign exchange contracts and foreign currency basis spread of financial instruments may be separated and excluded from the designation of the hedging instruments. If the Groups exclude the forward element of a forward foreign exchange contract or the foreign currency basis spread of a financial instrument (the "excluded elements") from the designation of a hedging instrument, then the excluded elements may be separately accounted for as a cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity to the extent that it relates to the hedged items. For time-period related hedged items, the excluded elements at the date of designation are amortised on a systematic and rational basis to profit or loss over the period during which the hedge adjustment for the designated hedging instrument could affect profit or loss. For transaction-related hedged items, the cumulative changes of the excluded elements are included in the initial carrying amounts of any non-financial assets or non-financial liabilities when the hedged transactions occur or are recognised in profit or loss if the hedged transactions affect profit or loss.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Changes in accounting policies (continued)

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (continued)

(iii) Hedge accounting (continued)

Cost of hedging (continued)

The Groups have elected to adopt the cost of hedging approach retrospectively and the adoption has no material impact on the Groups' opening balance of equity as at 1 January 2018 and 2017. Retrospective application of the cost of hedging approach has had the following effects on the amounts presented for 2017.

	For the year ended 31 December 2017		
$ million	As previously reported under HKAS 39	Adjustments	Restated under HKFRS 9
Consolidated statement of comprehensive income			
Items that will not be reclassified to profit or loss			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognised during the year	–	33	33
Cost of hedging – changes in fair value	–	(32)	(32)
Net deferred tax credited to other comprehensive income	–	–	–
	–	1	1
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments recognised during the year	(303)	(112)	(415)
Reclassification adjustments for amounts transferred to profit or loss	(12)	48	36
Cost of hedging – changes in fair value	–	85	85
Cost of hedging – reclassified to profit or loss	–	(22)	(22)
Net deferred tax credited to other comprehensive income	56	–	56
	(259)	(1)	(260)
	(259)	-	(259)

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated except for the cost of hedging approach as discussed below. The information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Groups).

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

– Changes to hedge accounting policies have been applied prospectively except for the cost of hedging approach for forward element of forward foreign exchange contracts and foreign currency basis spread of financial instruments, which has been applied retrospectively to hedging relationships that existed on or were designated after 1 January 2017.

– All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

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(Expressed in Hong Kong dollars unless otherwise indicated)

4. Changes in accounting policies (continued)

(c) HKFRS 15, Revenue from contracts with customers (continued)

(i) Timing of revenue recognition

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

– When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

– When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

– When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed.

The adoption of HKFRS 15 does not have a significant impact on when the Groups recognise revenue from sales of electricity and electricity-related services (see note 3(q)(iii)).

(ii) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Groups have an unconditional right to consideration. If the Groups recognise the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Groups recognise the related revenue. (see note 3(n)).

The adoption of HKFRS 15 has only affected the presentation and disclosure of contract liability in the consolidated financial statements.

(d) HK(IFRIC) 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity pays or receives advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial positions and the financial results of the Groups.

5. Revenue

The principal activity of the Groups is the generation and supply of electricity to Hong Kong Island and Lamma Island. Disaggregation of revenue by type of output and services is analysed as follows:

	2018 $ million	2017 $ million
Sales of electricity	**11,541**	11,621
Less: concessionary discount on sales of electricity	**(4)**	(4)
	11,537	11,617
Electricity-related income	**75**	76
	11,612	11,693

6. Segment reporting

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

7. Other revenue and other net income

	2018 $ million	2017 $ million
Interest income on financial assets measured at amortised cost	**14**	7
Sundry income	**40**	17
	54	24

8. Finance costs

	2018 $ million	2017 $ million
Interest on borrowings and other finance costs	**1,177**	1,007
Less: interest expense and other finance costs capitalised to assets under construction	**(191)**	(139)
interest expense transferred to fuel costs	**(19)**	(20)
Total interest expense arising from financial liabilities not at fair value through profit or loss and other finance costs	**967**	848

Interest expense has been capitalised at an average rate of approximately 3.0% (2017: 2.7%) per annum for assets under construction.

9. Profit before taxation

	2018 $ million	2017 $ million
Profit before taxation is arrived at after charging:		
Depreciation	**2,834**	2,731
Amortisation of leasehold land	**194**	191
Costs of inventories	**4,569**	3,820
Write down of inventories	**17**	31
Staff costs	**699**	664
Net loss on disposal and written off of property, plant and equipment	**109**	104
Auditor's remuneration		
– audit and audit related work	**5**	5

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

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

	2018 **$ million**	2017 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**458**	660
Deferred tax (see note 27(b))		
Origination and reversal of temporary differences	**301**	134
	759	794

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first $2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax rate regime (2017: a single tax rate of 16.5% was applied). The Ordinance is effective from the year of assessment 2018-2019.

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:

	2018 **$ million**	2017 $ million
Profit before taxation	**4,119**	4,432
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate (see note below)	**680**	731
Tax effect of non-deductible expenses	**84**	69
Tax effect of non-taxable income	**(4)**	(3)
Tax effect of recognition of previously unrecognised temporary differences	**(1)**	(3)
Actual tax expense	**759**	794

For the year ended 31 December 2018, the notional tax is calculated in accordance with the two-tiered profits tax rate regime under which tax on the first $2 million of profits is calculated at 8.25% and tax on the remaining profits is calculated at 16.5%. For the year ended 31 December 2017, a single tax rate of 16.5% was applied.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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 [10] $ million	Retirement scheme contributions $ million	Bonuses $ million	2018 Total emoluments $ million	2017 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning [2]						
Chairman	0.12	0.61	–	–	**0.73**	0.72
Wan Chi Tin						
Chief Executive Officer	0.07	7.72	–	10.15	**17.94**	16.40
Chan Loi Shun	0.07	2.94	–	–	**3.01**	2.80
Chen Daobiao [8]	0.04	1.09	0.01	0.56	**1.70**	–
Cheng Cho Ying, Francis	0.07	3.68	0.02	2.01	**5.78**	5.33
Shan Shewu [9]	0.03	1.10	0.01	0.22	**1.36**	3.24
Yuen Sui See [5]	–	–	–	–	**–**	0.33
Non-executive Directors						
Victor T K Li						
Deputy Chairman to the Company Board	0.07	0.27	–	–	**0.34**	0.32
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	**0.07**	0.07
Ronald Joseph Arculli [1]	0.14	0.04	–	–	**0.18**	0.18
Du Zhigang [6]	–	–	–	–	**–**	0.03
Jiang Xiaojun	0.07	–	–	–	**0.07**	0.07
Deven Arvind Karnik	0.07	–	–	–	**0.07**	0.07
Zhu Guangchao [7]	0.07	–	–	-	**0.07**	0.04
Independent Non-executive Directors						
Fong Chi Wai, Alex [2]	0.09	0.01	–	–	**0.10**	0.11
Kwan Kai Cheong	0.07	0.01	–	–	**0.08**	0.08
Lee Lan Yee, Francis [1]	0.14	0.02	–	–	**0.16**	0.16
George Colin Magnus	0.07	0.02	–	–	**0.09**	0.09
Donald Jeffrey Roberts [1] [2]	0.16	0.02	–	–	**0.18**	0.17
Ralph Raymond Shea	0.07	0.03	–	–	**0.10**	0.09
Alternate Directors						
Woo Mo Fong, Susan						
(alias Chow Woo Mo Fong, Susan) [3]	–	0.07	–	–	**0.07**	0.07
Frank John Sixt [4]	–	0.02	–	-	**0.02**	0.02
Total for the year 2018	**1.49**	**17.65**	**0.04**	**12.94**	**32.12**	
Total for the year 2017	1.49	17.27	0.04	11.59		30.39

Notes:
(1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
(2) Member of the Remuneration Committee.
(3) An Alternate Director to Mr. Fok Kin Ning, Canning.
(4) An Alternate Director to Mr. Victor T K Li.
(5) Retired from the position of Executive Director and appointed as Adviser to HK Electric with effect from 17 January 2017.
(6) Retired from the position of Non-executive Director with effect from 31 May 2017.
(7) Appointed as Non-executive Director with effect from 31 May 2017.
(8) Appointed as Executive Director with effect from 22 May 2018.
(9) Resigned as Executive Director with effect from 22 May 2018.
(10) 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 two directors (2017: two) whose total emoluments are shown above. The remuneration of the other three individuals (2017: three) who comprise the five highest paid individuals of the Groups is set out below:

	2018 $ million	2017 $ million
Basic salaries, allowances and other benefits	**8.46**	8.39
Retirement scheme contributions	**1.48**	1.44
Bonuses	**3.76**	3.61
	13.70	13.44

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

	2018 Number	2017 Number
Nil – $1,000,000	**1**	–
$2,500,001 – $3,000,000	**3**	4
$3,000,001 – $3,500,000	**6**	2
$3,500,001 – $4,000,000	**–**	1
$4,500,001 – $5,000,000	**–**	2
$5,000,001 – $5,500,000	**2**	–

The remuneration of Directors and senior management is as follows:

	2018 $ million	2017 $ million
Short-term employee benefits	**68**	59
Post-employment benefits	**3**	2
	71	61

At 31 December 2018 and 2017, there was no amount due from Directors and senior management.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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(q)(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 from the consolidated statement of profit or loss represents:

	2018	2017
	$ million	$ million
Tariff Stabilisation Fund	**303**	291
Rate Reduction Reserve	**6**	1
Smart Power Fund		
– Provisional sum to be injected in the following year	**–**	5
	309	297

HK Electric's 2017 financial incentive of $5,038,000, which has been transferred from the consolidated statement of profit or loss and included in the trade and other payables and contract liabilities as at 31 December 2017, was injected into the Smart Power Fund in 2018.

(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 2017	24	1	14	39
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	1	(1)	–	–
Transfer from the consolidated statement of profit or loss	291	1	–	292
Injection for the year	–	–	5	5
Disbursement for the year	–	–	(1)	(1)
At 31 December 2017 and 1 January 2018	**316**	**1**	**18**	**335**
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	**1**	**(1)**	**–**	**–**
Transfer from the consolidated statement of profit or loss	**303**	**6**	**–**	**309**
Injection for the year (see note (b) above)	**–**	**–**	**5**	**5**
Disbursement for the year	**–**	**–**	**(1)**	**(1)**
At 31 December 2018	**620**	**6**	**22**	**648**

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.

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(Expressed in Hong Kong dollars unless otherwise indicated)

13. Distributions/dividends

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

	2018 **$ million**	2017 $ million
Audited consolidated profit attributable to the holders of Share Stapled Units	**3,051**	3,341
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	**5,421**	5,178
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(1,916)**	(1,317)
– changes in working capital	**(267)**	191
– adjustment for employee retirement benefit schemes	**12**	15
– taxes paid	**(535)**	(797)
	(2,706)	(1,908)
(iii) capital expenditure payment	**(3,397)**	(2,503)
(iv) net finance costs	**(883)**	(842)
Distributable income	**1,486**	3,266
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	**2,052**	272
Distributable income after adjustment of the discretionary amount	**3,538**	3,538

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

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

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

Note 4 In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2018, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

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

	2018 **$ million**	2017 $ million
Interim distribution/first interim dividend declared and paid of 19.92 cents (2017: 19.92 cents) per Share Stapled Unit/share	**1,760**	1,760
Final distribution/second interim dividend proposed after the end of the reporting period of 20.12 cents (2017: 20.12 cents) per Share Stapled Unit/share	**1,778**	1,778
	3,538	3,538

For the year ended 31 December 2018, the Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2017: 20.12 cents per ordinary share), amounting to $1,778 million (2017: $1,778 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 2018, the Trustee-Manager Board declared a final distribution of 20.12 cents per Share Stapled Unit (2017: 20.12 cents per Share Stapled Unit), amounting to $1,778 million (2017: $1,778 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 2018 (2017: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2018 **$ million**	2017 $ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 20.12 cents (2017: 20.12 cents) per Share Stapled Unit/share	**1,778**	1,778

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 $3,051 million (2017: $3,341 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2017: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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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 2017	16,631	50,026	578	4,686	71,921	6,844	78,765
Additions	8	415	53	2,453	2,929	–	2,929
Transfer	10	1,655	138	(1,803)	–	–	–
Disposals	–	(400)	(10)	–	(410)	–	(410)
At 31 December 2017 and 1 January 2018	**16,649**	**51,696**	**759**	**5,336**	**74,440**	**6,844**	**81,284**
Additions	**9**	**266**	**38**	**3,382**	**3,695**	**114**	**3,809**
Transfer	**15**	**1,613**	**65**	**(1,693)**	**–**	**–**	**–**
Disposals	**–**	**(334)**	**(10)**	**–**	**(344)**	**–**	**(344)**
At 31 December 2018	**16,673**	**53,241**	**852**	**7,025**	**77,791**	**6,958**	**84,749**
Accumulated depreciation and amortisation							
At 1 January 2017	1,484	5,812	193	–	7,489	563	8,052
Written back on disposals	–	(265)	(10)	–	(275)	–	(275)
Charge for the year	512	2,205	97	–	2,814	191	3,005
At 31 December 2017 and 1 January 2018	**1,996**	**7,752**	**280**	**–**	**10,028**	**754**	**10,782**
Written back on disposals	**–**	**(186)**	**(10)**	**–**	**(196)**	**–**	**(196)**
Charge for the year	**510**	**2,300**	**100**	**–**	**2,910**	**194**	**3,104**
At 31 December 2018	**2,506**	**9,866**	**370**	**–**	**12,742**	**948**	**13,690**
Net book value							
At 31 December 2018	**14,167**	**43,375**	**482**	**7,025**	**65,049**	**6,010**	**71,059**
At 31 December 2017	14,653	43,944	479	5,336	64,412	6,090	70,502

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to $191 million (2017: $139 million).

Depreciation charges for the year included $76 million (2017: $83 million), relating to assets utilised in development activities, which have been capitalised.

16. Goodwill

(a) Carrying amount of goodwill

	2018 **$ million**	2017 $ million
Cost		
At 1 January and 31 December	**33,623**	33,623

(b) Impairment test for goodwill

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

In the case of triggering events and at least annually, the Groups test whether the goodwill has suffered any impairment. Recoverable amount of the CGU, to which the goodwill has been allocated, was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 16-year period (2017: 16-year period). Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-lived nature of generation, transmission and distribution assets and a more appropriate reflection of future cash flows of HK Electric under the regulatory regime. The cash flow projections are discounted using a pre-tax discount rate of 6.16% (2017: 6.17%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 16-year period are extrapolated using the terminal growth rate of 1.0% (2017: 1.0%).

There was no indication of impairment arising from review on goodwill as at 30 November 2018.

If the discount rate rose to 6.47% (2017: 6.54%), 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 2018.

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17. Investments in subsidiaries

Details of the subsidiaries at 31 December 2018 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$6,335 million Hong Kong dollar fixed rate notes US$1,500 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$650 million United States dollar callable zero coupon notes (see note 23)	100% (1)	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

18. Inventories

	2018 $ million	2017 $ million
Coal, fuel oil and natural gas	**675**	671
Stores and materials (see note below)	**314**	340
	989	1,011

Included in stores and materials is capital stock of $159 million (2017: $171 million) which was purchased for future maintenance of capital assets.

19. Trade and other receivables

	2018 $ million	2017 $ million
Trade debtors, net of loss allowance (see notes (a) and (b) below)	**563**	555
Other receivables (see note below)	**402**	449
	965	1,004
Derivative financial instruments (see note 24)	**2**	7
Deposits and prepayments	**61**	56
	1,028	1,067

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 $336 million (2017: $335 million) to be received from electricity customers.

(a) Ageing analysis of trade debtors

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

	2018 $ million	2017 $ million
Current and within 1 month	**513**	499
1 to 3 months	**35**	36
More than 3 months but less than 12 months	**15**	20
	563	555

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

(b) Expected credit losses of trade debtors

The Groups measure loss allowances for trade debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. The Groups determine the provision for expected credit losses by grouping together trade debtors with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic environment. For trade debtors relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

19. Trade and other receivables (continued)

(b) Expected credit losses of trade debtors (continued)

The Groups classify trade debtors by nature of customer accounts namely live accounts and final accounts. The following table provides information about the Groups' exposure to credit risk and ECLs for trade debtors as at 31 December 2018:

	ECL rate %	Gross carrying amount $ million	Lifetime ECLs $ million	Net carrying amount $ million
Live accounts				
Provision on collective basis (see note below)	0	548	–	548
Final accounts				
Provision on individual basis	6	12	(1)	11
Other trade debtors				
Provision on collective basis	0	4	–	4
		564	(1)	563

ECL rate for live accounts is approximate to zero as these trade debtors have no recent history of default and HK Electric obtains collateral in the form of security deposits or bank guarantees from customers (see note 29(a)) and the balances were considered to be fully recoverable.

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

	$ million
At 31 December 2017 under HKAS 39	**–**
Impact on initial application of HKFRS 9 (see note below)	**1**
Adjusted balance at 1 January 2018	**1**
Impairment losses recognised during the year	**1**
Amounts written off during the year	**(1)**
At 31 December 2018	**1**

The restatement on transition to HKFRS 9 as a result of applying the ECL model was immaterial (see note 4(b)(ii)).

(c) Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 3(g)(i)(2) – policy applicable prior to 1 January 2018). The Groups' trade debtors were individually assessed for impairment. Any impairment losses were written off against the trade debtors directly. No separate account was maintained for impairment losses. During the year ended 31 December 2017, impairment of trade and other receivables of $1,389,000 was charged to profit or loss.

20. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2018 $ million	2017 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	–	738
Cash at bank and in hand	34	46
Cash and cash equivalents in the consolidated cash flow statement	34	784
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	–	875
Bank deposits and cash in the consolidated statement of financial position	34	1,659

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

	Note	2018 $ million	2017 $ million
Profit before taxation		4,119	4,432
Adjustments for:			
Interest income	7	(14)	(7)
Finance costs	8	967	848
Interest expense transferred to fuel costs	8	19	20
Depreciation	9	2,834	2,731
Amortisation of leasehold land	9	194	191
Net loss on disposal and written off of property, plant and equipment	9	109	104
Increase in provisions for asset decommissioning obligation	26	244	205
Net financial instrument revaluation and exchange gains		(9)	(4)
Smart Power Fund disbursement	12(c)	(1)	(1)
Changes in working capital:			
Decrease/(increase) in inventories		10	(52)
Decrease in trade and other receivables		35	125
Movements in Fuel Clause Recovery Account		(1,916)	(1,317)
(Decrease)/increase in trade and other payables and contract liabilities		(312)	118
Increase/decrease in net employee retirement benefit assets/liabilities		12	15
Cash generated from operations		6,291	7,408

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Reconciliation of liabilities arising from financing activities:

The table below details changes in the Groups' liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Groups' consolidated cash flow statement as cash flows from financing activities.

$ million	Bank loans (note 23)	Medium term notes (note 23)	Customers' deposits	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2018	**17,359**	**24,012**	**2,130**	**(808)**	**155**	**42,848**
Changes from financing cash flows:						
Proceeds from bank loans	365	–	–	–	–	365
New customers' deposits	–	–	311	–	–	311
Repayment of customers' deposits	–	–	(246)	–	–	(246)
Total changes from financing cash flows	365	–	65	–	–	430
Changes in fair value	–	(88)	–	246	80	238
Other changes:						
Interest on borrowings and other finance costs	31	286	–	–	–	317
At 31 December 2018	**17,755**	**24,210**	**2,195**	**(562)**	**235**	**43,833**

$ million	Bank loans (note 23)	Medium term notes (note 23)	Customers' deposits	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2017	18,628	21,051	2,057	(1,034)	55	40,757
Changes from financing cash flows:						
Proceeds from bank loans	1,500	–	–	–	–	1,500
Repayment of bank loans	(2,785)	–	–	–	–	(2,785)
Issuance of medium term notes	–	3,123	–	–	–	3,123
Redemption of medium term notes	–	(300)	–	–	–	(300)
New customers' deposits	–	–	316	–	–	316
Repayment of customers' deposits	–	–	(243)	–	–	(243)
Total changes from financing cash flows	(1,285)	2,823	73	–	–	1,611
Exchange adjustments	–	58	–	–	–	58
Changes in fair value	–	(88)	–	226	100	238
Other changes:						
Interest on borrowings and other finance costs	16	168	–	–	–	184
At 31 December 2017	17,359	24,012	2,130	(808)	155	42,848

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

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Trade and other payables and contract liabilities

	31 December 2018 $ million	1 January 2018 $ million	31 December 2017 $ million
Trade and other payables			
Creditors measured at amortised cost (see note (a) below)	**2,403**	2,608	2,649
Derivative financial instruments (see note 24)	**6**	3	3
	2,409	2,611	2,652
Contract liabilities (see note (b) below)	**38**	41	–
	2,447	2,652	2,652

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

(a) Creditors' ageing is analysed as follows:

	2018 $ million	2017 $ million
Due within 1 month or on demand	**1,316**	1,321
Due after 1 month but within 3 months	**139**	202
Due after 3 months but within 12 months	**948**	1,126
	2,403	2,649

(b) Contract liabilities

(i) Upon the adoption of HKFRS 15, these amounts were reclassified from trade and other payables to contract liabilities. Trade and other payables and contract liabilities are aggregated into a single line item "Trade and other payables and contract liabilities" on the face of the consolidated statement of financial position.

(ii) The contract liabilities relate to the advance consideration received from customers for electricity-related services, which consists mainly of (1) permanent supply service, primarily associated with the supply of electricity to customer substations for large new developments and to small new developments without customer substation provisions, and (2) site service primarily associated with the temporary supply of electricity to construction sites or special functions, for which revenue is recognised upon completion of the electricity-related services.

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

	2018 $ million
At 1 January	41
Increase in contract liabilities as a result of billing in advance for performance of electricity-related services	31
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(34)
At 31 December	38

22. Fuel Clause Recovery Account

The Fuel Clause Charge per unit for electricity sales was 23.4 cents from 1 January 2018 (2017: 23.4 cents). During the year, Special Fuel Rebate of 16 cents per unit for electricity sales (2017: 17.9 cents) was offered to customers. Movements in the Fuel Clause Recovery Account were as follows:

	2018 $ million	2017 $ million
At 1 January	2,771	4,088
Transferred to profit or loss	(2,696)	(1,904)
Fuel Clause Charges during the year	2,466	2,484
Special Fuel Rebates during the year	(1,686)	(1,897)
At 31 December	855	2,771

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

23. Bank loans and other interest-bearing borrowings

	2018 $ million	2017 $ million
Bank loans	**17,755**	17,359
Current portion	**(110)**	–
	17,645	17,359
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**6,295**	6,291
Zero coupon notes (see note (b) below)	**702**	679
	6,997	6,970
Current portion	**(330)**	–
	6,667	6,970
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**11,673**	11,741
Zero coupon notes (see note (b) below)	**5,540**	5,301
	17,213	17,042
Non-current portion	**41,525**	41,371

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.55% to 4% per annum (2017: 2.55% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 2.875% to 4.25% per annum (2017: 2.875% to 4.25% per annum).

(b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of $1,056 million (2017: $1,056 million) and accrual yield of 3.5% per annum (2017: 3.5% per annum).

The United States dollar zero coupon notes have nominal amount of US$650 million (2017: US$650 million) and accrual yields ranging from 4.375% to 4.8% per annum (2017: 4.375% to 4.8% per annum). These notes embed with issuer call options allowing issuer to early redeem the notes. US$250 million of these notes are callable on 20 October 2020 and annually thereafter until the penultimate year to maturity. The remaining US$400 million are callable on 12 October 2022 and annually thereafter until the penultimate year to maturity.

(c) Details of the issuer of the Hong Kong dollar and United States dollar medium term notes are set out in note 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 29(b). As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

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

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

	2018 $ million	2017 $ million
After 1 year but within 2 years	**5,881**	330
After 2 years but within 5 years	**17,944**	23,316
After 5 years	**17,700**	17,725
	41,525	41,371

24. Derivative financial instruments

	2018		2017	
	Assets $ million	**Liabilities $ million**	Assets $ million	Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**–**	**(172)**	5	(155)
– Interest rate swaps	**497**	**–**	494	–
– Forward foreign exchange contracts	**10**	**(244)**	166	(32)
Fair value hedges:				
– Cross currency swaps	**63**	**–**	151	–
– Forward foreign exchange contracts	**–**	**(1)**	–	–
	570	**(417)**	816	(187)
Analysed as:				
Current	**2**	**(6)**	7	(3)
Non-current	**568**	**(411)**	809	(184)
	570	**(417)**	816	(187)

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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 various investment funds in which they can invest. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (the "Guaranteed Return Scheme"). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 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.

Since the introduction of the Mandatory Provident Fund System in Hong Kong in December 2000, both the Pension Scheme and the Guaranteed Return Scheme have been closed to new entrants and all new recruits are enrolled in the MPF Scheme.

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

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include discount rate, long term salary increase rate and future pension increase rate which are disclosed in note 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 2016. 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 2018 was determined in accordance with HKAS 19 (2011), *Employee benefits.*

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

	2018 **$ million**	2017 $ million
Present value of defined benefit obligations	**3,463**	3,707
Fair value of assets of the Schemes	**(3,663)**	(4,067)
	(200)	(360)
Represented by:		
Employee retirement benefit scheme assets	**(593)**	(648)
Employee retirement benefit scheme liabilities	**393**	288
	(200)	(360)

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:

	2018 **$ million**	2017 $ million
At 1 January	**3,707**	3,798
Current service cost	**70**	72
Interest cost	**67**	73
Employee contributions paid to the Schemes	**15**	16
Actuarial losses/(gains) due to:		
– liability experience	**1**	(5)
– change in financial assumptions	**(75)**	50
– change in demographic assumptions	**41**	2
Benefits paid	**(363)**	(299)
At 31 December	**3,463**	3,707

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits (continued)

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

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

	2018 $ million	2017 $ million
At 1 January	**4,067**	3,846
Interest income on the Schemes' assets	**73**	73
Return on Schemes' assets, excluding interest income	**(181)**	374
Employer contributions paid to the Schemes	**52**	57
Employee contributions paid to the Schemes	**15**	16
Benefits paid	**(363)**	(299)
At 31 December	**3,663**	4,067

The Groups expect to contribute $56 million to the Schemes in 2019.

(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:

	2018 $ million	2017 $ million
Current service cost	**70**	72
Net interest income on net defined benefit asset/liability	**(6)**	–
	64	72

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

	2018 $ million	2017 $ million
Direct costs	**44**	49
Other operating costs	**20**	23
	64	72

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

	2018 **$ million**	2017 $ million
At 1 January	**299**	(28)
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**(148)**	327
At 31 December	**151**	299

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

	2018 **$ million**	2017 $ million
Hong Kong equities	**346**	449
European equities	**188**	260
North American equities	**478**	539
Asia Pacific and other equities	**148**	218
Global bonds	**2,432**	2,547
Deposits, cash and others	**71**	54
	3,663	4,067

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

(viii) The principal actuarial assumptions used as at 31 December are as follows:

	2018	2017
Discount rate		
– The Pension Scheme	**2.2%**	2.0%
– The Guaranteed Return Scheme	**1.9%**	1.7%
Long term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits (continued)

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

(ix) Sensitivity analysis

(1) The Pension Scheme

	Increase/(decrease) in defined benefit obligations	
	2018 **$ million**	2017 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(54)**	(56)
– decrease by 0.25%	**57**	59
Pension increase rate		
– increase by 0.25%	**54**	56
– decrease by 0.25%	**(52)**	(53)
Mortality rate applied to specific age		
– set forward one year	**(65)**	(67)
– set backward one year	**66**	68

(2) The Guaranteed Return Scheme

	Increase/(decrease) in defined benefit obligations	
	2018 **$ million**	2017 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(29)**	(33)
– decrease by 0.25%	**29**	34
Interest to be credited		
– increase by 0.25%	**29**	33

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 2017.

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

	2018	2017
The Pension Scheme	**13.2 Years**	13.5 Years
The Guaranteed Return Scheme	**6.5 Years**	6.7 Years

(b) Defined contribution retirement schemes

	2018 $ million	2017 $ million
Expenses recognised in profit or loss	**52**	48

Forfeited contributions of $1,306,000 (2017: $1,349,000) have been received during the year.

26. Provisions

	2018 $ million
Provisions for asset decommissioning obligation	
At 1 January	**503**
Additional provisions made	**244**
At 31 December	**747**

Under SoCA, provision which represents the best estimation of expenditure required to settle asset decommissioning obligation has to be made to the extent that HK Electric incurs an obligation for the costs of dismantling and removing property, plant and equipment and restoring the sites on which they are located either when the assets are acquired or as a consequence of having used them during a particular period for electricity-related activities.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Income tax in the consolidated statement of financial position

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

	2018 **$ million**	2017 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**458**	660
Provisional Profits Tax paid	**(321)**	(446)
	137	214

(b) Deferred tax liabilities

	2018 **$ million**	2017 $ million
Deferred tax liabilities	**9,353**	9,149

(i) The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

$ million	**Depreciation allowances in excess of the related depreciation**	**Fuel Clause Recovery Account**	**Defined benefit retirement schemes**	**Others**	**Total**
At 1 January 2017	9,650	(675)	(70)	112	9,017
(Credited)/charged to profit or loss	(85)	218	4	(3)	134
Charged/(credited) to other comprehensive income	–	–	54	(56)	(2)
At 31 December 2017 and 1 January 2018	**9,565**	**(457)**	**(12)**	**53**	**9,149**
(Credited)/charged to profit or loss	**(19)**	**316**	**5**	**(1)**	**301**
Credited to other comprehensive income	**–**	**–**	**(24)**	**(73)**	**(97)**
At 31 December 2018	**9,546**	**(141)**	**(31)**	**(21)**	**9,353**

(ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2018 and 2017.

28. 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 28(b))	Share premium (note 28(c))	Hedging reserve (note 28(d)(i))	Revenue reserve (note 28(d)(ii))	Proposed/ declared dividend (note 13)	Total
Balance at 1 January 2017	8	47,472	(2)	1,699	1,778	50,955
Changes in equity for 2017:						
Profit for the year	–	–	–	3,958	–	3,958
Other comprehensive income	–	–	27	–	–	27
Total comprehensive income	–	–	27	3,958	–	3,985
Second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
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 2017 and 1 January 2018	**8**	**47,472**	**25**	**2,119**	**1,778**	**51,402**
Changes in equity for 2018:						
Profit for the year	**–**	**–**	**–**	**3,714**	**–**	**3,714**
Other comprehensive income	**–**	**–**	**4**	**–**	**–**	**4**
Total comprehensive income	**–**	**–**	**4**	**3,714**	**–**	**3,718**
Second interim dividend in respect of previous year approved and paid (see note 13(c))	**–**	**–**	**–**	**–**	**(1,778)**	**(1,778)**
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 2018	**8**	**47,472**	**29**	**2,295**	**1,778**	**51,582**

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 (2017: 20.12 cents) per ordinary share, amounting to $1,778 million (2017: $1,778 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(b) Share capital

The Company

	2018	
	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**

	2017	
	Number of Shares	Nominal value $
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

(c) Share premium

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

(d) Nature and purpose of reserves

(i) Hedging reserve

The hedging reserve includes cash flow hedge reserve and cost of hedging reserve. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 3(p)(ii). Under HKFRS 9, if the Groups exclude the forward element of forward contracts and the foreign currency basis spread of financial instruments (the "excluded elements") from the designation of the hedging instruments, then the excluded elements may be separately accounted for as cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity as cost of hedging reserve to the extent that it relates to the hedged items.

The following tables provide a reconciliation of the components in hedging reserve and an analysis of other comprehensive income by risk category that arises from hedge accounting:

(1) Cash flow hedge reserve

$ million	**Interest rate risk** (note 29(c)(i)(1))	**Currency risk** (note 29(d)(i)(1))	**Total**
Balance at 1 January 2017, as previously reported	530	43	573
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	(68)	(70)	(138)
Restated balance at 1 January 2017	462	(27)	435
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(436)	54	(382)
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	40	(4)	36
Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	(3)	(3)
Net deferred tax credited/(debited) to other comprehensive income	70	(8)	62
	(326)	39	(287)
Restated balance at 31 December 2017 (see note 3 below)	**136**	**12**	**148**

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(i) Hedging reserve (continued)

(1) Cash flow hedge reserve (continued)

$ million	Interest rate risk (note 29(c)(i)(1))	Currency risk (note 29(d)(i)(1))	Total
Balance at 1 January 2018, as previously reported	245	69	314
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	(109)	(57)	(166)
Restated balance at 1 January 2018	**136**	**12**	**148**
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(9)**	**(19)**	**(28)**
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**8**	**(2)**	**6**
Net deferred tax credited to other comprehensive income	**1**	**3**	**4**
	–	**(18)**	**(18)**
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**1**	**1**
At 31 December 2018 (see note 3 below)	**136**	**(5)**	**131**

Note 1 Amounts reclassified to profit or loss are recognised in the "Finance costs" line item in the consolidated statement of profit or loss.

Note 2 Amounts transferred to the initial carrying amount of hedged items are recognised in the "Property, plant and equipment" or "Inventories" line items in the consolidated statement of financial position.

Note 3 The entire balance relates to continuing hedges.

(2) Cost of hedging reserve

$ million	Foreign currency basis spread	Forward element	Total
Balance at 1 January 2017, as previously reported	–	–	–
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	68	70	138
Restated balance at 1 January 2017	68	70	138
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	51	34	85
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	(1)	(21)	(22)
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	–	(32)	(32)
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	3	3
Net deferred tax credited/(debited) to other comprehensive income	(9)	3	(6)
Restated balance at 31 December 2017 (see note 3 below)	**109**	**57**	**166**

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(i) Hedging reserve (continued)

(2) Cost of hedging reserve (continued)

$ million	Foreign currency basis spread	Forward element	Total
Balance at 1 January 2018, as previously reported	–	–	–
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	109	57	166
Restated balance at 1 January 2018	**109**	**57**	**166**
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(17)**	**(316)**	**(333)**
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**–**	**(54)**	**(54)**
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**–**	**(30)**	**(30)**
– Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**(3)**	**(3)**
Net deferred tax credited to other comprehensive income	**3**	**66**	**69**
At 31 December 2018 (see note 3 below)	**95**	**(280)**	**(185)**

Note 1 Amounts reclassified to profit or loss are recognised in the "Finance costs" line item in the consolidated statement of profit or loss.

Note 2 Amounts transferred to the initial carrying amount of hedged items are recognised in the "Property, plant and equipment" or "Inventories" line items in the consolidated statement of financial position.

Note 3 The entire balance relates to continuing hedges.

(ii) Revenue reserve

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

(e) Capital management

The Groups' primary objectives when managing capital are:

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

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

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

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

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

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

During 2018, the Groups' strategy, which was unchanged from 2017, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

The net debt-to-net total capital ratio at 31 December 2018 and 2017 was as follows:

	2018 **$ million**	2017 $ million
Bank loans and other interest-bearing borrowings	**41,965**	41,371
Less: Bank deposits and cash	**(34)**	(1,659)
Net debt	**41,931**	39,712
Total equity	**48,743**	49,722
Net debt	**41,931**	39,712
Net total capital	**90,674**	89,434
Net debt-to-net total capital ratio	**46%**	44%

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

(Expressed in Hong Kong dollars unless otherwise indicated)

29. 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 $386 million of trade and other receivables at 31 December 2018 (2017: $360 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.

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.

		2018			2017		
$ 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	29(e)(i)	**63**	**(32)**	**31**	156	(49)	107
Interest rate swaps	29(e)(i)	**497**	**(294)**	**203**	494	(64)	430
Forward foreign exchange contracts	29(e)(i)	**10**	**(2)**	**8**	166	(11)	155
Total		**570**	**(328)**	**242**	816	(124)	692
Financial liabilities							
Cross currency swaps	29(e)(i)	**172**	**(119)**	**53**	155	(112)	43
Forward foreign exchange contracts	29(e)(i)	**245**	**(209)**	**36**	32	(12)	20
Total		**417**	**(328)**	**89**	187	(124)	63

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(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 $5,495 million at 31 December 2018 (2017: $5,750 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.

	2018					
	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	1,573	6,977	19,319	31,714	59,583	42,110
Creditors and accrued charges	2,245	–	–	–	2,245	2,245
	3,818	6,977	19,319	31,714	61,828	44,355
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	(76)	(77)	(192)	(199)	(544)	(501)
Gross settled						
Cross currency swaps and related interest accruals						106
– outflow	371	370	510	425	1,676	
– inflow	(417)	(417)	(505)	(420)	(1,759)	
Forward foreign exchange contracts held as cash flow hedging instruments:						234
– outflow	3,087	1,262	279	16,750	21,378	
– inflow	(3,088)	(1,209)	(247)	(17,523)	(22,067)	
Other forward foreign exchange contracts:						1
– outflow	62	–	–	–	62	
– inflow	(61)	–	–	–	(61)	

$ million	2017 Contractual undiscounted cash outflows/(inflows) 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	942	1,274	25,102	32,369	59,687	41,504
Creditors and accrued charges	2,472	–	–	–	2,472	2,472
	3,414	1,274	25,102	32,369	62,159	43,976
Derivative financial instruments						
Net settled						
Interest rate swaps and related						
interest accruals	22	22	81	127	252	(492)
Gross settled						
Cross currency swaps and related						
interest accruals						(5)
– outflow	326	326	667	595	1,914	
– inflow	(417)	(417)	(753)	(589)	(2,176)	
Forward foreign exchange contracts held						
as cash flow hedging instruments:						(134)
– outflow	6,184	9	1,354	8,565	16,112	
– inflow	(6,198)	(9)	(1,278)	(9,021)	(16,506)	
Other forward foreign exchange contracts:						–
– outflow	100	–	–	–	100	
– inflow	(101)	–	–	–	(101)	

(c) Interest rate risk

The Groups are exposed to interest rate risk on its interest-bearing assets and liabilities. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Groups' interest rate risk arises primarily from long-term external borrowings.

(i) Hedges of interest rate risk

The Groups' policy is to maintain a balanced combination of fixed and variable rate borrowings to reduce its interest rate risk exposure. The Groups also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the Groups' treasury policy.

The Groups classify cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(p). Foreign currency basis spread of cross currency swaps are excluded from the designation of the hedging instrument and are separately accounted for as a cost of hedging, which is recognised in equity in a cost of hedging reserve.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(i) Hedges of interest rate risk (continued)

The Groups seek to hedge the benchmark interest rate component only and apply a hedge ratio of 1:1. The existence of an economic relationship between the cross currency swaps/interest rate swaps and the fixed and variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the borrowings.

The hedge ineffectiveness in these hedging relationships can arise from:

– the effect of the counterparty and the Groups' own credit risk on the fair value of the swaps; and

– differences in repricing dates between the swaps and the borrowings.

(1) Cash flow hedges

The following tables provide information on cross currency swaps and interest rate swaps which have been designated as cash flow hedges of the interest rate risk inherent in the Groups' variable rate borrowings at the end of the reporting period and show the effectiveness of the hedging relationships:

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**17,772**	16,772
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**497**	499
– Derivative financial instruments under non-current liabilities	**(172)**	(155)
Changes in fair value used for calculating hedge ineffectiveness	**(9)**	(436)

	2018	2017
Maturity date	**Ranging from 2020 to 2027**	Ranging from 2020 to 2027
Weighted average fixed swap rates	**2.17%**	2.25%

	2018 $ million	2017 $ million
Hedged items		
Changes in fair value used for calculating hedge ineffectiveness	**9**	436
Hedge ineffectiveness recognised in profit or loss	**–**	–

(2) Fair value hedges

The following tables provide information on cross currency swaps which have been designated as fair value hedges of the interest rate risk inherent in the Groups' fixed rate borrowings at the end of the reporting period and show the effectiveness of the hedging relationships:

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**4,272**	4,272
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**63**	151
Changes in fair value used for calculating hedge ineffectiveness	**(88)**	(69)

	2018	2017
Maturity date	**2020**	2020
Weighted average variable swap rates	**2.56%**	1.77%

	2018 $ million	2017 $ million
Hedged items		
Carrying amount (including accumulated fair value hedge adjustments) recognised in the consolidated statement of financial position		
– Bank loans and other interest-bearing borrowings under non-current liabilities	**(4,327)**	(4,408)
Accumulated fair value hedge adjustments	**(63)**	(151)
Changes in fair value used for calculating hedge ineffectiveness	**88**	69
Hedge ineffectiveness recognised in profit or loss	**–**	–

For foreign currency borrowings included in the hedging relationships above, the foreign currency risk exposure has also been managed through cross currency swaps.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

29. 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).

	2018		2017	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	**–**	**–**	2.00	1,613
Bank loans and other borrowings	**3.03**	**(29,250)**	3.04	(28,953)
		(29,250)		(27,340)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**0.03**	**34**	0.03	46
Bank loans and other borrowings	**2.99**	**(12,715)**	1.89	(12,418)
Customers' deposits	**0.13**	**(2,195)**	–*	(2,130)
		(14,876)		(14,502)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2018, 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 $130 million (2017: $128 million). Other components of consolidated equity would have increased/decreased by approximately $562 million (2017: $610 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 2017.

(d) Currency risk

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

(i) Hedges of currency risk

The Groups' policy is to hedge 100% of their foreign currency borrowings and to hedge their estimated foreign currency exposures in respect of forecast purchases in accordance with their treasury policy. The Groups use forward foreign exchange contracts and cross currency swaps to manage currency risk and classify as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(p). The Groups designate the spot element of forward foreign exchange contracts to hedge the Groups' currency risk. The forward elements of forward exchange contracts are excluded from the designation of the hedging instrument and are separately accounted for as a cost of hedging, which is recognised in equity in a cost of hedging reserve. The Groups' policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The Groups apply a hedge ratio of 1:1 and determine the existence of an economic relationship between the forward exchange contracts and the committed and forecast transactions/foreign currency borrowings based on their currency amounts and the timing of their respective cash flows.

The hedge ineffectiveness in these hedging relationships can arise from:

– the effect of the counterparty's and the Groups' own credit risk on the fair value of the forward foreign exchange contracts; and

– changes in the timing of the hedged transactions.

(1) Cash flow hedges

The following tables provide information on the forward foreign exchange contracts that have been designated as cash flow hedges of the Groups' committed and forecast transactions and foreign currency borrowings at the end of the reporting period and show the effectiveness of the hedging relationships:

Committed and forecast transactions

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**16,077**	11,081
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**6**	66
– Trade and other receivables	**2**	7
– Derivative financial instruments under non-current liabilities	**(176)**	(29)
– Trade and other payables and contract liabilities	**(5)**	(3)
Changes in fair value used for calculating hedge ineffectiveness	**(8)**	42

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(i) Hedges of currency risk (continued)

(1) Cash flow hedges (continued)

Committed and forecast transactions (continued)

	2018 $ million	2017 $ million
Hedged items		
Changes in fair value used for calculating hedge ineffectiveness	**8**	(42)
Hedge ineffectiveness recognised in profit or loss	**–**	–

Foreign currency borrowings

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**5,301**	5,033
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**2**	93
– Derivative financial instruments under non-current liabilities	**(63)**	–
Changes in fair value used for calculating hedge ineffectiveness	**(11)**	12

	2018 $ million	2017 $ million
Hedged items		
Carrying amount recognised in the consolidated statement of financial position		
– Bank loans and other interest-bearing borrowings under non-current liabilities	**5,540**	5,301
Changes in fair value used for calculating hedge ineffectiveness	**11**	(12)
Hedge ineffectiveness recognised in profit or loss	**–**	–

The Groups' borrowings are either hedged into Hong Kong dollars by ways of forward foreign exchange contracts and cross currency swaps (see note 29(c)(i)) 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.

(2) Fair value hedges

The following tables provide information on forward foreign exchange contracts which have been designated as fair value hedges of the Groups' recognised assets and liabilities at the end of the reporting period and show the effectiveness of the hedging relationships:

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**62**	100
Carrying amount recognised in the consolidated statement of financial position		
– Trade and other payables and contract liabilities	**(1)**	–
Changes in fair value used for calculating hedge ineffectiveness	**(1)**	–

	2018 $ million	2017 $ million
Hedged items		
Carrying amount (including accumulated fair value hedge adjustments) recognised in the consolidated statement of financial position		
– Trade and other payables and contract liabilities	**62**	100
Accumulated fair value hedge adjustments	**1**	–
Changes in fair value used for calculating hedge ineffectiveness	**1**	–
Hedge ineffectiveness recognised in profit or loss	**–**	–

The following table provides information on the maturity profile and weighted average contract rates of outstanding forward foreign exchange contracts at the end of the reporting period:

	2018	2017
Maturity date	**Ranging from 2019 to 2032**	Ranging from 2018 to 2032
Weighted average contract rates		
USD: HKD	**7.5108**	7.5299
JPY: HKD	**0.0761**	0.0762
GBP: HKD	**10.8818**	10.2106
EUR: HKD	**9.3155**	–
JPY: USD	**108.1617**	111.3280

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(ii) Exposure to currency risk

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

	2018	
'million (expressed in original currencies)	**USD**	**JPY**
Bank deposits and cash	**–**	**2**
Trade and other payables and contract liabilities	**(102)**	**(252)**
Bank loans and other borrowings	**(2,211)**	**–**
Gross exposure arising from recognised assets and liabilities	**(2,313)**	**(250)**
Notional amounts of forward foreign exchange contracts designated as hedging instruments	**717**	**192**
Notional amounts of cross currency swaps designated as hedging instruments	**1,500**	**–**
Net exposure arising from recognised assets and liabilities	**(96)**	**(58)**

	2017	
'million (expressed in original currencies)	USD	JPY
Bank deposits and cash	149	1
Trade and other receivables	1	–
Trade and other payables and contract liabilities	(70)	(526)
Bank loans and other borrowings	(2,180)	–
Gross exposure arising from recognised assets and liabilities	(2,100)	(525)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	591	114
Notional amounts of cross currency swaps designated as hedging instruments	1,500	–
Net exposure arising from recognised assets and liabilities	(9)	(411)

(iii) Sensitivity analysis

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

	2018		2017	
$ 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	**–**	**86**	(2)	81

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 2017.

(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

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

(e) Fair value measurement (continued)

(i) Recurring fair value measurements

		Level 2	
	Note	**2018 $ million**	2017 $ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	29(a)	**63**	156
– Interest rate swaps	29(a)	**497**	494
– Forward foreign exchange contracts	29(a)	**10**	166
		570	816
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	29(a)	**172**	155
– Forward foreign exchange contracts	29(a)	**245**	32
Medium term notes subject to fair value hedges		**4,327**	4,408
		4,744	4,595

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

Trade and other receivables, trade and other payables and contract liabilities, and also external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2018 and 2017.

(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.

30. Capital commitments

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

	2018 **$ million**	2017 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**4,155**	4,740
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**20,717**	9,847

31. Contingent liabilities

At 31 December 2018, the Groups had no guarantee or indemnity to external parties (2017: Nil).

32. 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 $41 million (2017: $39 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 2018, the total outstanding balance receivable from Power Assets group was $4 million (2017: $4 million).

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

The related party transactions in respect of note 32(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.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

33. Statement of financial position of the Company

	Note	2018 $ million	2017 $ million
Non-current assets			
Investments in subsidiaries		**60,241**	60,045
Derivative financial instruments		**29**	25
		60,270	60,070
Current assets			
Trade and other receivables		**4**	2
Bank deposits and cash		**1**	1
		5	3
Current liabilities			
Trade and other payables		**(23)**	(14)
Net current liabilities		**(18)**	(11)
Total assets less current liabilities		**60,252**	60,059
Non-current liabilities			
Bank loans		**(8,670)**	(8,657)
Net assets		**51,582**	51,402
Capital and reserves	28(a)		
Share capital		**8**	8
Reserves		**51,574**	51,394
Total equity		**51,582**	51,402

Approved and authorised for issue by the Boards on 19 March 2019.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid Corporation of China and Qatar Investment Authority hold approximately 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2018 and are considered substantial holders of Share Stapled Units of the Trust Group.

35. 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 29 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 2018.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

36. Comparative figures

The Groups have initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated except for certain hedging requirements. Further details of the changes in accounting policies are disclosed in note 4.

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
• HKFRS 16, *Leases*	1 January 2019
• HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
• Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
• Amendments to HKAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
• Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Groups are in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the above 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. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Groups, and further impacts may be identified before the standard is initially applied in the Groups' interim financial report for the six months ending 30 June 2019. The Groups may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report. Further details are discussed below:

HKFRS 16, Leases

As disclosed in note 3(f), currently the Groups classify leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Groups enter into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Groups' accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Groups plan to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 if the effect is material and will not restate the comparative information. The Groups expect that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. In addition, the Groups plan to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

KPMG

INDEPENDENT AUDITOR'S REPORT

To the sole member of HK Electric Investments Manager Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of HK Electric Investments Manager Limited (the "Company") set out on pages 168 to 175, which comprise the statement of financial position as at 31 December 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The Directors of the Company (in its capacity as the trustee-manager of HK Electric Investments) and of HK Electric Investments Limited are responsible for the other information. The other information comprises all the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

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

19 March 2019

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

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**2018** **$**	2017 $
Revenue		**–**	–
Administrative expenses		**–**	–
Profit before taxation	4	**–**	–
Income tax	5	**–**	–
Profit and total comprehensive income for the year		**–**	–

The notes on pages 172 to 175 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018 $	2017 $
Current assets			
Amount due from immediate holding company	7	**1**	1
Net assets		**1**	1
Capital and reserves			
Share capital	8	**1**	1
Reserves		**–**	–
Total equity		**1**	1

Approved and authorised for issue by the Board of Directors on 19 March 2019.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 172 to 175 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Share capital $	Reserves $	Total $
Balance at 1 January 2017	1	–	1
Changes in equity for 2017:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2017 and 1 January 2018	**1**	**–**	**1**
Changes in equity for 2018:			
Profit and total comprehensive income for the year	**–**	**–**	**–**
Balance at 31 December 2018	**1**	**–**	**1**

The notes on pages 172 to 175 form part of these financial statements.

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	2018 **$**	2017 $
Operating activities		
Net cash generated from operating activities	**–**	–
Investing activities		
Net cash used in investing activities	**–**	–
Financing activities		
Net cash used in financing activities	**–**	–
Net change in cash and cash equivalents	**–**	–
Cash and cash equivalents at 1 January	**–**	–
Cash and cash equivalents at 31 December	**–**	–

The notes on pages 172 to 175 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

HK Electric Investments Manager Limited (the "Company") was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets, which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States. The address of the registered office and the principal place of business of the Company is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

The principal activity of the Company is administering HK Electric Investments (the "Trust"), in its capacity as trustee-manager of the Trust. The Trust was constituted as a trust on 1 January 2014 by a Hong Kong law governed Trust Deed entered into between the Company, as the trustee-manager of the Trust, and HK Electric Investments Limited.

The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

2. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation and presentation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

The Trust Deed requires the Company (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received in respect of the ordinary shares from HK Electric Investments Limited, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 13 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 120, no distributions statement is therefore presented in these financial statements.

(c) Cash flow statement

The Company did not have any cash flows during the current and prior years nor did it have any cash or cash equivalents at any point throughout the current and prior years.

(d) Related parties

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

(1) has control or joint control over the Company;

(2) has significant influence over the Company; or

(3) is a member of the key management personnel of the Company or the Company's parent.

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

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

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

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

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

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

(6) The entity is controlled or jointly controlled by a person identified in note 2(d)(i).

(7) A person identified in note 2(d)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the Company's parent.

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

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Changes in accounting policies

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

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

4. Profit before taxation

Auditor's remuneration of $56,000 (2017: $56,000) and all other expenses of the Company which were incurred for the administering of the Trust of $510,984 (2017: $501,769) for the year have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior years.

5. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements for the current and prior years as the Company did not have any assessable profits.

6. Directors' emoluments

No fees or other emoluments were paid or payable by the Company to the Directors for the current and prior years.

7. Amount due from immediate holding company

Amount due from immediate holding company is unsecured, interest-free and repayable on demand.

8. Share capital

	2018		2017	
	Number of shares	**$**	Number of shares	$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1**	**1**	1	1

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

9. Capital management

The primary objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the sole member and benefits for other stakeholders. As the Company is part of a larger group, the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The Company defines "capital" as including all components of equity. The Company actively and regularly reviews and manages its capital structure to support its future capital requirements and operations. The Company has a specific and limited role to administer the Trust. All its capital requirements are fully supported by the ultimate holding company.

The Company was not subject to externally imposed capital requirements during the current and prior years.

10. Immediate and ultimate controlling parties

At 31 December 2018, the Directors consider the immediate and ultimate holding companies of the Company to be Sure Grade Limited and Power Assets which are incorporated in the British Virgin Island and Hong Kong, respectively. Power Assets produces financial statements available for public use.

11. Financial risk management

The Company was not exposed to any significant credit, liquidity, interest rate and currency risks in the normal course of its business during the current and prior years.

12. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Company did not enter into material related party transactions.

13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements.

The Company is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

FIVE-YEAR FINANCIAL SUMMARY OF THE GROUPS

(Expressed in Hong Kong dollars)

Consolidated Statement of Profit or Loss

$ million	**2018**	2017	2016	2015	2014
Revenue	**11,612**	11,693	11,420	11,210	10,504
Operating profit	**5,086**	5,280	5,172	5,288	5,027
Finance costs	**(967)**	(848)	(991)	(1,025)	(938)
Profit before taxation	**4,119**	4,432	4,181	4,263	4,089
Income tax	**(759)**	(794)	(757)	(750)	(709)
Profit after taxation	**3,360**	3,638	3,424	3,513	3,380
Scheme of Control transfers	**(309)**	(297)	175	78	(179)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	**3,051**	3,341	3,599	3,591	3,201

Consolidated Statement of Financial Position

$ million	**2018**	2017	2016	2015	2014
Property, plant and equipment and interests in leasehold land	**71,059**	70,502	70,713	70,993	71,467
Goodwill	**33,623**	33,623	33,623	33,623	33,623
Other non-current assets	**1,161**	1,457	1,488	900	1,023
Net current (liabilities)/assets	**(1,828)**	(1,900)	(4,983)	2,070	2,840
Total assets less current liabilities	**104,015**	103,682	100,841	107,586	108,953
Non-current liabilities	**(54,624)**	(53,625)	(50,897)	(58,359)	(59,469)
Scheme of Control Fund and Reserve	**(648)**	(335)	(39)	(215)	(293)
Net assets	**48,743**	49,722	49,905	49,012	49,191
Share Capital	**8**	8	8	8	8
Reserves	**48,735**	49,714	49,897	49,004	49,183
Total equity	**48,743**	49,722	49,905	49,012	49,191

Note:

1. The Share Stapled Units were jointly issued by the Trust and the Company and were listed on the Stock Exchange on 29 January 2014. On the same day, the Company's subsidiary, Treasure Business Limited, completed the acquisition of the entire issued share capital of HK Electric.

THE HONGKONG ELECTRIC COMPANY, LIMITED TEN-YEAR SCHEME OF CONTROL STATEMENT

(a) Scheme of Control

The activities of HK Electric are subject to a Scheme of Control Agreement ("SoCA") agreed with the Government. The 2009-2018 SoCA was effective from 1 January 2009 and expired on 31 December 2018. In April 2017, the Government, HK Electric and HK Electric Investments Limited entered into a new SoCA for a term of 15 years from 1 January 2019 to 31 December 2033.

The 2009-2018 SoCA provides for HK Electric to earn a Permitted Return of 9.99% of average net fixed assets other than for renewable energy fixed assets for which the Permitted Return is 11%. The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SoCA. No excess capacity adjustment was made in 2018 and 2017. Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the Scheme of Control net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 8% per annum, is added to, and a tax adjustment is made against, net revenue after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

(b) Ten-Year Scheme of Control Statement for the year ended 31 December

HK$ million	**2018**	2017	2016	2015	2014	2013	2012	2011	2010	2009
Sales of electricity	**11,541**	11,621	11,373	11,165	11,165	10,176	10,364	10,140	10,338	10,331
Transfer from Fuel Clause Recovery Account	**2,696**	1,904	1,206	1,861	2,994	3,510	3,867	3,755	2,794	2,329
Other Scheme of Control revenue	**115**	93	79	74	63	67	74	100	62	63
Gross tariff revenue	**14,352**	13,618	12,658	13,100	14,222	13,753	14,305	13,995	13,194	12,723
Fuel costs	**(4,530)**	(3,785)	(3,105)	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)	(4,570)	(4,104)
Operating costs	**(1,656)**	(1,592)	(1,460)	(1,277)	(1,143)	(995)	(1,040)	(1,040)	(1,097)	(1,158)
Interest	**(779)**	(719)	(811)	(838)	(789)	(285)	(264)	(248)	(112)	(91)
Depreciation and amortisation	**(2,355)**	(2,210)	(2,127)	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)	(1,793)	(1,623)
Net revenue before taxation	**5,032**	5,312	5,155	5,234	5,484	5,220	5,409	5,333	5,622	5,747
Scheme of Control taxation	**(557)**	(698)	(1,209)	(1,140)	(1,009)	(988)	(856)	(794)	(930)	(1,025)
Net revenue after taxation	**4,475**	4,614	3,946	4,094	4,475	4,232	4,553	4,539	4,692	4,722
Interest on borrowed capital	**983**	873	821	729	690	288	271	239	118	103
Scheme of Control net revenue	**5,458**	5,487	4,767	4,823	5,165	4,520	4,824	4,778	4,810	4,825
Transfer from/(to) Tariff Stabilisation Fund	**(303)**	(291)	181	84	(249)	389	72	46	(58)	(174)
Permitted return	**5,155**	5,196	4,948	4,907	4,916	4,909	4,896	4,824	4,752	4,651
Interest on borrowed capital	**(983)**	(873)	(821)	(729)	(690)	(288)	(271)	(239)	(118)	(103)
Transfer to Smart Power Fund	**-**	(5)	(5)	(5)	(10)	–	–	–	–	–
Transfer to Rate Reduction Reserve	**(6)**	(1)	(1)	(1)	–	(1)	(1)	(1)	(1)	–
Net return	**4,166**	4,317	4,121	4,172	4,216	4,620	4,624	4,584	4,633	4,548

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

At 31 December

HK$ million	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Non-current assets										
Property, plant and equipment and interests in leasehold land	**51,753**	50,494	49,971	49,482	49,198	49,137	49,345	48,848	47,976	47,523
Employee retirement benefit scheme assets	**593**	648	454	580	668	615	216	271	796	456
Derivative financial instruments	**539**	784	1,034	314	352	241	646	433	21	31
	52,885	51,926	51,459	50,376	50,218	49,993	50,207	49,552	48,793	48,010
Current assets										
Coal, fuel oil and natural gas	**675**	671	624	525	572	592	763	780	433	629
Stores and materials	**314**	340	361	357	361	356	351	335	314	301
Trade and other receivables	**1,024**	1,065	1,218	1,155	1,129	1,104	1,183	1,078	1,118	1,035
Fuel Clause Recovery Account	**-**	–	–	–	–	1	820	1,035	569	551
Bank deposits and cash	**33**	1,658	310	6,155	4,629	1,060	8	24	9	92
	2,046	3,734	2,513	8,192	6,691	3,113	3,125	3,252	2,443	2,608
Current liabilities										
Bank loans and other borrowings	**(440)**	–	(335)	(900)	(520)	(503)	(5,317)	(617)	(52)	–
Fuel Clause Recovery Account	**(855)**	(2,771)	(4,088)	(2,283)	(631)	–	–	–	–	–
Trade and other payables and contract liabilities	**(6,607)**	(6,626)	(6,263)	(5,519)	(4,740)	(2,081)	(2,305)	(2,565)	(1,577)	(1,487)
Current taxation	**(137)**	(214)	(351)	(360)	(219)	(340)	(330)	(218)	(157)	(236)
	(8,039)	(9,611)	(11,037)	(9,062)	(6,110)	(2,924)	(7,952)	(3,400)	(1,786)	(1,723)
Net current assets/(liabilities)	**(5,993)**	(5,877)	(8,524)	(870)	581	189	(4,827)	(148)	657	885
Total assets less current liabilities	**46,892**	46,049	42,935	49,506	50,799	50,182	45,380	49,404	49,450	48,895
Non-current liabilities										
Bank loans and other borrowings	**(32,855)**	(32,714)	(30,700)	(37,646)	(38,703)	(29,574)	(21,893)	(26,691)	(25,727)	(24,909)
Derivative financial instruments	**(411)**	(184)	(73)	(168)	(63)	–	–	(10)	(132)	(15)
Customers' deposits	**(2,195)**	(2,130)	(2,057)	(2,001)	(1,937)	(1,900)	(1,839)	(1,801)	(1,747)	(1,676)
Deferred tax liabilities	**(6,168)**	(5,848)	(5,595)	(5,698)	(5,927)	(5,955)	(5,912)	(5,883)	(5,763)	(5,622)
Employee retirement benefit scheme liabilities	**(393)**	(288)	(406)	(587)	(499)	(443)	(821)	(827)	(587)	(722)
Provisions	**(747)**	(503)	–	–	–	–	–	–	–	–
	(42,769)	(41,667)	(38,831)	(46,100)	(47,129)	(37,872)	(30,465)	(35,212)	(33,956)	(32,944)
Tariff Stabilisation Fund (note 1)	**(620)**	(316)	(24)	(204)	(288)	(36)	(425)	(497)	(543)	(485)
Rate Reduction Reserve (note 2)	**(6)**	(1)	(1)	(1)	–	(3)	(2)	(1)	(4)	(14)
Smart Power Fund (note 3)	**(22)**	(18)	(14)	(10)	(5)	–	–	–	–	–
Net assets	**3,475**	4,047	4,065	3,191	3,377	12,271	14,488	13,694	14,947	15,452
Capital and reserves										
Share capital	**2,411**	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Reserves	**1,125**	1,326	1,057	921	1,002	1,000	–	4	–	6
Hedging reserves	**(61)**	310	597	(141)	(36)	15	3	(4)	8	(6)
Proposed dividend	**–**	–	–	–	–	–	3,229	2,438	3,683	4,196
	3,475	4,047	4,065	3,191	3,377	3,426	5,643	4,849	6,102	6,607
Loan capital	**–**	–	–	–	–	8,845	8,845	8,845	8,845	8,845
Total equity	**3,475**	4,047	4,065	3,191	3,377	12,271	14,488	13,694	14,947	15,452

Notes:

1. The Tariff Stabilisation Fund is not part of shareholders' funds.
2. The purpose of this reserve is to reduce, by means of rebates, electricity tariffs to customers. Pursuant to 2013 mid-term review of Scheme of Control, the year-end balance of the reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.
3. Pursuant to 2013 mid-term review of 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 of non-commercial buildings.

THE HONGKONG ELECTRIC COMPANY, LIMITED TEN-YEAR OPERATING STATISTICS

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Units sold (millions of kWh)										
Commercial	**7,766**	7,824	7,893	8,012	8,015	8,011	8,164	8,081	8,124	8,084
Residential	**2,466**	2,485	2,584	2,541	2,610	2,437	2,541	2,482	2,472	2,495
Industrial	**305**	306	315	326	330	325	331	334	337	342
Total (millions of kWh)	**10,537**	10,615	10,792	10,879	10,955	10,773	11,036	10,897	10,933	10,921
Annual (decrease)/increase (%)	**(0.7)**	(1.6)	(0.8)	(0.7)	1.7	(2.4)	1.3	(0.3)	0.1	0.5
Average Net Tariff per Tariff Review (HK cents per kWh)										
Basic Tariff	**109.1**	108.9	105.5	102.6	101.8	94.7	94.1	93.1	94.5	94.5
Special Rent & Rates Rebate	**(4.0)**	(4.0)	–	–	–	–	–	–	–	–
Net Basic Tariff	**105.1**	104.9	105.5	102.6	101.8	94.7	94.1	93.1	94.5	94.5
Fuel Clause Charge	**23.4**	23.4	27.9	32.3	33.1	40.2	37.0	30.2	25.4	25.4
Special Fuel Rebate	**(16.0)**	(17.9)	–	–	–	–	–	–	–	–
Net Tariff (HK cents per kWh)	**112.5**	110.4	133.4	134.9	134.9	134.9	131.1	123.3	119.9	119.9
Number of customers (000's)	**579**	577	575	572	570	569	567	567	566	564
Installed capacity (MW)										
Gas turbines and standby units	**555**	555	555	555	555	555	555	555	555	555
Coal-fired units	**2,000**	2,250	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined cycle units	**680**	680	680	680	680	680	680	680	680	680
Wind turbine and photovoltaic system (note 1)	**2**	2	2	2	2	2	2	1	1	1
Total (MW)	**3,237**	3,487	3,737	3,737	3,737	3,737	3,737	3,736	3,736	3,736
System maximum demand (MW)	**2,376**	2,513	2,428	2,427	2,460	2,453	2,494	2,498	2,510	2,537
Annual (decrease)/increase (%)	**(5.5)**	3.5	0.0	(1.3)	0.3	(1.6)	(0.2)	(0.5)	(1.1)	(2.0)
Annual load factor (%)	**56.8**	54.0	56.7	57.3	56.9	56.1	56.6	55.9	55.8	55.4
Thermal efficiency (%)	**35.6**	35.9	35.9	36.2	36.1	36.3	36.0	36.2	36.2	36.2
Plant availability (%)	**90.7**	87.1	85.6	85.5	88.4	85.7	84.6	84.4	85.6	83.4
Number of switching stations	**24**	24	24	24	24	24	25	25	25	24
Number of zone substations	**27**	27	27	27	27	27	27	27	27	26
Number of customer substations	**3,912**	3,889	3,848	3,818	3,793	3,776	3,755	3,741	3,710	3,667
Number of employees	**1,763**	1,776	1,790	1,801	1,814	1,826	1,820	1,848	1,851	1,862
Capital expenditure (HK$ million) (note 2)	**3,695**	2,929	2,799	2,516	2,252	1,973	2,613	2,887	2,427	2,751

Note:
1. The 800-kW wind turbine was commissioned in 2005; the 550-kW thin film photovoltaic system was commissioned in 2010 and was expanded to 1-MW in March 2013.
2. These are capital expenditures solely for electricity-related property, plant and equipment.

CORPORATE INFORMATION

HK Electric Investments Manager Limited (港燈電力投資管理人有限公司)

(Incorporated in Hong Kong with limited liability, the trustee-manager of HK Electric Investments)

and

HK Electric Investments Limited (港燈電力投資有限公司)

(Incorporated in the Cayman Islands with limited liability)

Board of Directors

Executive Directors

FOK Kin Ning, Canning *(Chairman)*
(WOO Mo Fong, Susan (alias CHOW WOO Mo Fong, Susan) as his alternate)
WAN Chi Tin *(Chief Executive Officer)*
CHAN Loi Shun
CHEN Daobiao
CHENG Cho Ying, Francis

Non-executive Directors

LI Tzar Kuoi, Victor *(Deputy Chairman)*
(Frank John SIXT as his alternate)
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DUAN Guangming
(appointed on 26 February 2019)
JIANG Xiaojun
(resigned on 26 February 2019)
Deven Arvind KARNIK
ZHU Guangchao

Independent Non-executive Directors

FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Trustee-Manager Audit Committee

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

Company Audit Committee

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

Remuneration Committee

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

Nomination Committee

FOK Kin Ning, Canning *(Chairman)*
WAN Chi Tin
CHAN Loi Shun
CHEN Daobiao
CHENG Cho Ying, Francis
LI Tzar Kuoi, Victor
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DUAN Guangming
(appointed on 26 February 2019)
JIANG Xiaojun
(ceased on 26 February 2019)
Deven Arvind KARNIK
ZHU Guangchao
FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Company Secretary

Alex NG

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Mizuho Bank, Ltd.
MUFG Bank, Ltd.

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Email: mail@hkei.hk

Share Stapled Units Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

Principal Share Registrar

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

ADR (Level 1 Programme) Depositary

Deutsche Bank Trust Company Americas
60 Wall Street, New York, NY 10005
Website: www.adr.db.com
Email: adr@db.com

Investor Relations

For institutional investors, please contact:
CHAN Loi Shun *(Executive Director)* or
WONG Kim Man *(Chief Financial Officer)*

For other investors, please contact:
Alex NG *(Company Secretary)*

Email: mail@hkei.hk
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Postal Address: G.P.O. Box 915, Hong Kong
Address: 44 Kennedy Road, Hong Kong

FINANCIAL CALENDAR AND SHARE STAPLED UNIT INFORMATION

Financial Calendar

Interim Results Announcement	24 July 2018
Annual Results Announcement	19 March 2019
Ex-distribution Date	2 April 2019
Record Date for Final Distribution	3 April 2019
Annual Report Despatch Date	On or before 4 April 2019
Distribution per Share Stapled Unit	
Interim : HK19.92 cents	17 August 2018
Final : HK20.12 cents	15 April 2019
Closure of Registers	9 May 2019 to 15 May 2019
– Annual General Meeting	(both days inclusive)
Annual General Meeting	15 May 2019

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2018	HK$69,806 million
Share Stapled Unit to American Depositary Share Ratio	10:1

Stock Codes

The Stock Exchange of Hong Kong Limited	2638
Bloomberg	2638 HK
Thomson Reuters	2638.HK
ADR Ticker Symbol	HKVTY
CUSIP Number	40422B101

GLOSSARY

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Annual General Meeting"	The annual general meeting of unitholders of the Trust and shareholders of the Company, as convened by the Trustee-Manager and the Company held on a combined basis as a single meeting characterised as the annual general meeting of Holders of Share Stapled Units
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"CK Hutchison"	CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1)
"CKI"	CK Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"Company"	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
"Company Audit Committee"	Audit committee of the Company
"Company Board"	Board of directors of the Company
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Government"	HKSAR Government
"Group"	The Company and its subsidiaries
"HK Electric"	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"HKASs"	Hong Kong Accounting Standards
"HKEI"	The Trust and the Company
"HKEX"	Hong Kong Exchanges and Clearing Limited
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI

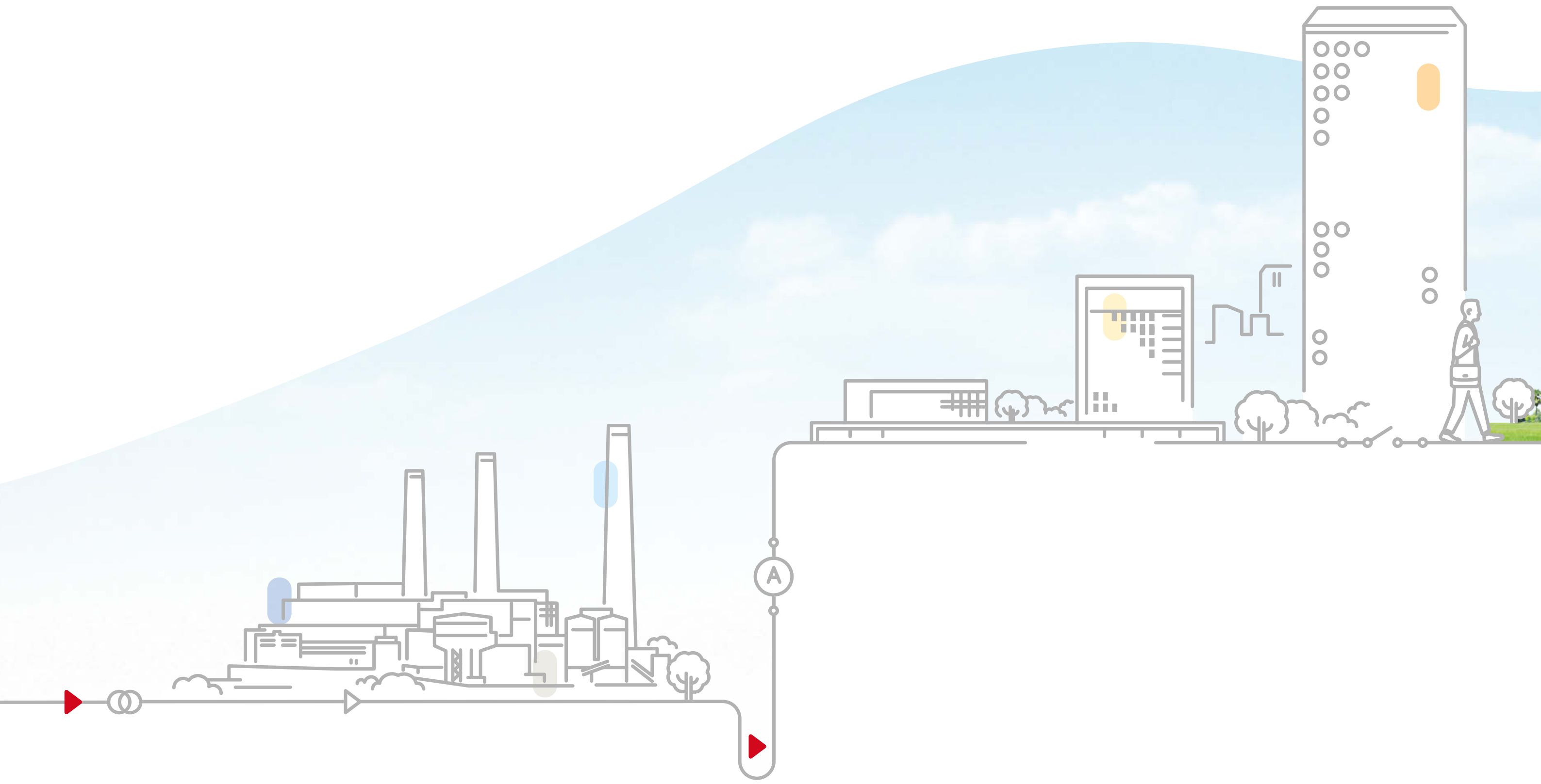
GLOSSARY

Term(s)	Definition
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
"Registers"	The Share Stapled Units Register, the Units Register, the Principal and Hong Kong Branch Registers of Members and the Register of Beneficial Interests
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Stapled Unit(s)" or "SSU(s)"	Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
"Share Stapled Units Register"	The register of registered Holders of Share Stapled Units
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trust"	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
"Trust Deed"	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
"Trust Group"	The Trust and the Group
"Trustee-Manager"	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
"Trustee-Manager Audit Committee"	Audit committee of the Trustee-Manager
"Trustee-Manager Board"	Board of directors of the Trustee-Manager

This Annual Report has been printed in both the English and Chinese languages. If Holders of Share Stapled Units who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.hkei.hk. If, for any reason, Holders of Share Stapled Units who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Annual Report, they may request that a printed copy of this Annual Report be sent to them free of charge by mail.

Holders of Share Stapled Units may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at 44 Kennedy Road, Hong Kong or to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@hkei.hk.



港燈電力投資
HK Electric Investments