Financials

We aim to provide our stakeholders with a comprehensive, clear and concise view of our financial position and performance.

Contents

Approaching Our Financial Statements

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

01 Accounting Mini-series

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

Read our previous accounting mini-series

02 Essential Financial Statements

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

Statement of Financial Position	Statement of Profit or Loss and Other Comprehensive Income	Statement of Cash Flows
A snapshot taken at a point in time, of all the assets the company owns and all the claims against those assets	Financial performance measured by recording the flow of resources over a period of time	Where the company gets its cash and how it spends it
Assets / Liabilities + Equity	Income / Expenses	Cash Inflow / Cash Outflow

03 Significant Accounting Policies

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

Look for flipping boxes

04 Critical Accounting Estimates and Judgements

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

Look for light blue boxes

05 Tips & Hints

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

Look for arrow boxes

New Lease Accounting

Have you noticed something new on our balance sheet? A new item named **right-of-use assets** joined our financial statements for the first time. This is a product of the new lease accounting standard, HKFRS 16, which introduces a new lease definition, resulting in significant changes in the way lessees recognise both the leased assets and the associated liabilities on the financial statements. For lessors, accounting largely remains the same. Let's dive into the details to understand the main impact of this new standard.

> *"Effective on 1 January 2019, the old lease accounting standard HKAS 17 has been replaced by the new standard HKFRS 16 which brings a new era to lease accounting, including a new lease definition and changes to the lessee accounting model."*

Lessor or lessee?

Before going into the detail of the new lease accounting standard, let's refresh the meaning of lessor and lessee. A lessor is the party who owns the asset and rents it out. A lessee is the party who rents the asset from the lessor. It is important to understand the identity of each party as the new lease accounting standard brings an unequal impact to lessors and lessees. While it makes radical changes to the current lessee accounting model, it retains the operating and finance lease models for lessors.

The new standard also includes an updated definition of lease. Under the new definition, contracts previously identified as leases may be scoped out and vice versa for both lessors and lessees.

Impact on lessors and lessees

	Lessors	Lessees
New lease definition	• Contracts may change their existing lease classifications under the new definition	
Lease accounting model	• No impact • Retain the current operating and finance lessor accounting models	• Fundamental changes • Adopt a single lessee accounting model • All lessees are required to reflect a right-of-use asset and a lease liability on their balance sheets

When is CLP a lessor or a lessee?

Usually, people may think of a lessee as a tenant or renter, while the lessor is the landlord or owner. Obviously, CLP is a lessee when renting land and buildings for its daily operations, however, could CLP be a lessor in its electricity generation business?

With the capital-intensive nature of the power industry, CLP usually enters into Power Purchase Agreements (PPA) to ensure offtakers purchase substantially all the output produced by power plants. According to the new lease definition, for these PPAs, CLP may act as a lessor that owns the power plants and "rent" them out to the offtakers. Jhajjar's PPA is one example of CLP acting as an operating lessor.

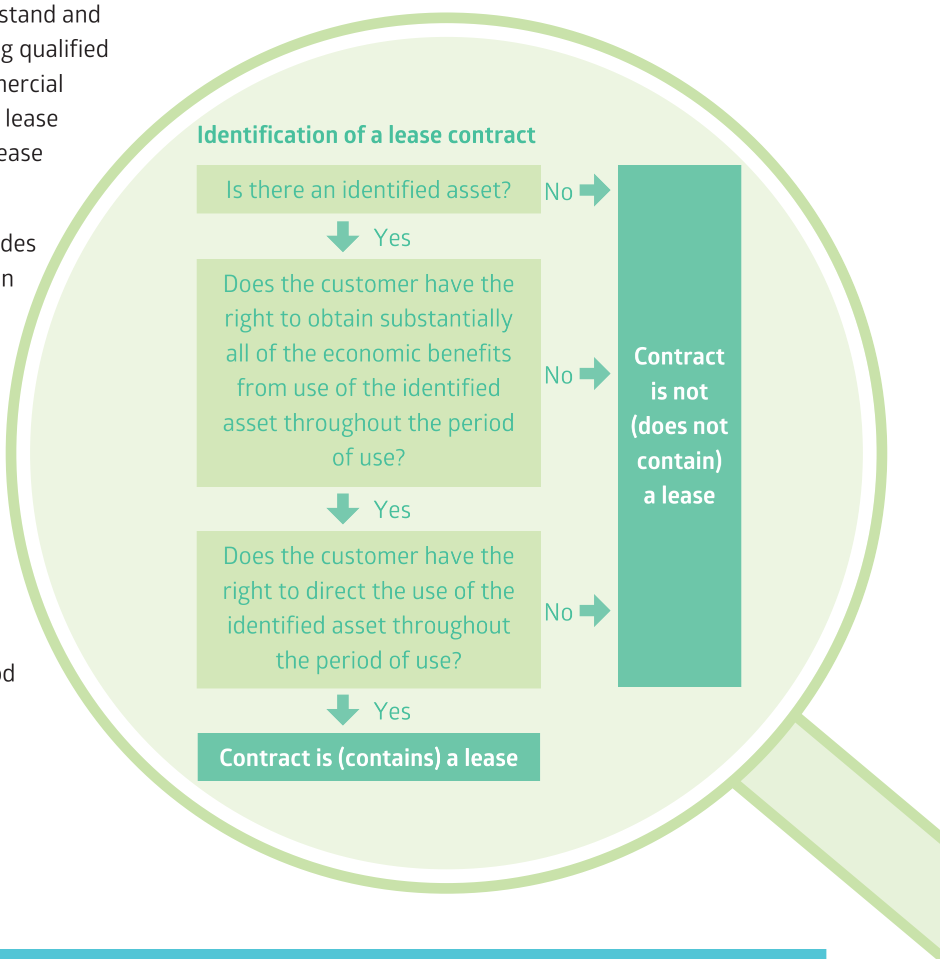
New lease definition

In the past, the process to identify a lease contract (HK(IFRIC) - Interpretation 4) was hard to understand and complicated to apply, resulting in contracts being qualified as leases without properly reflecting their commercial substance. The new standard presents a clearer lease definition, which plays a key role in identifying lease contracts.

A lease is now defined as a contract which provides a customer with the right to control the use of an asset. This definition is further substantiated if:

- there is an identified asset; and
- the contract conveys the right to control the use of the identified asset for a period of time in exchange for a consideration.

When assessing whether the customer has the right to direct the use of the identified asset, the party (the customer or the supplier) who has the right to direct how and for what purpose the identified asset will be used throughout the period of use, is the key to reach a conclusion.



New lease definition – impact on CLP

It is usual for CLP to enter into offtake contracts whereby the customer purchases substantially all the output produced by a power plant ('economic' element). Under the old guidance, if the price per unit of output was neither fixed nor equal to the market price ('price' element), the contract would be classified as a lease.

The lease definition has now changed to focus on who can control the use of the underlying asset during the period of use. The customer must also have the right to direct the use of the asset ('power' element), that is the right to change what type, when, where and how much of the output is produced.

Following the change in definition, when assessing whether an offtake contract is a lease we now put greater focus on the power element, to assess who (CLP or the customer) has the right to decide the amount (how much) of power supply, and the timing (when) of generation and dispatch of that supply.

Elements to consider in lease identification		Old definition	New definition
Economic element	Does the customer obtain substantially all the benefits from the use of the asset	Consider	Consider
Price element	Whether the price per unit of output is neither fixed nor equal to the current market price	Consider	Removed
Power element	Who has the right to direct how and for what purpose the identified asset is used	Not consider	Consider

This year, CLP adopted the new definition for the first time. We have assessed the existing offtake contracts based on the economic and power elements mentioned above with no change of lease classification noted. Details about the first-time adoption of the HKFRS 16 are set out in Note 3 to the Significant Accounting Policies of the Financial Statements.

New lessee accounting model

Other than presenting a new lease definition, another change is the introduction of a single accounting model for the lessees.

Why the need for a change?

In the past, lessees distinguished between finance leases (on balance sheet) and operating leases (off balance sheet) based on the extent that risks and rewards were transferred to the lessee. A finance lease was like buying an asset financed by debt. Over the lease term, the lessee would recognise depreciation on the asset and interest expenses on the liability. In contrast, operating leases were effectively rental agreements, where no asset or liability were recognised on the balance sheet of the lessee, and periodic lease payments were booked as rental expenses.

Before the introduction of HKFRS 16, credit rating agencies used to adjust financial statements in order to "recognise" operating leases on the balance sheet of the lessee, simulating the purchase of the asset via debt issuance. The balance sheet was adjusted to increase debt and fixed assets in line with the value of the lease commitment. With the intention to increase transparency and comparability, and provide a more accurate view of a company's contractual liabilities, this new single lessee accounting model is now introduced to supersede the old operating and finance lessee models.

What are the changes?

In essence, a lease is an acquisition of a right to use an underlying asset (right-of-use asset) with the purchase price to be paid in instalments (lease liability). Therefore, under the new accounting model, a lessee is required to record these right-of-use asset and lease liability on its balance sheet. How are these new balance sheet items measured?

> *"Previously unrecorded leased assets and liabilities are now recognised."*

Right-of-use asset

The right-of-use asset is valued by reference to the consideration to be paid by the lessee. At initial recognition, the value of the right to use an underlying asset equals the lease liability, adjusted for any prepayments, lease incentives or other direct costs for the lease. If there are no such prepayments, incentives or other costs, the right-of-use asset and lease liability are equal.

Lease liability

At the commencement day, the value of the lease liability is the present value of the future lease payments. The discount rate is either an implicit rate given in the lease, or the lessee's incremental borrowing rate, if no rate is included in the lease. Payments that vary according to future indices or rates are calculated at the current index or rate. Payments depending on other factors, such as those linked with lessee's performance, are not included in the lease liability.

What are the impacts?

The overall effects to balance sheet, profit and loss and cash flows brought by the new lessee accounting are illustrated in the diagram below.

Lessee Accounting

Balance Sheet	Right-of-use asset	Lease liability
Income Statement	Depreciation expense on straight line basis	Interest expense at effective interest rate
Cash Flow Statement	N/A	Cash paid for principal and interest

The capitalisation of right-of-use assets and lease liabilities may have a significant impact on the financial ratios of a lessee. Total assets and total liabilities, net income, and key financial ratios, such as debt to equity, debt to assets, return on asset, and return on equity will be affected.

Lessee accounting model – impact on CLP

Lease contracts where CLP is the lessee are mainly on land and buildings. In the past, outstanding lease payments were not recognised on the balance sheet but disclosed as operating lease commitment. On the adoption of the new single lessee accounting model, CLP recognised its previous operating leases on the balance sheet as right-of-use assets together with an equal amount of lease liabilities. However, due to the nature of CLP's business, the amount involved is relatively insignificant. Accordingly, impacts on the financial ratios of CLP are also immaterial. Detailed information can be found in Note 3 to the Financial Statements.

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To the Members of CLP Holdings Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of CLP Holdings Limited (the "Company") and its subsidiaries (the "Group") ("the Group Financial Statements") set out on pages 220 to 294, which comprise:

- the Consolidated Statement of Financial Position as at 31 December 2019;
- the Consolidated Statement of Profit or Loss for the year then ended;
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended; and
- the Significant Accounting Policies, Notes to the Financial Statements and Financial Risk Management.

Our opinion

In our opinion, the Group Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Group Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

- Unbilled retail revenue;
- Valuation of EnergyAustralia's energy retail business;
- Fixed asset accounting and the calculation of the Scheme of Control permitted return;
- Recoverability of trade receivables;
- Asset retirement obligations (AROs); and
- Legal matters.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Unbilled retail revenue Refer to note 3 to the Group Financial Statements Retail electricity and gas revenues are recognised when electricity and gas are supplied to and consumed by the customers. Revenues are measured on the basis of periodic cycle meter readings and include an estimated accrual for the value of electricity and gas consumed from the meter reading date to the end of the reporting period (unbilled revenue). Unbilled retail revenue of the Group totalled HK$3,459 million at 31 December 2019. In CLP Power Hong Kong Limited (CLP Power Hong Kong), unbilled retail revenue is calculated using estimates including consumption quantity based on the electricity sent-out adjusted by a loss factor, pattern of residential and non-residential consumption, weather and certain other factors. In EnergyAustralia Holdings Limited (EnergyAustralia) the amount is calculated based on the electricity purchased and applicable tariffs for the mass market customer segment, as well as actual meter readings and contracted rates for commercial and industrial customers. The amount is adjusted for physical energy loss and other measurable factors. This is a Key Audit Matter because the calculation of unbilled retail revenue involves a high degree of estimation.	Our procedures in relation to unbilled retail revenue included: ▪ Obtaining an understanding of and testing the key controls in place to determine the estimate of unbilled retail revenue for both CLP Power Hong Kong and EnergyAustralia; ▪ Testing the volume of electricity sent-out by CLP Power Hong Kong to supporting information; ▪ Testing the volume of electricity purchased by EnergyAustralia from the wholesale electricity market to the underlying Australian Energy Market Operator invoices on a sample basis and reconciling the total purchase volumes to revenue volumes; and ▪ Understanding the estimates made relating to volumes, loss factors and tariffs used in determining the level of unbilled retail revenue for both CLP Power Hong Kong and EnergyAustralia and where relevant assessing their reasonableness by comparing them against historical trends and against the weighted average tariff for prices. Based on the work performed, we found that the Group's unbilled retail revenue amount is supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Valuation of EnergyAustralia's energy retail business Refer to notes 4 and 13 to the Group Financial Statements During the first half of 2019, the Default Market Offer and the Victorian Default Offer (collectively, the "default offers") were released in Australia which took effect from 1 July 2019. The default offers serve as a price cap for electricity for those previously paying the highest prices on contracts known as "standing offers". The default offers impact EnergyAustralia's gross margin by stipulating a new, lower standing offer. At 30 June 2019 EnergyAustralia performed an assessment of the recoverable amount of its energy retail business. The recoverable amount did not support the carrying value of the energy retail business as at 30 June 2019. As a result the Group has recognised an impairment on the energy retail goodwill of HK$6,381 million (A$1,176 million). The recoverable amount of the energy retail business was reassessed at 31 December 2019 and was determined to be HK$10,930 million (A$2,006 million), using the same value in use methodology as 30 June 2019 with updated assumptions. There was minimal headroom above the carrying value at 31 December 2019. This is a Key Audit Matter because inputs to the value in use models require significant management judgement in particular in determining the assumptions for annual retail tariffs, customer account growth rate and discount rate. Changes in these key assumptions would have a direct impact on the valuation.	Our procedures in relation to management's assessment of the carrying value of EnergyAustralia's retail business at 30 June 2019 and 31 December 2019 and the impairment charge recorded during the year included: ▪ Assessing the appropriateness of the valuation methodology in the calculation of the recoverable amount of the energy retail business; ▪ Reconciling input data to supporting evidence, such as approved business plans; ▪ Considering the accuracy of the prior year forecasts against past results; ▪ Challenging the reasonableness of the key assumptions based on our knowledge of the business and the industry; ▪ Assessing the discount rates used with the involvement of our in-house valuation experts; ▪ Verifying the integrity of formulae and mathematical accuracy of management's valuation models; ▪ Testing the mathematical accuracy of the calculation of the impairment charge recognised in the profit and loss; ▪ Assessing the potential impact of reasonably possible downside changes in the key assumptions including possible future regulatory policy changes; and ▪ Reviewing the appropriateness of the Group's disclosures. Based on the work performed, we found the impairment charge recorded during the year and the 31 December 2019 carrying value of the EnergyAustralia energy retail business are supported by the available evidence and the key assumptions have been appropriately disclosed in note 13 to the Group Financial Statements.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Fixed asset accounting and the calculation of the Scheme of Control permitted return Refer to notes 10 and 11 to the Group Financial Statements Consolidated fixed assets and right-of-use assets were HK$150 billion at 31 December 2019. This includes fixed assets and leasehold land relating to CLP Power Hong Kong and Castle Peak Power Company Limited (CAPCO) (together the SoC Companies) (SoC fixed assets) which are the base used in the calculation of the permitted return under the Scheme of Control (SoC) Agreement. The annual permitted return is 8% of the SoC Companies' average net fixed assets. If the gross tariff revenue in a period is less than or exceeds the total of the SoC operating costs, permitted return and taxation charges, such deficiency shall be deducted from, or such excess shall be added to, the Tariff Stabilisation Fund (TSF). In any period, the amount of deduction from or addition to the TSF is recognised as a revenue adjustment to the extent that the return and charges under the SoC are recognised in profit or loss. This is a Key Audit Matter because of the significance of the balance and its importance to the SoC Companies. The accuracy of SoC fixed asset additions, disposals and depreciation charges is important to ensure the SoC fixed asset balance is appropriate and the permitted return is calculated correctly.	Our procedures in relation to the Group's SoC fixed assets and the calculation of the SoC permitted return included: ▪ Assessing the control environment and testing controls over additions, disposals and depreciation charges; ▪ Testing the fixed asset additions in the year to supporting evidence on a sample basis and assessing whether the items have been appropriately capitalised; ▪ Assessing the estimated useful lives of the SoC fixed assets for compliance with the SoC; ▪ Testing depreciation charges by performing depreciation reasonableness tests for individual assets, on a sample basis; ▪ Obtaining management's reconciliation of fixed assets from the opening balance at the beginning of the year to the closing balance at the end of the year and reconciling this to the general ledger and supporting records; ▪ Recalculating the SoC permitted return for the year; and ▪ Recalculating the SoC adjustment to revenue for the year. Based on the work performed, we found that the Group's SoC fixed asset accounting and the SoC permitted return calculation are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Recoverability of trade receivables Refer to note 19 to the Group Financial Statements CLP Power Hong Kong and EnergyAustralia have significant retail businesses with many individual customers. The offtakers for the Group's other generation businesses are mainly a small number of state grid operators. Provisions are made for expected credit losses when the Group will not collect all amounts due. Expected credit losses in CLP Power Hong Kong are close to zero as the trade receivables are mostly secured by cash deposits or bank guarantees from customers and have no recent history of default. EnergyAustralia has trade receivables of HK$6,126 million at 31 December 2019 against which provisions for expected credit losses of HK$715 million are held. Management estimated the level of expected losses, by assessing future cash flows for each group of trade receivables including a probability weighted amount determined by evaluating a range of possible outcomes based on twelve month rolling historical credit loss experience by customer segment, geographical region, tenure and type of customer and applying them to the receivables held at year end. The impact of economic factors, both current and future, is considered in assessing the likelihood of recovery from customers. CLP India Private Limited's (CLP India) renewable projects have trade receivables of HK$805 million of which HK$704 million are past due at 31 December 2019. Management has assessed the recoverability of past due amounts and concluded no credit loss provision is required as there is no recent history of default and continuous payments are received. As at 31 December 2019, the Group had total receivables of HK$1,268 million relating to unpaid Renewable National Subsidies in its Mainland China business. These amounts were considered fully recoverable as continuous settlements have been noted with no history of default and the subsidy is funded by the Renewable Energy Development Fund set up and administered by the Ministry of Finance. This is a Key Audit Matter because of the magnitude of the trade receivables balance and the significant judgement applied in assessing the allowance for expected credit losses.	Our procedures in relation to trade receivables included: ▪ Testing controls over the billing and collection cycles in CLP Power Hong Kong and EnergyAustralia; ▪ Testing the system calculated trade receivables ageing analysis used to assess the recoverability of receivables in CLP Power Hong Kong and EnergyAustralia; ▪ Assessing the appropriateness of the credit loss provisioning methodology used by the Group; ▪ Assessing the estimates used to determine the expected credit losses by considering cash collection performance against historical trends; ▪ Reviewing the accuracy of management's judgements by comparing historical provisions against actual write-offs; ▪ Reviewing minutes of the boards of directors' meetings relating to the recoverability of trade receivables; ▪ Discussing with management to understand the nature and the judgement involved in estimating the expected credit loss provision on trade receivables from the state grid operators of CLP India's renewable projects and corroborating with correspondence with the customers; and ▪ Discussing with management to understand the nature and the judgement involved in their determination that there is no expected credit loss on unpaid Renewable National Subsidies, assessing the regulatory eligibility for the Group's projects, reviewing the correspondence for projects qualifying under the Renewable Energy Development Fund during the year and considering subsidies collected to-date. Based on the work performed, we found that management's assessments of the recoverability of trade receivables are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*

Asset retirement obligations (AROs)

Refer to note 26 to the Group Financial Statements

Provisions are held for estimated remediation costs, discounted to present value, where the Group has a legal or constructive obligation for remediation and the likelihood of an economic outflow is probable. Estimating the amount and timing of the obligation requires significant judgement. Management has assessed the Group's obligations for each asset based on the local regulatory environment and expected closure dates.

Management's key ARO judgements are as follows:

- The Group's provision of HK$2,411 million mainly relates to land remediation of generation assets in Australia. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives.
- CLP Power Hong Kong expects that its transmission and distribution network will continue to be used for the distribution of electricity supply to its customers and considers it remote that the network will be removed from the existing land sites. Therefore, AROs have not been recognised for transmission and distribution assets.
- CAPCO will retire the coal-fired generation units at Castle Peak A Station (CPA) between 2022 to 2025. Management considers that the dismantling obligation for the CPA units is covered by the asset decommissioning liability accrued under the SoC as at 31 December 2019.
- While no provision for ARO for the other generation units of CAPCO has been recognised, it is expected that should such obligation be incurred, it will be met by the liability accrued and the cost recovery mechanism under the SoC.

This is a Key Audit Matter because significant judgement is required in determining whether an ARO exists, and estimating the amount and timing of the obligation.

Our procedures in relation to AROs included:

- Assessing the appropriateness of the Group's accounting policy;
- Evaluating management's judgement that it is remote that the Hong Kong transmission and distribution network would be removed from the existing land sites; it is probable that the CPA units will be removed; and it is possible but not probable that CAPCO's other fossil-fuel generation units may be removed at some point in time in the future;
- Assessing management's judgements as to whether a contractual or constructive obligation exists based on the respective power purchase agreements, lease agreements, local laws and regulations, past practice;
- Assessing the independence, objectivity and competence of management's experts involved in respect of the future cost estimates for those assets where a provision has been recognised; and
- Testing the appropriateness of management's estimates of future costs, the timing and the discount rates where management has concluded that a legal or constructive obligation exists.

Based on the work performed, we found that the ARO provisions are supported by the available evidence.

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Legal matters Refer to note 33 to the Group Financial Statements The Group is exposed to the risk of litigation, regulatory judgements and contractual disputes in the course of its normal operations. Provisions are recognised when management considers the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where management considers it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. EnergyAustralia disposed of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million) in December 2015. On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd (Lochard Energy), the purchaser of the Iona Gas Plant, and certain related entities (together "the plaintiff"), commencing formal legal proceedings seeking A$967 million (approximately HK$5,269 million) or alternatively A$780 million (approximately HK$4,250 million) in damages. The claims allege that certain information regarding the technical performance of the Iona Gas Plant, and on which the plaintiff claims to have relied to make its offer, were incomplete or misleading. On 6 May 2019, an amended Statement of Claim was issued by the plaintiff which introduced (as a third alternative method of quantifying its damages) a damages claim based on the cost to fix the alleged issues with the plant as well as alleged associated losses and costs. EnergyAustralia has rejected the claims and is defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the Group Financial Statements. This is a Key Audit Matter because significant management judgement based on legal advice, where appropriate, is required to assess whether the probability of a material outflow of economic resources will occur and whether a provision should be recognised.	Our procedures on management's assessment of legal matters included: ▪ Assessing the processes and entity level controls over identifying and monitoring legal matters; ▪ Reviewing the Group's significant legal matters and other contractual claims; ▪ Discussing with management any material developments and the latest status of the legal matters; ▪ Reviewing the minutes of boards of directors' meetings in respect of discussions relating to legal matters; ▪ Obtaining written confirmation from external legal counsel on the status of the Lochard Energy legal claim; ▪ Reviewing written correspondence from both external and internal legal counsel documenting the status of the legal claims (where relevant); ▪ Considering management's assessment of those matters that are not provided and / or disclosed as the probability of material outflow is considered to be not probable for provisioning or remote for disclosure; ▪ Testing whether provisions held against legal claims are appropriate; and ▪ Reviewing the appropriateness of the Group's disclosures. Based on the work performed, we found the provisions recorded and disclosures made are supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the Group Financial Statements and our auditor's report thereon.

Our opinion on the Group Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of Directors and the Audit & Risk Committee for the Group Financial Statements

The directors of the Company are responsible for the preparation of the Group Financial Statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Group Financial Statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the Group Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group Financial Statements.

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

- Identify and assess the risks of material misstatement of the Group Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group Financial Statements, including the disclosures, and whether the Group Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit & Risk Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

PricewaterhouseCoopers

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 24 February 2020

Consolidated Statement of Profit or Loss

for the year ended 31 December 2019

	Note	2019 HK$M	2018 HK$M
Revenue	3	**85,689**	91,425
Expenses			
Purchases of electricity, gas and distribution services		**(32,967)**	(34,214)
Staff expenses		**(4,535)**	(4,449)
Fuel and other operating expenses		**(26,039)**	(26,595)
Depreciation and amortisation		**(8,118)**	(8,005)
		(71,659)	(73,263)
Other charge	4	**(6,381)**	–
Operating profit	5	**7,649**	18,162
Finance costs	6	**(1,983)**	(2,049)
Finance income	6	**162**	192
Share of results, net of income tax			
Joint ventures	14	**885**	518
Associates	15	**1,828**	1,818
Profit before income tax		**8,541**	18,641
Income tax expense	7	**(2,787)**	(4,014)
Profit for the year		**5,754**	14,627
Earnings attributable to:			
Shareholders		**4,657**	13,550
Perpetual capital securities holders		**212**	250
Other non-controlling interests		**885**	827
		5,754	14,627
Earnings per share, basic and diluted	9	**HK$1.84**	HK$5.36

The notes and disclosures on pages 226 to 294 are an integral part of these consolidated financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

	2019 HK$M	2018 HK$M
Profit for the year	**5,754**	14,627
Other comprehensive income		
Items that can be reclassified to profit or loss		
Exchange differences on translation	**(936)**	(5,177)
Cash flow hedges	**423**	(284)
Costs of hedging	**10**	29
Share of other comprehensive income of joint ventures	**1**	1
	(502)	(5,431)
Items that cannot be reclassified to profit or loss		
Fair value changes on equity investments	**31**	(37)
Remeasurement losses on defined benefit plans	**(4)**	(8)
Share of other comprehensive income of an associate	**–**	4
	27	(41)
Other comprehensive income for the year, net of tax	**(475)**	(5,472)
Total comprehensive income for the year	**5,279**	9,155
Total comprehensive income attributable to:		
Shareholders	**4,263**	8,035
Perpetual capital securities holders	**212**	250
Other non-controlling interests	**804**	870
	5,279	9,155

This statement of profit or loss and other comprehensive income includes not only conventional profit for the year, but also "other comprehensive income". Further details of other comprehensive income attributable to shareholders are presented in Note 28.

The notes and disclosures on pages 226 to 294 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

as at 31 December 2019

	Note	2019 HK$M	2018 HK$M
Non-current assets			
Fixed assets	*10*	**143,615**	141,309
Leasehold land and land use rights under operating leases	*10*	**–**	5,432
Right-of-use assets	*11*	**6,050**	–
Investment property	*12*	**1,121**	1,204
Goodwill and other intangible assets	*13*	**20,111**	26,910
Interests in and loans to joint ventures	*14*	**9,999**	9,674
Interests in associates	*15*	**8,708**	7,746
Deferred tax assets	*24*	**524**	835
Derivative financial instruments	*16*	**1,389**	1,000
Other non-current assets	*17*	**1,280**	904
		192,797	195,014
Current assets			
Inventories – stores and fuel		**2,510**	2,840
Renewable energy certificates		**996**	847
Property under development	*18*	**2,973**	2,971
Trade and other receivables	*19*	**12,986**	15,917
Derivative financial instruments	*16*	**1,035**	799
Short-term deposits and restricted cash	*20*	**445**	4,761
Cash and cash equivalents	*20*	**7,881**	7,365
		28,826	35,500
Current liabilities			
Customers' deposits	*19(a)*	**(5,679)**	(5,476)
Fuel clause account	*21*	**(1,131)**	(901)
Trade payables and other liabilities	*22*	**(17,586)**	(19,061)
Income tax payable		**(1,522)**	(1,399)
Bank loans and other borrowings	*23*	**(13,551)**	(13,535)
Derivative financial instruments	*16*	**(993)**	(1,262)
		(40,462)	(41,634)
Net current liabilities		**(11,636)**	(6,134)
Total assets less current liabilities		**181,161**	188,880

	Note	**2019 HK$M**	2018 HK$M
Financed by:			
Equity			
Share capital	*27*	**23,243**	23,243
Reserves	*28*	**82,212**	85,810
Shareholders' funds		**105,455**	109,053
Perpetual capital securities	*29*	**3,887**	5,791
Other non-controlling interests	*29*	**9,987**	10,088
		119,329	124,932
Non-current liabilities			
Bank loans and other borrowings	*23*	**38,798**	41,763
Deferred tax liabilities	*24*	**15,117**	14,650
Derivative financial instruments	*16*	**1,305**	1,547
Scheme of Control (SoC) reserve accounts	*25*	**1,500**	998
Asset decommissioning liabilities and retirement obligations	*26*	**3,513**	3,558
Other non-current liabilities		**1,599**	1,432
		61,832	63,948
Equity and non-current liabilities		**181,161**	188,880

The Company's statement of financial position is presented in Note 34.

William Mocatta
Vice Chairman
Hong Kong, 24 February 2020

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

The notes and disclosures on pages 226 to 294 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Attributable to Shareholders					
	Share Capital HK$M	Reserves HK$M	Total HK$M	Perpetual Capital Securities HK$M	Other Non-controlling Interests HK$M	Total Equity HK$M
Balance at 1 January 2018	23,243	85,627	108,870	5,791	7,019	121,680
Profit for the year	–	13,550	13,550	250	827	14,627
Other comprehensive income for the year	–	(5,515)	(5,515)	–	43	(5,472)
Transfer to fixed assets	–	(45)	(45)	–	(19)	(64)
Dividends paid						
2017 fourth interim	–	(2,880)	(2,880)	–	–	(2,880)
2018 first to third interim	–	(4,623)	(4,623)	–	–	(4,623)
Distributions to perpetual capital securities holders	–	–	–	(250)	–	(250)
Dividends paid to other non-controlling interests	–	–	–	–	(970)	(970)
Change in ownership interests in a subsidiary	–	(304)	(304)	–	3,188	2,884
Balance at 31 December 2018	23,243	85,810	109,053	5,791	10,088	124,932
Balance at 1 January 2019	23,243	85,810	109,053	5,791	10,088	124,932
Profit for the year	–	4,657	4,657	212	885	5,754
Other comprehensive income for the year	–	(394)	(394)	–	(81)	(475)
Transfer to fixed assets	–	1	1	–	–	1
Dividends paid						
2018 fourth interim	–	(3,007)	(3,007)	–	–	(3,007)
2019 first to third interim	–	(4,775)	(4,775)	–	–	(4,775)
Acquisition of non-controlling interests	–	10	10	–	(96)	(86)
Distributions to perpetual capital securities holders	–	–	–	(212)	–	(212)
Dividends paid to other non-controlling interests	–	–	–	–	(809)	(809)
Reclassification to other borrowings (Note 29)	–	(90)	(90)	(5,791)	–	(5,881)
Issue of perpetual capital securities (Note 29)	–	–	–	3,887	–	3,887
Balance at 31 December 2019	**23,243**	**82,212**	**105,455**	**3,887**	**9,987**	**119,329**

The notes and disclosures on pages 226 to 294 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2019

	Note	2019 HK$M	2019 HK$M	2018 HK$M	2018 HK$M
Operating activities					
Net cash inflow from operations	*30(A)*	**23,502**		26,584	
Interest received		**165**		186	
Income tax paid		**(2,322)**		(2,819)	
Net cash inflow from operating activities			**21,345**		23,951
Investing activities					
Capital expenditure		**(10,448)**		(10,327)	
Capitalised interest and other finance costs paid		**(307)**		(262)	
Proceeds from disposal of fixed assets		**45**		97	
Additions of other intangible assets		**(775)**		(565)	
Acquisitions of subsidiaries		**(130)**		(1,203)	
Proceeds from disposal of an equity investment		**–**		958	
Increase in other financial assets		**(121)**		(85)	
(Investments in and advances to) / repayment of advances from joint ventures		**(70)**		59	
Proceeds from partial disposal of interest in a joint venture		**44**		–	
Investment in an associate		**(352)**		(9)	
Dividends received from					
Joint ventures		**453**		524	
Associates		**1,653**		930	
Equity investments		**13**		13	
Decrease / (increase) in bank deposits with maturities of more than three months		**4,171**		(1,389)	
Net cash outflow from investing activities			**(5,824)**		(11,259)
Net cash inflow before financing activities			**15,521**		12,692
Financing activities	*30(B)*				
Proceeds from long-term borrowings		**6,410**		3,906	
Repayment of long-term borrowings		**(8,796)**		(6,660)	
Redemption of perpetual capital securities		**(5,874)**		–	
(Decrease) / increase in short-term borrowings		**(968)**		300	
Interest and other finance costs paid		**(1,771)**		(1,890)	
Settlement of derivative financial instruments		**(50)**		130	
Payment of principal portion of lease liabilities		**(126)**		–	
Decrease in advances from other non-controlling interests		**(178)**		(1)	
Issue of perpetual capital securities		**3,887**		–	
Distributions paid to perpetual capital securities holders		**(250)**		(250)	
Dividends paid to shareholders		**(7,782)**		(7,503)	
Dividends paid to other non-controlling interests		**(809)**		(970)	
Payment for acquisition of non-controlling interests		**(86)**		–	
Proceeds from disposal of interest in a subsidiary without loss of control		**1,449**		1,433	
Net cash outflow from financing activities			**(14,944)**		(11,505)
Net increase in cash and cash equivalents			**577**		1,187
Cash and cash equivalents at beginning of year			**7,365**		6,529
Effect of exchange rate changes			**(61)**		(351)
Cash and cash equivalents at end of year	*20*		**7,881**		7,365

The notes and disclosures on pages 226 to 294 are an integral part of these consolidated financial statements.

Significant Accounting Policies

The significant accounting policies are included in the corresponding notes to the financial statements or set out below.

1. Basis of Preparation

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and requirements of the Hong Kong Companies Ordinance (Cap. 622). They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments) and investment property which are carried at fair value.

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

2. Changes in Accounting Policies

(A) New HKFRS effective from 1 January 2019

The following new standard, interpretation, amendments and improvements to standards, which are relevant to the Group, are first effective from 1 January 2019.

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

Except for HKFRS 16 described in Note 3 below, the adoption of these interpretation and amendments to standards does not have any significant impact on the results and the financial position of the Group.

(B) New HKFRS effective after 2019

The Group early adopted the amendments to HKFRS 3 Definition of a business as at 1 January 2019. The amendments to HKFRS 3 clarify the definition of a business, with the objective of assisting entities to determine whether an acquisition is of a business or of a group of assets. This distinction is important because an acquirer recognises goodwill only when acquiring a business. A business must include, a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs. To facilitate the assessment of whether an acquired set of activities and assets does not satisfy the definition of a business, an optional concentration test is added. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset (or a group of similar identifiable assets), the concentration test is met and the set of activities and assets is determined not to be a business and no further assessment is needed. The amendment is effective for acquisitions that occur on or after the first annual reporting period beginning on 1 January 2020 with earlier application permitted.

The amendment is particularly relevant to acquisitions carried out by the Group as the fair value of the gross assets acquired often concentrate in a single group of similar identifiable assets. Therefore, the Group early adopted the amendment on 1 January 2019. Transactions satisfying the concentration test are accounted for as asset acquisitions rather than business combinations. As a result, acquisition costs are capitalised as part of the assets acquired, rather than being expensed as in the case with a business combination, and no goodwill is recognised.

2. Changes in Accounting Policies (continued)

(B) New HKFRS effective after 2019 (continued)

Except for the amendment to HKFRS 3 as described above, the Group has not adopted the following amendments to standards for the year ended 31 December 2019, which may be relevant to the Group, have been issued and are effective after 2019.

- The Conceptual Framework for Financial Reporting 2018
- Amendments to HKAS 1 and HKAS 8 Definition of Material
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform
- Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Adoption of The Conceptual Framework for Financial Reporting 2018 and other amendments are not expected to have significant impact on the results and the financial position of the Group. The Group decided not to early adopt them in 2019.

3. Adoption of HKFRS 16

The Group has adopted HKFRS 16 from 1 January 2019. HKFRS 16 establishes new accounting requirements on leases which lead to the recognition of lease transactions in lessees' financial statements. HKFRS 16 focuses on whether an arrangement contains a lease or a service agreement and introduces a substantial change to lessee accounting. The previous distinction between operating and finance leases is eliminated for lessee. A right-of-use asset (representing the right to use the leased asset for the lease term) and a lease liability (representing the obligation to pay rentals) are recognised for all leases. The lessor accounting largely remains unchanged.

In accordance with the transition provisions of HKFRS 16, the Group has adopted the modified retrospective application for existing leases at 1 January 2019 with certain transition reliefs and under which comparative figures are not restated.

For leases previously classified as operating leases, the Group has elected to measure the right-of-use assets at the amounts equal to the lease liabilities adjusted by any prepaid or accrued lease payments. For those leases previously classified as finance leases, the right-of-use assets and lease liabilities are measured at the date of initial application at the same amounts as under HKAS 17 immediately before the date of initial application. Accordingly, no adjustments were recognised to the opening balance of retained profits at the date of initial application.

The Group reassessed all lease contracts as well as contracts which did not satisfy the definition of a lease under the previous accounting standard (HKAS 17) at 1 January 2019. The Capacity Purchase Contract entered into by Hong Kong Pumped Storage Development Company, Limited which was previously classified as an operating lease when applying HKAS 17 does not meet the definition of a lease under HKFRS 16. All other existing lease contracts (which mainly relate to leases for land and buildings) retain their lease classification.

There were no contracts that were not classified as a lease under HKAS 17 which satisfy the definition of a lease under HKFRS 16. The Group identified that an existing water treatment service contract in Australia meets the definition of a lease. This asset is currently under construction and will be accounted for in accordance with HKFRS 16 upon its commercial operation in 2020.

3. Adoption of HKFRS 16 (continued)

The Group applied the following practical expedients on transition to HKFRS 16 for those leases which were previously classified as operating leases under HKAS 17.

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the recognition exemption for leases for which the lease term ends within 12 months of the date of initial application
- Applied the recognition exemption for leases of low value assets
- Excluded the initial direct costs from the measurement of the right-of-use assets
- Used hindsight in determining lease term if the contract contained an option to extend or terminate the lease

Upon the adoption of HKFRS 16, the Group reclassified assets under finance leases (mainly leasehold land) from fixed assets, and leasehold land and land use rights under operating leases to right-of-use assets for presentation purpose.

The table below explains the difference between operating lease commitments disclosed at 31 December 2018 by applying HKAS 17 and lease liabilities recognised at 1 January 2019 by applying HKFRS 16:

	HK$M
Operating lease commitments at 31 December 2018	2,337
Less:	
Capacity Purchase Contract reassessed as service agreement	(1,592)
Exemption for short term leases	(5)
Leases committed but not yet commenced	(556)
Operating lease liabilities before discounting at 31 December 2018	184
Effect of discounting at the incremental borrowing rate at 1 January 2019 *	(6)
Operating lease liabilities recognised at 1 January 2019	178
Finance lease liabilities at 31 December 2018	79
Total lease liabilities at 1 January 2019	257

* The weighted average incremental borrowing rate was 3.1%.

The table below summarises the impact on the adoption of HKFRS 16:

	At 1 January 2019 HK$M
Decrease in fixed assets	(413)
Decrease in leasehold land and land use rights under operating leases	(5,432)
Increase in right-of-use assets	6,000
Increase in trade payables and other liabilities	60
Increase in other non-current liabilities	95

	For the year ended 31 December 2019 HK$M
Decrease in fuel and other operating expenses	(78)
Increase in depreciation and amortisation	97
Increase in finance costs	8
Decrease in income tax expense	(7)
Decrease in earnings attributable to shareholders	(20)
	HK$
Decrease in earnings per share, basic and diluted	(0.01)

4. Consolidation and Equity Accounting

(A) Basis of consolidation

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

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

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

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

(B) Joint ventures and associates

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

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

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

(C) Joint operations

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

4. Consolidation and Equity Accounting (continued)

(D) Change in ownership interests

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

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purpose of subsequent accounting for the retained interest as a joint venture, associate or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are reclassified to profit or loss. Gains or losses on disposals are recognised in profit or loss.

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

A quick guide to the classification of equity investments:

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

5. Impairment of Non-Financial Assets

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

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

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

6. Inventory

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

7. Renewable Energy Products

Renewable energy and energy efficiency schemes operate through the creation, trade and surrender of energy products. Renewable energy certificates are recognised upon the risks and rewards being transferred to the Group and are measured at the lower of cost or net realisable value. Cost is calculated on a weighted average basis.

8. Employee Benefits

(A) Defined contribution obligations

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

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

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

(B) Defined benefit obligations

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

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

(C) Incentive bonus and employee leave entitlement

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

9. Foreign Currency Translation

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

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

9. Foreign Currency Translation (continued)

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

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

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

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

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

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

10. Leases

The Group assesses at contract inception whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset if the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

For the Group as a lessor, leases in which the Group does not transfer substantially all the risks and rewards incidental to the ownership of an underlying asset to the customer, are classified as operating lease arrangements. The respective lease assets are included in the financial statements according to their nature. Operating lease payments which vary with operation parameters are recognised as other revenue in the period in which they are earned.

For the Group as a lessee, the Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets, which are recognised as expenses on a straight-line basis over the lease terms. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Readers can refer to the Accounting mini-series for our expanded discussion on new lease accounting.

1. General Information

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

The financial operations of the Company's major subsidiaries, CLP Power Hong Kong Limited (CLP Power Hong Kong) and Castle Peak Power Company Limited (CAPCO) (collectively referred as SoC Companies), are governed by a SoC entered into with the Hong Kong Government. Our electricity business in Hong Kong is therefore also referred to as the SoC business. The main features of the SoC Agreements are summarised on pages 295 and 296, which are unaudited.

These financial statements have been approved for issue by the Board of Directors on 24 February 2020.

2. Segment Information

Accounting Policy

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

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

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

2. Segment Information (continued)

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

	Hong Kong HK$M	Mainland China HK$M	India HK$M	Southeast Asia & Taiwan HK$M	Australia HK$M	Unallocated Items HK$M	Total HK$M
For the year ended 31 December 2019							
Revenue from contracts with customers	40,457	1,629	1,217	11	38,686	–	82,000
Other revenue	131	45	3,434	–	66	13	3,689
Revenue	40,588	1,674	4,651	11	38,752	13	85,689
EBITDAF	15,743	1,405	1,657	6	(2,166)	(702)	15,943
Share of results, net of income tax							
Joint ventures	(18)	558	–	329	16	–	885
Associates	–	1,828	–	–	–	–	1,828
Consolidated EBITDAF	15,725	3,791	1,657	335	(2,150)	(702)	18,656
Depreciation and amortisation	(4,821)	(735)	(626)	–	(1,900)	(36)	(8,118)
Fair value adjustments	(5)	–	–	–	(171)	–	(176)
Finance costs	(1,014)	(276)	(520)	–	(109)	(64)	(1,983)
Finance income	1	28	62	–	49	22	162
Profit / (loss) before income tax	9,886	2,808	573	335	(4,281)	(780)	8,541
Income tax expense	(1,798)	(305)	(150)	–	(534)	–	(2,787)
Profit / (loss) for the year	8,088	2,503	423	335	(4,815)	(780)	5,754
Earnings attributable to							
Perpetual capital securities holders	(212)	–	–	–	–	–	(212)
Other non-controlling interests	(710)	(15)	(160)	–	–	–	(885)
Earnings / (loss) attributable to shareholders	7,166	2,488	263	335	(4,815)	(780)	4,657
Excluding: Items affecting comparability	83	–	–	–	6,381	–	6,464
Operating earnings	7,249	2,488	263	335	1,566	(780)	11,121
Capital additions	9,046	345	52	–	1,894	53	11,390
Impairment provisions							
Fixed assets	–	–	–	–	7	–	7
Goodwill	–	–	–	–	6,381	–	6,381
Receivables and others	4	–	36	–	354	–	394
At 31 December 2019							
Fixed assets, right-of-use assets and investment property	119,272	9,021	10,454	–	11,873	166	150,786
Goodwill and other intangible assets	5,545	4,199	27	–	10,340	–	20,111
Interests in and loans to joint ventures	162	7,767	–	1,958	112	–	9,999
Interests in associates	–	8,708	–	–	–	–	8,708
Deferred tax assets	–	92	39	–	393	–	524
Other assets	8,099	3,252	3,951	41	12,163	3,989	31,495
Total assets	133,078	33,039	14,471	1,999	34,881	4,155	221,623
Bank loans and other borrowings	41,171	5,777	5,401	–	–	–	52,349
Current and deferred tax liabilities	15,150	1,214	267	–	8	–	16,639
Other liabilities	21,801	1,090	490	2	9,477	446	33,306
Total liabilities	78,122	8,081	6,158	2	9,485	446	102,294

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

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

2. Segment Information (continued)

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

Items affecting comparability refer to significant unusual events such as acquisition / disposal, impairment of non-current assets, property valuation gain / loss, provision for legal disputes and change in law or natural catastrophe. They have no impact in assessing the underlying operating performance of the Group and are separately disclosed to allow a better understanding and comparison of the financial results. Details of the items affecting comparability can be found on page 33.

3. Revenue

Accounting Policy

(A) Revenue from contracts with customers

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

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

(B) Other revenue

Operating lease income represents lease payments which vary with operation parameters and are recognised as revenue when they are earned. Lease service income comprises mainly operating and maintenance servicing income received from lessees with respect to the leased assets. Finance lease income represents the interest element of the lease receivables and is recognised over the lease period using the effective interest method.

Critical Accounting Estimates and Judgements: Unbilled Retail Revenue

The Group records revenues from retail and wholesale energy sales using the accrual accounting method. In Hong Kong, the unbilled retail revenue is calculated using estimates including consumption quantity based on electricity sent-out adjusted by loss factor, pattern of residential and non-residential consumption, weather and certain other factors. In Australia, the unbilled retail revenue is calculated based on the electricity purchased and applicable tariffs for the mass market customers, as well as actual meter readings and contracted rates for commercial and industrial customers. The amount is adjusted for physical energy loss and other measurable factors. Unbilled retail revenue of the Group (included in trade and other receivables) totalled HK$3,459 million at 31 December 2019 (2018: HK$3,877 million).

3. Revenue (continued)

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

	2019 HK$M	2018 HK$M
Revenue from contracts with customers		
Sales of electricity in Hong Kong	**40,473**	40,982
Transfer for SoC from revenue (Note 25(A))	**(714)**	(322)
SoC sales of electricity	**39,759**	40,660
Sales of electricity outside Hong Kong	**35,801**	39,121
Sales of gas in Australia	**5,445**	6,146
Others	**995**	1,132
	82,000	87,059
Other revenue		
Operating lease income under Power Purchase Agreement (PPA) (note)		
Fixed payments	**748**	774
Variable payments	**2,445**	2,540
Lease service income under PPA	**182**	652
Finance lease income under PPA	**–**	100
Others	**314**	300
	3,689	4,366
	85,689	91,425

Note: The operating lease income under PPAs relate to the 25-year PPAs between Jhajjar Power Limited (JPL) and its offtakers. Under the PPAs, the contract price mainly comprises of capacity charge and energy charge. The capacity charge is payable for maintaining availability of the plant for dispatch of electricity, regardless of actual dispatch. The energy charge is a variable amount that depends on actual fuel consumption.

The following table sets out a maturity analysis of lease payments, showing the total undiscounted minimum lease payments to be received by Jhajjar's PPA after the reporting date:

	2019 HK$M	2018 HK$M
Within one year	**633**	753
Between one and two years	**615**	649
Between two and three years	**439**	631
Between three and four years	**435**	450
Between four and five years	**428**	446
Over five years	**4,661**	5,219
	7,211	8,148

4. Other Charge

During the first half of 2019, the Default Market Offer and the Victorian Default Offer (collectively, the "default offers") were released in Australia which took effect from 1 July 2019. The default offers serve as a price cap for electricity for those previously paying the highest prices on contracts known as "standing offers". The default offers impact gross margin by stipulating a new, lower standing offer. This resets the market baseline for future market offers, providing an indicator that the value of the energy retail goodwill, which is included in energy retail cash generating unit (CGU) of EnergyAustralia Holdings Limited (EnergyAustralia) could be impaired.

Given these regulatory changes and the expected resulting change to the market, an assessment of the value in use of the energy retail CGU was performed at 30 June 2019 to determine the recoverable amount. The recoverable amount did not support the carrying value of the energy retail CGU as at 30 June 2019. As a result, the Group has recognised an impairment on the energy retail goodwill of HK$6,381 million (A$1,176 million) in the profit or loss. The recoverable amount of the energy retail CGU was reassessed at year end with further information disclosed in Note 13.

5. Operating Profit

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

	2019 HK$M	2018 HK$M
Charging		
Retirement benefits costs [a]	**451**	437
Auditors' remuneration		
Audit services		
PricewaterhouseCoopers	**39**	39
Other auditor [b]	**2**	2
Permissible audit related and non-audit services		
PricewaterhouseCoopers [c]	**9**	9
Other auditor [b]	**–**	–
Operating lease expenditure on the agreement with Ecogen	**–**	83
Variable lease payments expenses	**67**	63
Net loss on disposal of fixed assets	**424**	416
Impairment of		
Fixed assets	**7**	14
Trade receivables	**383**	890
Inventories – stores and fuel	**11**	8
Revaluation loss / (gain) on investment property	**83**	(18)
Net exchange loss	**33**	87
Crediting		
Net fair value (gains) / losses on non-debt related derivative financial instruments		
Reclassified from cash flow hedge reserve and costs of hedging reserves to		
Purchases of electricity, gas and distribution services	**(53)**	(453)
Fuel and other operating expenses	**(162)**	(77)
Transactions not qualifying as hedges	**292**	68
Ineffectiveness on cash flow hedge	**7**	–
Rental income from investment property	**(35)**	(40)
Dividends from equity investments	**(13)**	(13)

Notes:

(a) Retirement benefits costs for the year amounted to HK$593 million (2018: HK$584 million), of which HK$142 million (2018: HK$147 million) was capitalised.

(b) KPMG India has been the statutory auditor of CLP India Private Limited (CLP India) and its subsidiaries (CLP India group) since April 2017. The Group does not regard KPMG India as a principal auditor of the Group given the relative small quantum of the audit fees, which reflect the scale of operation of CLP India group. Our policy with regard to non-principal auditors for providing non-audit services is to ensure that, within country, the non-audit fees are not paid out of proportion to the audit fees so as to compromise in-country independence. The figure of audit related and non-audit services represented KPMG India's fees charged to CLP India group. Other KPMG offices have also provided services to our businesses in other regions which amounted to HK$16 million during the year (2018: HK$6 million).

(c) Permissible audit related and non-audit services provided by PricewaterhouseCoopers comprised Sustainability Report assurance, Continuing Connected Transactions limited assurance, limited assurance over EnergyAustralia's regulatory reviews and reporting, assurance and agreed-upon-procedures related to debt offerings, audits of CLP's provident funds, auditor's attestation and other advisory services.

6. Finance Costs and Income

Accounting Policy

Borrowing costs are recognised as an expense in the year in which they are incurred, except to the extent that they are capitalised when they are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use.

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

	2019 HK$M	2018 HK$M
Finance costs		
Interest expenses on		
Bank loans and overdrafts	**811**	787
Other borrowings	**1,161**	1,197
Tariff Stabilisation Fund [(a)]	**22**	11
Customers' deposits and fuel clause over-recovery	**49**	73
Lease liabilities	**16**	2
Finance charges	**180**	221
Net fair value loss / (gain) on debt related derivative financial instruments		
Reclassified from cash flow hedge reserve	**24**	(175)
Reclassified from costs of hedging reserves	**67**	82
Fair value hedges	**(262)**	143
Transactions not qualifying as hedges	**28**	(72)
Ineffectiveness of fair value hedges	**3**	(2)
Loss / (gain) on hedged items in fair value hedges	**262**	(143)
Other net exchange (gain) / loss on financing activities	**(55)**	203
	2,306	2,327
Less: amount capitalised [(b)]	**(323)**	(278)
	1,983	2,049
Finance income		
Interest income on bank deposits and loans to joint ventures	**162**	192

Notes:

(a) In accordance with the provisions of the SoC Agreements, CLP Power Hong Kong is required to credit, to a Rate Reduction Reserve in its financial statements, a charge of the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund (Note 25(B)).

(b) Finance costs of the Group's general borrowings have been capitalised at average interest rates of 3.44% - 4.81% (2018: 3.23%) per annum.

7. Income Tax Expense

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

	2019 HK$M	2018 HK$M
Current income tax	2,189	3,565
Deferred tax	598	449
	2,787	4,014

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the year. Income tax on profits assessable outside Hong Kong has been provided at the rates prevailing in the respective jurisdictions.

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

	2019 HK$M	2018 HK$M
Profit before income tax	8,541	18,641
Less: Share of results of joint ventures and associates, net of income tax	(2,713)	(2,336)
	5,828	16,305
Calculated at an income tax rate of 16.5% (2018: 16.5%)	962	2,690
Effect of different income tax rates in other countries	425	925
Effect of changes in tax rates	87	–
Income not subject to tax	(139)	(154)
Expenses not deductible for tax purposes	1,319	420
Revenue adjustment for SoC not subject to tax	118	53
Under-provision in prior years	9	77
Tax losses not recognised	6	3
Income tax expense	2,787	4,014

8. Dividends

	2019 HK$ per Share	2019 HK$M	2018 HK$ per Share	2018 HK$M
First to third interim dividends paid	1.89	4,775	1.83	4,623
Fourth interim dividend declared	1.19	3,007	1.19	3,007
	3.08	7,782	3.02	7,630

At the Board meeting held on 24 February 2020, the Directors declared the fourth interim dividend of HK$1.19 per share (2018: HK$1.19 per share). The fourth interim dividend is not reflected as dividends payable in the financial statements.

9. Earnings per Share

The earnings per share are computed as follows:

	2019	2018
Earnings attributable to shareholders (HK$M)	**4,657**	13,550
Weighted average number of shares in issue (thousand shares)	**2,526,451**	2,526,451
Earnings per share (HK$)	**1.84**	5.36

Basic and fully diluted earnings per share are the same as the Company did not have any dilutive equity instruments throughout the year ended 31 December 2019 (2018: nil).

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

Accounting Policy

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

Depreciation of fixed assets is calculated, using the straight-line method, to allocate their costs to their estimated residual values over their estimated useful lives. The estimated useful lives of the fixed assets are set out below:

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

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

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

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

Critical Accounting Estimates and Judgements

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

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

When determining the recoverable amount of the generation assets, scenarios are produced which reflect a range of economic conditions that could exist over the life of the CGU. The scenarios consider a broad range of outcomes including emissions reduction and carbon pricing schemes. More specifically, the consideration of potential regulatory changes and useful lives of the Group's generation assets. The scenarios are then considered in terms of likelihood to arrive at management's best estimate of recoverable value.

Key estimates and assumptions for assessing the carrying value of the generation assets are as follows:

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

Changes to the estimates and assumptions and other inputs could impact the assessed recoverable amounts of assets and CGUs and consequently impact the Group's financial performance and position. Management considers that no reasonably possible change would result in an impairment of generation assets, in view of the long-term nature of the key assumptions and the headroom by which the estimated recoverable amount exceeds the carrying amount. Furthermore, given the level of uncertainty, management considers it would be inappropriate to reverse any previous impairment charges.

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

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

Determining whether an asset or a CGU should be impaired requires an estimation of the recoverable amount, which requires the Group to estimate the future cash flows, a growth rate (that reflects the economic environments in which the Group operates) and a pre-tax discount rate (that reflects the current market assessments of the time value of money and the risks specific to the asset) in order to calculate the present value. Where the present value of the expected cash flows is less than the asset's carrying amount, an impairment loss may arise. During 2019, after reviewing the business environment as well as the Group's strategies and past performance of the investments, management concluded that there was no indication of impairment nor material impairment loss for fixed assets and right-of-use assets.

The latest impairment models for these assets indicated that sufficient headroom (meaning the excess of the recoverable amount over carrying value) existed. Management considers that any reasonably possible changes in the assumptions used in the models would not affect management's view on impairment at 2019 year end.

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

Fixed assets included assets under construction with book value of HK$15,754 million (2018: HK$12,333 million). Movements in the accounts are as follows:

	Fixed Assets					Leasehold Land and Land Use Rights under Operating Leases
	Land					
	Freehold HK$M	Leased HK$M	Buildings HK$M	Plant, Machinery and Equipment HK$M	Total HK$M	HK$M
Net book value at 1 January 2018	786	386	19,943	116,092	137,207	5,345
Acquisitions of subsidiaries	155	–	301	2,294	2,750	–
Additions	–	–	1,370	9,488	10,858	275
Transfer from finance lease receivables	347	–	4	291	642	1
Transfers and disposals	–	(18)	(119)	(419)	(556)	–
Depreciation / amortisation	–	(11)	(681)	(6,184)	(6,876)	(180)
Impairment charge	–	–	–	(14)	(14)	–
Exchange differences	(85)	–	(256)	(2,361)	(2,702)	(9)
Net book value at 31 December 2018	1,203	357	20,562	119,187	141,309	5,432
Cost	1,299	495	33,923	212,951	248,668	6,704
Accumulated depreciation / amortisation and impairment	(96)	(138)	(13,361)	(93,764)	(107,359)	(1,272)
Net book value at 31 December 2018	1,203	357	20,562	119,187	141,309	5,432
Net book value at 1 January 2019, as previously reported	1,203	357	20,562	119,187	141,309	5,432
Effects of the adoption of HKFRS 16 (Note 3 of Significant Accounting Policies)	–	(357)	–	(56)	(413)	(5,432)
Net book value at 1 January 2019, as restated	1,203	–	20,562	119,131	140,896	–
Acquisition of a subsidiary (note)	–	–	5	333	338	–
Additions	3	–	1,517	8,746	10,266	–
Transfers and disposals	–	–	(54)	(413)	(467)	–
Depreciation	–	–	(692)	(6,123)	(6,815)	–
Impairment charge	–	–	–	(7)	(7)	–
Exchange differences	(25)	–	(74)	(497)	(596)	–
Net book value at 31 December 2019	**1,181**	**–**	**21,264**	**121,170**	**143,615**	**–**
Cost	1,275	–	35,105	219,302	255,682	–
Accumulated depreciation and impairment	(94)	–	(13,841)	(98,132)	(112,067)	–
Net book value at 31 December 2019	**1,181**	**–**	**21,264**	**121,170**	**143,615**	**–**

Note: In January 2019, the Group acquired all the shares in Pingyuan Litian New Energy Power Co., Ltd. (Meizhou Solar), which owns and operates a 36MW solar farm in Guangdong Province, China, for a consideration of HK$26 million (RMB23 million).

11. Right-of-Use Assets

Accounting Policy

The Group as a lessee recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets.

The Group has lease contracts for land and buildings and various items of machinery and equipment used in its operations. The movements during the year are set out below:

	Prepaid Leasehold Land [(a)] HK$M	Land and Buildings [(b)] HK$M	Machinery and Equipment [(b)] HK$M	Total HK$M
Net book value at 1 January 2019, as previously reported	–	–	–	–
Effects of the adoption of HKFRS 16 (Note 3 of Significant Accounting Policies)	5,789	165	46	6,000
Net book value at 1 January 2019, as restated	5,789	165	46	6,000
Acquisition of a subsidiary (Note 10)	2	–	–	2
Additions	187	118	44	349
Depreciation	(191)	(96)	(8)	(295)
Exchange differences	(5)	–	(1)	(6)
Net book value at 31 December 2019	**5,782**	**187**	**81**	**6,050**

Notes:

(a) Prepaid leasehold land represents upfront lease payments, including land premium, on lease of land with the tenure of 25 to 75 years.

(b) The Group has leased several assets for offices and battery storage facilities. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. Tenures of the leases range from 1 to 30 years.

12. Investment Property

Accounting Policy

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

12. Investment Property (continued)

	2019 HK$M	2018 HK$M
At 1 January	**1,204**	1,186
Revaluation (loss) / gain	**(83)**	18
At 31 December	**1,121**	1,204

Investment property represents the commercial interest of the retail portion of the Laguna Mall in Hong Kong, which is leased out by the Group under operating leases.

Investment property was valued by Cushman & Wakefield Limited (Cushman), an independent qualified valuer, who holds recognised relevant professional qualifications and has recent experience in the locations and segments of the investment property valued.

Cushman has valued the property at 31 December 2019 by using the income capitalisation approach, cross-referenced with comparable market transactions. The income capitalisation approach is based on the capitalisation of the existing rental / licence income and potential reversionary income over the remaining tenure of the property from the date of valuation at appropriate capitalisation rates that by reference to the yields achieved in analysed market sales transactions and as expected by investors. The significant unobservable input is the capitalisation rate adopted for the valuation which are ranging from 3.7% to 3.95% (2018: 4.25%). The fair value measurement is negatively correlated to the capitalisation rate.

The recurring fair value measurement of the Group's investment property is categorised within Level 3 of the fair value hierarchy at 31 December 2019 and 2018.

13. Goodwill and Other Intangible Assets

Accounting Policy

(A) Goodwill

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

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

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

(B) Other intangible assets

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

13. Goodwill and Other Intangible Assets (continued)

Critical Accounting Estimates and Judgements: Goodwill Impairment

The recoverable amounts of CGUs with allocated goodwill are determined based on value in use calculations, which use cash flow projections as at 31 December 2019. These cash flow projections are derived from the approved business plan which has a forecast covering a period of ten years and have incorporated necessary updates. Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-dated nature of our generation and electricity supply assets and a more appropriate reflection of future cash flows from anticipated legislative, regulatory and structural changes in the industry.

Energy retail business in Australia

30 June 2019 assessment

The Group assessed the recoverable amount of the energy retail business in Australia and concluded that the energy retail goodwill was impaired (refer to further details in Note 4).

31 December 2019 reassessment

The recoverable amount of the energy retail business was assessed as at 31 December 2019 and was determined to be HK$10,930 million (A$2,006 million), using the same value in use methodology as 30 June 2019 with updated assumptions. There was minimal headroom at 31 December 2019.

Key assumptions for value in use calculations

The key assumptions used in the value in use calculations reflect a combination of internal and external factors impacting gross margin, number of customer accounts and discount rates.

The assumptions impacting gross margin include:

- Retail tariffs are sensitive to regulatory changes including regulation and deregulation, and based on management estimates and expectations of current and expected market conditions arising from known and potential regulatory outcomes.
- Electricity and gas volumes for purchases and sales in the short term represent the forecast projections in EnergyAustralia's Business Plan, updated for the latest forecast. External information is used to verify and align internal estimates.
- Electricity and gas network (distribution) cost assumptions are based on published regulated prices. When no estimates are available, network costs are assumed to escalate by the relevant consumer price index.
- Electricity pool prices, generation volumes, dispatch levels and gas prices were derived using modelling of the electricity and gas wholesale markets. NEM modelling is prepared internally using, where possible, observable inputs. The modelling used for the electricity wholesale and gas markets is based on experience and observable market activity.

Other assumptions include:

- The number of customer accounts in the short term for electricity and gas aligns with EnergyAustralia's Business Plan, updated for the latest forecast.
- The cash flow projections are discounted using a pre-tax discount rate of 10.4% (2018: 11.0%). The discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital.
- A long term growth rate of 2.0% (2018: 2.3%) is applied in the terminal value calculation after the first ten years of cash flows.

13. Goodwill and Other Intangible Assets (continued)

Critical Accounting Estimates and Judgements: Goodwill Impairment (continued)

Energy retail business in Australia (continued)

Sensitivity analysis for the energy retail CGU valuation

The energy retail CGU valuation is sensitive to certain key assumptions, in particular, gross margin and customer accounts growth. Despite more certainty over retail tariffs following the introduction of the default offers, both retail tariffs and customer account growth assumptions are judgemental and have a direct impact on our CGU valuation. Movements in discount rates, whilst driven by different assumptions, would also have an impact.

- A 5% decrease in gross margin would decrease the recoverable amount by HK$1,689 million (A$310 million).
- A 1% decrease in annual customer growth rate would decrease the recoverable amount by HK$1,090 million (A$200 million).
- An increase in the discount rate of 0.5% would decrease the recoverable amount by HK$1,035 million (A$190 million).

These sensitivities are based on a change in the relevant assumption while holding other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated.

Hong Kong electricity business

Goodwill arising from the CAPCO acquisition in 2014 has been allocated to the CLP Power Hong Kong and CAPCO as a combined CGU as the acquisition is considered beneficial to the whole SoC business. The key assumptions include:

- The electricity tariff for the supply of electricity in meeting the demand of customers in Hong Kong over the forecast periods is determined with reference to the rate-setting mechanism under the SoC.
- The forecast for electricity demand is based on the load forecast to support local infrastructure development and meeting customer load requirements, maintaining safety and supply reliability, and meeting environmental requirements.
- Expenditures for the supply of electricity in meeting the forecast demand are based on committed purchase contracts where applicable, and inputs on costs trend as specific to the electricity business in Hong Kong. Such forecast aligns with the projection in the Business Plan for our Hong Kong electricity business, with capital expenditures for the periods to year 2023 aligned with those forecasted in the approved Development Plan.
- Terminal value of the CGU is adopted to estimate the cash flows to be generated for the periods beyond ten years. This is expressed as a multiple of net asset values which corresponds to our return model based on fixed assets investment. The terminal value is a multiple of 1.2 times of the net asset values forecasted as at the end of 2029.
- The cash flow projections are discounted using a pre-tax discount rate of 9.79% (2018: 9.73%), or a post-tax return of 8.00% (2018: 8.00%) which reflects the SoC return rate applicable to the electricity business in Hong Kong.

Up to the date of this report, there were no reasonably possible changes in any of the key assumptions mentioned above that would have caused the recoverable amounts of Hong Kong CGU to be less than its carrying value.

13. Goodwill and Other Intangible Assets (continued)

	Goodwill [(a)] HK$M	Capacity Right [(b)] HK$M	Others HK$M	Total HK$M
Net carrying value at 1 January 2018	22,265	4,663	2,159	29,087
Additions	–	31	534	565
Amortisation	–	(274)	(675)	(949)
Exchange differences	(1,595)	–	(198)	(1,793)
Net carrying value at 31 December 2018	20,670	4,420	1,820	26,910
Cost	20,798	5,694	6,505	32,997
Accumulated amortisation and impairment	(128)	(1,274)	(4,685)	(6,087)
Net carrying value at 31 December 2018	20,670	4,420	1,820	26,910
Net carrying value at 1 January 2019	20,670	4,420	1,820	26,910
Additions	–	22	753	775
Amortisation	–	(276)	(732)	(1,008)
Impairment charge (Note 4)	(6,381)	–	–	(6,381)
Exchange differences	(161)	–	(24)	(185)
Net carrying value at 31 December 2019	**14,128**	**4,166**	**1,817**	**20,111**
Cost	20,606	5,716	7,161	33,483
Accumulated amortisation and impairment	(6,478)	(1,550)	(5,344)	(13,372)
Net carrying value at 31 December 2019	**14,128**	**4,166**	**1,817**	**20,111**

Notes:

(a) Goodwill mainly arose from the acquisitions of energy retail business in Australia of HK$8,524 million (2018: HK$15,065 million) and the acquisition of CAPCO under Hong Kong electricity business of HK$5,545 million (2018: HK$5,545 million).

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

14. Interests in and Loans to Joint Ventures

Accounting Policy No. 4(B)

The table below lists the material joint ventures of the Group at 31 December 2019:

Name	% of Ownership Interest at 31 December 2018 and 2019	Place of Incorporation / Business	Principal Activity
CSEC Guohua International Power Company Limited (CSEC Guohua) [(a)]	30	Mainland China	Generation of Electricity
CLP Guangxi Fangchenggang Power Company Limited (Fangchenggang) [(b)]	70 [(c)]	Mainland China	Generation of Electricity
ShenGang Natural Gas Pipeline Company Limited (SNGPC) [(b)]	40	Mainland China	Natural Gas Transportation
OneEnergy Taiwan Ltd (OneEnergy Taiwan) [(d)]	50	British Virgin Islands / Taiwan	Investment Holding
Shandong Zhonghua Power Company, Ltd. (SZPC) [(e)]	29.4	Mainland China	Generation of Electricity

Notes:

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

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

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

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

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

More detailed information of our joint ventures can be found on "Our Portfolio" on pages 6 to 8 of the Annual Report.

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

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

	CSEC Guohua HK$M	Fang-chenggang HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
For the year ended 31 December 2019							
Revenue	12,384	4,038	957	–	5,703	1,614	24,696
Depreciation and amortisation	(1,417)	(223)	(180)	–	(1,084)	(555)	(3,459)
Interest income	14	11	2	–	2	2	31
Interest expense	(286)	(276)	(42)	–	(156)	(102)	(862)
Other expenses	(10,176)	(3,031)	(203)	(3)	(4,399)	(398)	(18,210)
Share of results of joint ventures	–	–	–	544	–	(4)	540
Profit before income tax	519	519	534	541	66	557	2,736
Income tax expense	(180)	(143)	(135)	–	(101)	(98)	(657)
Profit / (loss) for the year	339	376	399	541	(35)	459	2,079
Non-controlling interests	(228)	–	–	–	–	–	(228)
Profit / (loss) for the year attributable to shareholders	111	376	399	541	(35)	459	1,851
Profit / (loss) for the year	339	376	399	541	(35)	459	2,079
Other comprehensive income	–	–	–	–	–	2	2
Total comprehensive income	339	376	399	541	(35)	461	2,081
Group's share							
Profit / (loss) for the year attributable to shareholders	33	263	160	271	(10)	168	885
Other comprehensive income	–	–	–	–	–	1	1
Total comprehensive income	33	263	160	271	(10)	169	886
Dividend income from joint ventures	17	–	83	225	–	156	481
For the year ended 31 December 2018							
Revenue	12,578	3,333	997	–	6,590	1,691	25,189
Depreciation and amortisation	(1,497)	(240)	(132)	–	(939)	(522)	(3,330)
Interest income	2	11	2	–	2	6	23
Interest expense	(346)	(293)	(59)	–	(193)	(118)	(1,009)
Other expenses	(10,133)	(2,786)	(241)	(3)	(5,356)	(467)	(18,986)
Share of results of joint ventures	–	–	–	262	–	(9)	253
Profit before income tax	604	25	567	259	104	581	2,140
Income tax expense	(264)	(1)	(145)	–	(68)	(112)	(590)
Profit for the year	340	24	422	259	36	469	1,550
Non-controlling interests	(273)	–	–	–	–	–	(273)
Profit for the year attributable to shareholders	67	24	422	259	36	469	1,277
Profit for the year	340	24	422	259	36	469	1,550
Other comprehensive income	–	–	–	–	–	4	4
Total comprehensive income	340	24	422	259	36	473	1,554
Group's share							
Profit for the year attributable to shareholders	20	17	169	129	10	173	518
Other comprehensive income	–	–	–	–	–	1	1
Total comprehensive income	20	17	169	129	10	174	519
Dividend income from joint ventures	44	16	85	208	82	125	560

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

	CSEC Guohua HK$M	Fang-chenggang HK$M	SNGPC HK$M	OneEnergy Taiwan HK$M	SZPC HK$M	Others HK$M	Total HK$M
At 31 December 2019							
Non-current assets	**20,435**	**7,514**	**3,711**	**3,070**	**4,207**	**6,669**	**45,606**
Current assets							
Cash and cash equivalents	**1,596**	**681**	**122**	**6**	**12**	**546**	**2,963**
Other current assets	**1,495**	**752**	**61**	**1**	**800**	**1,067**	**4,176**
	3,091	**1,433**	**183**	**7**	**812**	**1,613**	**7,139**
Current liabilities							
Financial liabilities [a]	**(2,478)**	**(361)**	**(302)**	**–**	**(1,485)**	**(810)**	**(5,436)**
Other current liabilities [a]	**(1,580)**	**(722)**	**(160)**	**–**	**(470)**	**(476)**	**(3,408)**
	(4,058)	**(1,083)**	**(462)**	**–**	**(1,955)**	**(1,286)**	**(8,844)**
Non-current liabilities							
Financial liabilities [a]	**(3,809)**	**(4,862)**	**–**	**–**	**(1,555)**	**(1,146)**	**(11,372)**
Shareholders' loans	**–**	**–**	**(453)**	**–**	**–**	**(148)**	**(601)**
Other non-current liabilities [a]	**(1,699)**	**(56)**	**(719)**	**–**	**(21)**	**(27)**	**(2,522)**
	(5,508)	**(4,918)**	**(1,172)**	**–**	**(1,576)**	**(1,321)**	**(14,495)**
Non-controlling interests	**(6,069)**	**–**	**–**	**–**	**–**	**–**	**(6,069)**
Net assets	**7,891**	**2,946**	**2,260**	**3,077**	**1,488**	**5,675**	**23,337**
Group's share of net assets	**2,367**	**2,062**	**904**	**1,539**	**438**	**2,334**	**9,644**
Goodwill	**–**	**–**	**–**	**–**	**–**	**71**	**71**
Interests in joint ventures	**2,367**	**2,062**	**904**	**1,539**	**438**	**2,405**	**9,715**
Loans to joint ventures	**–**	**–**	**181** [b]	**–**	**–**	**103**	**284**
	2,367	**2,062**	**1,085**	**1,539**	**438**	**2,508**	**9,999**
At 31 December 2018							
Non-current assets	21,712	7,876	3,168	2,959	5,201	6,966	47,882
Current assets							
Cash and cash equivalents	116	622	144	8	48	399	1,337
Other current assets	2,684	1,083	55	1	710	967	5,500
	2,800	1,705	199	9	758	1,366	6,837
Current liabilities							
Financial liabilities [a]	(3,517)	(492)	(308)	–	(3,215)	(588)	(8,120)
Other current liabilities [a]	(1,552)	(850)	(139)	–	(259)	(376)	(3,176)
	(5,069)	(1,342)	(447)	–	(3,474)	(964)	(11,296)
Non-current liabilities							
Financial liabilities [a]	(3,759)	(5,551)	–	–	(859)	(1,866)	(12,035)
Shareholders' loans	–	–	(770)	–	–	–	(770)
Other non-current liabilities [a]	(1,651)	(59)	(41)	–	(27)	(28)	(1,806)
	(5,410)	(5,610)	(811)	–	(886)	(1,894)	(14,611)
Non-controlling interests	(6,033)	–	–	–	–	–	(6,033)
Net assets	8,000	2,629	2,109	2,968	1,599	5,474	22,779
Group's share of net assets	2,400	1,840	843	1,484	470	2,288	9,325
Goodwill	–	–	–	–	–	41	41
Interests in joint ventures	2,400	1,840	843	1,484	470	2,329	9,366
Loan to a joint venture	–	–	308 [b]	–	–	–	308
	2,400	1,840	1,151	1,484	470	2,329	9,674

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

Notes:

(a) Financial liabilities exclude trade and other payables and provisions, which are included in other current and non-current liabilities.

(b) Loan to SNGPC is unsecured, carries interest at 90% (2018: 90%) of the over five years Renminbi benchmark lending rate of the People's Bank of China and with final maturity in June 2022. The current portion of the loan of HK$121 million (2018: HK$123 million) was included in the Group's trade and other receivables. There was no impairment recognised on the loan at 31 December 2019 and 2018.

	2019 HK$M	2018 HK$M
Share of capital commitments	**410**	422
Share of lease and other commitments *	**2,725**	438
Share of contingent liabilities	**55**	56

* Representing the share of lease and other commitments in relation to the use and operation of a floating storage and regasification unit of HK$2,725 million (2018: nil)

The Group's capital commitments in relation to its interests in joint ventures are disclosed in Note 31(C).

15. Interests in Associates Accounting Policy No. 4(B)

The table below lists the associates of the Group at 31 December 2019:

Name	**% of Ownership Interest at 31 December 2018 and 2019**	**Place of Incorporation / Business**	**Principal Activity**
Guangdong Nuclear Power Joint Venture Company, Limited (GNPJVC) [a]	25	Mainland China	Generation of Electricity
Yangjiang Nuclear Power Co., Ltd. (Yangjiang Nuclear) [a]	17	Mainland China	Generation of Electricity

More detailed information of our associates can be found on "Our Portfolio" on pages 6 to 8 of the Annual Report.

15. Interests in Associates (continued)

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

	GNPJVC HK$M	Yangjiang Nuclear[b] HK$M
For the year ended 31 December 2019		
Revenue	**8,213**	**16,514**
Profit and total comprehensive income	**3,949**	**4,943**
Group's share of profit and total comprehensive income	**987**	**841**
Dividend income from associates	**17**	**717**
For the year ended 31 December 2018		
Revenue	8,002	15,791
Profit and total comprehensive income	3,868	5,269
Group's share of profit and total comprehensive income	967	896
Dividend income from associates	1,878	–
At 31 December 2019		
Non-current assets	**3,294**	**100,420**
Current assets	**10,080**	**12,435**
Current liabilities	**(1,996)**	**(12,705)**
Non-current liabilities	**(4,338)**	**(59,279)**
Net assets	**7,040**	**40,871**
Group's share of net assets	**1,760**	**6,948**
At 31 December 2018		
Non-current assets	2,879	101,545
Current assets	9,835	12,745
Current liabilities	(5,469)	(17,316)
Non-current liabilities	(4,045)	(56,115)
Net assets	3,200	40,859
Group's share of net assets	800	6,946

At 31 December 2019, the Group's share of capital commitments of its associates was HK$1,317 million (2018: HK$1,526 million).

Notes:

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

(b) The share of results of Yangjiang Nuclear included amortisation of the fair value adjustment on fixed assets.

16. Derivative Financial Instruments

Accounting Policy

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

The Group documents at the inception of the transaction the intended relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging relationship meets the hedge effectiveness requirements.

(A) Fair value hedges

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

(B) Cash flow hedges

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

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

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any cumulative gain or loss remains in equity at that time is accounted for according to the nature of the underlying transactions (as discussed above) once the hedged cash flow occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that has been reported in equity is reclassified to profit or loss immediately.

(C) Derivatives not qualifying for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting and changes in the fair values of these derivative financial instruments are recognised immediately in profit or loss.

16. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(D) Costs of hedging

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

(E) Rebalancing of hedge relationships

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

	2019		2018	
	Assets HK$M	**Liabilities HK$M**	Assets HK$M	Liabilities HK$M
Cash flow hedges				
Forward foreign exchange contracts	**38**	**77**	88	65
Foreign exchange options	**19**	**–**	31	–
Cross currency interest rate swaps	**206**	**756**	147	767
Interest rate swaps	**26**	**44**	97	19
Energy contracts	**1,701**	**931**	883	746
Fair value hedges				
Cross currency interest rate swaps	**–**	**142**	3	455
Interest rate swaps	**–**	**44**	–	86
Not qualifying as accounting hedges				
Forward foreign exchange contracts	**242**	**44**	237	24
Interest rate swaps	**20**	**1**	26	2
Energy contracts	**172**	**259**	287	645
	2,424	**2,298**	1,799	2,809
Current	**1,035**	**993**	799	1,262
Non-current	**1,389**	**1,305**	1,000	1,547
	2,424	**2,298**	1,799	2,809

At 31 December 2019, the contractual maturity profile of the hedging instruments from the end of the reporting period is summarised below:

Forward foreign exchange contracts	Up to 6 years
Foreign exchange options	Up to 3 years
Cross currency interest rate swaps	Up to 11 years
Interest rate swaps	Up to 13 years
Energy contracts	Up to 11 years

17. Other Non-current Assets

Accounting Policy

(A) Investments

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

Other financial assets (mainly investments in funds) are initially recognised at fair value and are subsequently measured at fair value through profit or loss.

(B) Contract acquisition costs

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

(C) Service concession receivables

The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction. Such financial assets are initially measured at fair value and are subsequently measured at amortised cost.

	2019 HK$M	2018 HK$M
Investments at fair value through other comprehensive income	**331**	300
Investments at fair value through profit or loss	**247**	101
Contract acquisition costs	**136**	217
Defined benefit asset	**134**	142
Service concession receivables (note)	**255**	–
Others	**177**	144
	1,280	904

Note: In November 2019, the Group acquired 100% of interest in Satpura Transco Private Limited (STPL) (formerly known as Kalpataru Satpura Transco Private Limited) at a consideration of HK$95 million (Rs873 million). STPL operates 400kv transmission lines in Madhya Pradesh, India, on Design, Build, Finance, Operate and Transfer basis which is considered as a service concession arrangement under HK(IFRIC) Interpretation 12. The current portion of HK$10 million is included under the Group's trade and other receivables.

18. Property under Development

Accounting Policy

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

On 18 December 2017, the Group and Sino Land Company Limited (Sino Land) agreed to collaborate on redeveloping the Group's former headquarters at Argyle Street for residential purposes and to preserve the Clock Tower building for community use. Under the development arrangement, Sino Land is fully responsible for all development costs such as land premium, construction costs, professional fees etc. and paid a non-refundable upfront payment of HK$3 billion to the Group. When the property is completed and sold, the Group is entitled to share a percentage of the sale proceeds.

The arrangement entered into by the Group and Sino Land does not involve an establishment of a separate legal entity and is considered as a joint operation under HKFRS 11 Joint Arrangements. The non-refundable upfront payment forms part of the proceeds from the property development and is recorded as deferred revenue (Note 22(e)). When legal titles of the units in the developed property are passed to the purchasers, deferred revenue and the percentage share of the sale proceeds which the Group is entitled will be credited to the profit or loss as revenue, while property under development will be charged to the profit or loss as cost of development.

19. Trade and Other Receivables

Accounting Policy

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

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

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

19. Trade and Other Receivables (continued)

Critical Accounting Estimates and Judgements: Recoverability of Trade Receivables

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

	2019 HK$M	2018 HK$M
Trade receivables [(a)]	**10,791**	11,229
Deposits, prepayments and other receivables	**1,985**	3,547
Dividend receivables from		
Joint ventures	**80**	57
Associates	**–**	949
Loans to and current accounts with [(b)]		
Joint ventures	**129**	134
Associates	**1**	1
	12,986	15,917

Notes:

(a) Trade receivables

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

	2019 HK$M	2018 HK$M
30 days or below *	**8,237**	8,992
31 – 90 days	**869**	820
Over 90 days	**1,685**	1,417
	10,791	11,229

* Including unbilled revenue

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Credit risk management

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

In Hong Kong, customers are allowed to settle their electricity bills within two weeks after issue. To limit the credit risk exposure, customers' receivable balances are generally secured by cash deposits or bank guarantees from customers for an amount determined from time to time by reference to the usage of the customers, and in the normal course of events will not exceed the highest expected charge for 60 days. At 31 December 2019, such cash deposits amounted to HK$5,677 million (2018: HK$5,474 million) and the bank guarantees stood at HK$834 million (2018: HK$796 million). For all the deposits held, customers are paid a floating market interest rate equivalent to the HSBC bank savings rate. The customers' deposits are treated on the statement of financial position as current liabilities on the basis that they are repayable on demand.

In Australia, customers are allowed to settle their electricity bills in no more than 47 days after issue. EnergyAustralia has policies in place to ensure that sales of products and services are made to most retail customers (including residential and commercial customers) of an appropriate credit quality and collectability is reviewed on an ongoing basis.

Trade receivables arising from sales of electricity to the offtakers in Mainland China and India are due for settlement within 30 to 90 days and 15 to 60 days after bills issue respectively. The offtakers of these regions are mainly state-owned enterprises. Management has closely monitored the credit qualities and the collectability of these trade receivables and consider that the expected credit risks of them are close to zero.

Expected credit losses

For trade receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance. CLP Power Hong Kong and EnergyAustralia determine the provision for expected credit losses by grouping together trade receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions.

CLP Power Hong Kong

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

	Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
At 31 December 2019				
Active accounts				
Provision on individual basis	**100%**	**4**	**(3)**	**1**
Provision on collective basis	**0%** *	**2,056**	**–**	**2,056**
Terminated accounts				
Provision on individual basis	**100%**	**7**	**(7)**	**–**
Provision on collective basis	**26%**	**4**	**(1)**	**3**
		2,071	**(11)**	**2,060**
At 31 December 2018				
Active accounts				
Provision on individual basis	100%	1	(1)	–
Provision on collective basis	0% *	2,105	–	2,105
Terminated accounts				
Provision on individual basis	100%	8	(8)	–
Provision on collective basis	18%	4	(1)	3
		2,118	(10)	2,108

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

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

EnergyAustralia

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

	Weighted Average Lifetime Expected Credit Loss Rate	Gross Carrying Amount HK$M	Lifetime Expected Credit Loss HK$M	Net Carrying Amount HK$M
At 31 December 2019				
Current	**1%**	**4,153**	**(36)**	**4,117**
1 – 30 days	**7%**	**483**	**(27)**	**456**
31 – 60 days	**15%**	**194**	**(30)**	**164**
61 – 90 days	**22%**	**165**	**(35)**	**130**
Over 90 days	**52%**	**1,131**	**(587)**	**544**
		6,126	**(715)**	**5,411**
At 31 December 2018				
Current	1%	4,834	(37)	4,797
1 – 30 days	8%	435	(35)	400
31 – 60 days	16%	268	(44)	224
61 – 90 days	23%	190	(44)	146
Over 90 days	53%	956	(509)	447
		6,683	(669)	6,014

Mainland China

As at 31 December 2019, the Group had total receivables of HK$1,268 million (2018: HK$972 million) relating to unpaid Renewable National Subsidies. The application, approval and settlement of the Renewable National Subsidy are governed by the relevant policies issued by the Central People's Government. All of the Group's Mainland China renewable projects are qualified for renewable energy subsidy in accordance with the prevailing government policies. There is no due date for the settlement of renewable national subsidies as the collection is subject to the allocation of funds by relevant government authorities to local grid companies, which takes a relatively long time for settlement. These amounts were considered fully recoverable as continuous settlements have been noted with no history of default and the subsidy is funded by the Renewable Energy Development Fund set up and administered by the Ministry of Finance.

India

At 31 December 2019, CLP India's renewable projects have trade receivables of HK$805 million (2018: HK$487 million) of which HK$704 million (2018: HK$437 million) were past due. These amounts were not considered impaired as there are no recent history of default and continuous payments received. Trade receivables in dispute are assessed individually for impairment allowance in order to determine whether specific provisions are required. Disputed trade receivables of Paguthan and Jhajjar totalling HK$855 million (2018: HK$850 million) were provided in full as there is no reasonable expectation of recovery. Further information about disputes with offtakers is disclosed in Note 33.

19. Trade and Other Receivables (continued)

Notes (continued):

(a) Trade receivables (continued)

Expected credit losses (continued)

Movements in Provision for Impairment

	2019 HK$M	2018 HK$M
Balance at 1 January	**1,532**	1,427
Provision for impairment	**384**	892
Receivables written off during the year as uncollectible	**(302)**	(641)
Amounts reversed	**(1)**	(2)
Exchange differences	**(30)**	(144)
Balance at 31 December	**1,583**	1,532

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

20. Bank Balances, Cash and Other Liquid Funds

Accounting Policy

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

	2019 HK$M	2018 HK$M
Trust accounts restricted under TRAA [(a)]	**279**	398
Deposits with banks	**6,318**	9,557
Cash at banks and on hand	**1,729**	2,171
Bank balances, cash and other liquid funds [(b)]	**8,326**	12,126
Excluding:		
Cash restricted for specific purposes [(a)]	**(279)**	(398)
Bank deposits with maturities of more than three months	**(166)**	(4,363)
Short-term deposits and restricted cash	**(445)**	(4,761)
Cash and cash equivalents	**7,881**	7,365

Notes:

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

(b) The Group's bank balances, cash and other liquid funds denominated in the currencies other than the functional currencies of the respective entities amounted to HK$380 million (2018: HK$963 million) which was mostly denominated in Renminbi (2018: Renminbi).

21. Fuel Clause Account

Cost of fuel consumed by CLP Power Hong Kong is passed on to customers. Any variations between the actual cost of fuel and the fuel cost billed are captured in the fuel clause account. The balance of the account (inclusive of interest) represents amounts over-recovered or under-recovered and is treated as an amount due to or from customers. Interest charged to customers on the amount under-recovered is based on the actual borrowing cost of CLP Power Hong Kong, while interest is credited to customers at prime rate on the amount over-recovered. CLP Power Hong Kong may adjust fuel related tariff from time to time, including on a monthly basis, in accordance with the SoC to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity.

22. Trade Payables and Other Liabilities

Accounting Policy

(A) Trade and other payables

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

(B) Lease liabilities (applicable from 1 January 2019)

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments with reference to an expected lease term, which includes optional lease periods when the lessee is reasonably certain to exercise the option to extend or not to terminate the lease. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

Lease payments are discounted using the interest rate implicit in the lease, if this cannot be readily determined, an incremental borrowing rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment, over a similar term and with a similar security. Lease liabilities are subsequently measured by increasing the carrying amounts to reflect interest on the lease liabilities (using the effective interest method) and by reducing the carrying amounts to reflect the lease payments made. Lease liabilities are remeasured (with a corresponding adjustment made to the related right-of-use asset) when there is a change in future lease payments in case of renegotiation, changes of an index or rate or in case of reassessment of options under certain conditions.

	2019 HK$M	2018 HK$M
Trade payables [(a)]	**5,850**	6,653
Other payables and accruals	**6,743**	7,273
Lease liabilities [(b)]	**99**	21
Advances from non-controlling interests [(c)]	**1,344**	1,522
Current accounts with [(d)]		
Joint ventures	**1**	1
Associates	**468**	517
Deferred revenue [(e)]	**3,081**	3,074
	17,586	19,061

22. Trade Payables and Other Liabilities (continued)

Notes:

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

	2019 HK$M	2018 HK$M
30 days or below	**5,580**	6,404
31 – 90 days	**172**	145
Over 90 days	**98**	104
	5,850	6,653

At 31 December 2019, trade payables denominated in currencies other than the functional currencies of the corresponding Group entities amounted to HK$660 million (2018: HK$681 million), of which HK$488 million (2018: HK$569 million) were denominated in US dollar.

(b) At 31 December 2019, the non-current portion of lease liabilities of HK$208 million (2018: HK$58 million) was included under other non-current liabilities.

(c) The advances from non-controlling interests represented the advances from China Southern Power Grid International (HK) Co., Limited (CSGHK) to CAPCO. Pursuant to the agreement between the shareholders of CAPCO, both CLP Power Hong Kong and CSGHK are required to provide shareholders' advances pro rata to their shareholdings in CAPCO. These advances are unsecured, interest free and repayable on demand. The advances are denominated in Hong Kong dollar.

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

(e) Deferred revenue included the non-refundable upfront payment for the property development at Argyle Street of HK$3 billion (2018: HK$3 billion) (Note 18) and payments received in advance for other services. Non-current deferred revenue of HK$1,295 million (2018: HK$1,216 million) was included under other non-current liabilities.

23. Bank Loans and Other Borrowings

Accounting Policy

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

At 31 December 2019, the Group's bank loans and other borrowings were repayable as follows:

	Bank Loans		Other Borrowings *		Total	
	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M
Within one year	**9,331**	11,935	**4,220**	1,600	**13,551**	13,535
Between one and two years	**4,957**	3,858	**3,332**	4,183	**8,289**	8,041
Between two to five years	**4,395**	3,876	**6,015**	8,229	**10,410**	12,105
Over five years	**3,423**	4,364	**16,676**	17,253	**20,099**	21,617
	22,106	24,033	**30,243**	31,265	**52,349**	55,298

* Other borrowings mainly included Medium Term Notes of HK$28,677 million (2018: HK$29,405 million) and bonds of HK$1,539 million (2018: HK$1,558 million).

Another presentation of the Group's liquidity risk is set out on pages 285 to 287.

23. Bank Loans and Other Borrowings (continued)

Total borrowings included secured liabilities of HK$10,654 million (2018: HK$11,709 million), analysed as follows:

	2019 HK$M	2018 HK$M
CLP India group [a]	**5,402**	6,182
Subsidiaries in Mainland China [b]	**5,252**	5,527
	10,654	11,709

Notes:

(a) Bank loans and bonds for CLP India group are secured by fixed and floating charges over their immovable and movable properties and current assets with total carrying amounts of HK$11,878 million (2018: HK$12,740 million).

(b) Bank loans for subsidiaries in Mainland China are secured by rights of receipt of tariff and by fixed assets and land use rights with carrying amounts of HK$9,328 million (2018: HK$9,002 million).

At 31 December 2019 and 2018, all of the Group's borrowings are either in the functional currencies of the corresponding Group entities or hedged into those currencies.

At 31 December 2019, the Group had undrawn bank loans and overdraft facilities of HK$18,854 million (2018: HK$24,059 million).

24. Deferred Tax

Accounting Policy

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

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

	2019 HK$M	2018 HK$M
Deferred tax assets	**524**	835
Deferred tax liabilities	**(15,117)**	(14,650)
	(14,593)	(13,815)

Deferred tax asset = income tax recoverable in the future

Deferred tax liability = income tax payable in the future

24. Deferred Tax (continued)

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

	2019 HK$M	2018 HK$M
Balance at 1 January	**(13,815)**	(13,420)
Acquisition of subsidiaries	**(9)**	(19)
Charged to profit or loss (Note 7)	**(598)**	(449)
(Charged) / credited to other comprehensive income	**(166)**	116
Exchange differences	**(5)**	(43)
Balance at 31 December	**(14,593)**	(13,815)

Deferred tax assets (prior to offset)

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

	Tax Losses [a]		**Accruals and Provisions**		**Others [b]**		**Total**	
	2019 HK$M	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M
Balance at 1 January	**844**	908	**1,394**	1,345	**867**	616	**3,105**	2,869
Acquisition of subsidiaries	**–**	11	**–**	80	**–**	–	**–**	91
(Charged) / credited to profit or loss	**(339)**	2	**(74)**	101	**(24)**	297	**(437)**	400
Credited to other comprehensive income	**–**	–	**1**	3	**8**	5	**9**	8
Exchange differences	**(16)**	(77)	**(18)**	(135)	**(17)**	(51)	**(51)**	(263)
Balance at 31 December	**489**	844	**1,303**	1,394	**834**	867	**2,626**	3,105

Deferred tax liabilities (prior to offset)

	Accelerated Tax Depreciation		**Withholding Tax**		**Intangibles**		**Others [b]**		**Total**	
	2019 HK$M	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M	**2019 HK$M**	2018 HK$M
Balance at 1 January	**(15,177)**	(14,218)	**(183)**	(121)	**(934)**	(1,049)	**(626)**	(901)	**(16,920)**	(16,289)
Acquisition of subsidiaries	**(9)**	(110)	**–**	–	**–**	–	**–**	–	**(9)**	(110)
(Charged) / credited to profit or loss	**(187)**	(828)	**(102)**	(66)	**138**	101	**(10)**	(56)	**(161)**	(849)
(Charged) / credited to other comprehensive income	**–**	–	**–**	–	**–**	–	**(175)**	108	**(175)**	108
Transfer of finance lease receivables to fixed assets	**–**	(139)	**–**	–	**–**	–	**–**	139	**–**	–
Exchange differences	**34**	118	**1**	4	**1**	14	**10**	84	**46**	220
Balance at 31 December	**(15,339)**	(15,177)	**(284)**	(183)	**(795)**	(934)	**(801)**	(626)	**(17,219)**	(16,920)

Notes:

(a) The deferred tax asset arising from tax losses related to the electricity business in India of HK$485 million (2018: HK$843 million). There is no expiry on tax losses recognised.

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

25. SoC Reserve Accounts

Critical Accounting Estimates and Judgements: Classification of SoC-related Accounts

As stipulated in the SoC, the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve shall represent liabilities in the financial statements of CLP Power Hong Kong and shall not accrue to the benefit of its shareholders save as provided for by the SoC. CLP Power Hong Kong also has the obligation to maintain the Fuel Clause Account (Note 21). The Group considers that CLP Power Hong Kong is required under the SoC to discharge its obligations arising from the SoC upon the expiry of the SoC Agreement such that the balances in the Tariff Stabilisation Fund and the Rate Reduction Reserve meet the definition of a financial liability.

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

	2019 HK$M	2018 HK$M
Tariff Stabilisation Fund (A)	**1,478**	941
Rate Reduction Reserve (B)	**22**	11
Rent and Rates Refunds (C)	**–**	46
	1,500	998

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

(A) Tariff Stabilisation Fund

	2019 HK$M	2018 HK$M
At 1 January	**941**	746
Transfer from Rate Reduction Reserve	**11**	4
Transfer under the SoC [(a)]		
– transfer for SoC from revenue (Note 3)	**714**	322
– charge for asset decommissioning [(b)]	**(188)**	(131)
At 31 December	**1,478**	941

Notes:

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

(b) Under the SoC, a periodic charge to accrue for asset decommissioning is made with corresponding deferred liabilities recognised in the statement of financial position of the SoC Companies. The balance of the asset decommissioning liabilities account of HK$1,179 million (2018: HK$991 million) (Note 26) recognised under the SoC represents a liability of the Group.

25. SoC Reserve Accounts (continued)

(B) Rate Reduction Reserve

	2019 HK$M	2018 HK$M
At 1 January	**11**	4
Transfer to Tariff Stabilisation Fund	**(11)**	(4)
Interest expense charged to profit or loss (Note 6)	**22**	11
At 31 December	**22**	11

(C) Rent and Rates Refunds

CLP Power Hong Kong has been challenging the amount of Government rent and rates levied dating back to the year of assessment 2001/02. While the appeals up to 2007/08 have been settled, final resolution for the remaining appeals for rating years from 2008/09 has not yet been completed.

Interim refunds of HK$757 million have been paid by the Hong Kong Government on a without prejudice basis for the appeal years 2008/09 to 2012/13. Using the refunds received (totalling HK$2,054 million including the interim refunds), CLP Power Hong Kong has provided customers with the Rent and Rates Special Rebate. In 2019 a rebate of HK$46 million was paid to customers. All refunds received to date have been fully expended.

CLP Power Hong Kong maintains that it will recover no less than the interim refunds received to date for the remaining years under appeal in the final outcome of these appeals. The rent and rates refunds are classified within the SoC reserve accounts, and the Rent and Rates Special Rebate to customers was offset against the refunds received.

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

26. Asset Decommissioning Liabilities and Retirement Obligations

Accounting Policy

When the Group has a legal / or constructive obligation for remediation and the likelihood of economic outflow is probable, provisions for asset retirement obligations are recorded for estimated remediation costs of reclamation, plant closure, dismantling and waste disposal. A provision for asset retirement costs is determined by estimating the expected costs associated to remediate the site based on the current legal requirements and technologies and is discounted to its present value with an unwind adjustment recognised in finance costs. An asset is recognised on initial recognition of the provision and is depreciated over the useful life of the facility. The asset retirement costs are reviewed annually and adjustments are made to the carrying amount of the assets to reflect changes made to these estimated discount rates or future costs.

Critical Accounting Estimates and Judgements

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

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

In 2017 the Hong Kong Government released the Climate Action Plan 2030+ with a tightened carbon reduction target by 2030. As part of the new development plan agreed with the Hong Kong Government in 2018, CAPCO will retire the coal-fired generation units at Castle Peak A Station (CPA) between 2022 to 2025. Following this retirement, the removal of CPA's coal-fired generation units has become probable. It is also envisaged that with the Hong Kong Government's continued commitment to reduce carbon intensity, the removal of CAPCO's other fossil-fuel generation units from the existing land sites may be possible at some point of time in the future. Under the SoC, CAPCO makes a periodic charge to accrue in the statement of financial position a liability balance to be utilised in discharging asset decommissioning costs if and when incurred. CAPCO considers that the dismantling obligation for the CPA units is covered under the asset decommissioning liability accrued under the SoC as at 31 December 2019. While no provision for asset retirement obligations for the other generation units of CAPCO has been recognised, it is expected that if such an obligation be incurred, it will be met by the liability accrued and the cost recovery mechanism under the SoC.

Asset retirement obligations of EnergyAustralia amounted to HK$2,411 million (2018: HK$2,630 million) which mainly related to the provision for land remediation and decommissioning of generation assets. The provisions are largely based on estimates by external and internal experts that are discounted using internally determined end of plant lives. The calculation of the provision requires management judgement with respect to estimating the timing of asset removal, costs to remove infrastructure, remediate soil and groundwater, water usage and technological developments. On an ongoing basis, we continually review and update underlying assumptions relating to forward rehabilitation estimates and timelines.

26. Asset Decommissioning Liabilities and Retirement Obligations (continued)

	2019 HK$M	2018 HK$M
Asset decommissioning liabilities (Note 25(A)(b))	**1,179**	991
Provisions for land remediation and restoration costs (note)	**2,334**	2,567
	3,513	3,558

Note: The movement of the balances, including the current portion of HK$77 million (2018: HK$63 million) under the Group's trade payables and other liabilities, is as follows:

	2019 HK$M	2018 HK$M
Balance at 1 January	**2,630**	2,182
Acquisition of subsidiaries	**–**	183
Additional provisions	**11**	432
Effect of changes in discount rate	**3**	56
Amounts used	**(43)**	(36)
Unused amounts reversed	**(228)**	–
Unwinding of discount	**71**	68
Exchange differences	**(33)**	(255)
Balance at 31 December	**2,411**	2,630

27. Share Capital

	2019		2018	
	Number of Ordinary Shares	Amount HK$M	Number of Ordinary Shares	Amount HK$M
Issued and fully paid, at 31 December	**2,526,450,570**	**23,243**	2,526,450,570	23,243

28. Reserves

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2018	(3,313)	668	(53)	2,853	85,472	85,627
Earnings attributable to shareholders	–	–	–	–	13,550	13,550
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(4,411)	85	(15)	–	(70)	(4,411)
Joint ventures	(463)	–	–	–	–	(463)
Associates	(352)	–	–	–	–	(352)
Cash flow hedges						
Net fair value gains	–	342	–	–	–	342
Reclassification to profit or loss	–	(723)	–	–	–	(723)
Tax on the above items	–	104	–	–	–	104
Costs of hedging						
Net fair value losses	–	–	(70)	–	–	(70)
Amortisation / reclassification to profit or loss	–	–	104	–	–	104
Tax on the above items	–	–	(6)	–	–	(6)
Fair value losses on equity investments	–	–	–	(37)	–	(37)
Remeasurement losses on defined benefit plans	–	–	–	–	(8)	(8)
Share of other comprehensive income of joint ventures and an associate	–	(3)	–	4	4	5
Total comprehensive income attributable to shareholders	(5,226)	(195)	13	(33)	13,476	8,035
Transfer to fixed assets	–	(44)	(1)	–	–	(45)
Appropriation of reserves	–	–	–	134	(134)	–
Dividends paid						
2017 fourth interim	–	–	–	–	(2,880)	(2,880)
2018 first to third interim	–	–	–	–	(4,623)	(4,623)
Change in ownership interests in a subsidiary	1,110	(25)	(2)	(1,387)	–	(304)
Balance at 31 December 2018	(7,429)	404	(43)	1,567	91,311 (note)	85,810

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

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

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

28. Reserves (continued)

	Translation Reserves HK$M	Cash Flow Hedge Reserve HK$M	Costs of Hedging Reserves HK$M	Other Reserves HK$M	Retained Profits HK$M	Total HK$M
Balance at 1 January 2019	(7,429)	404	(43)	1,567	91,311	85,810
Earnings attributable to shareholders	–	–	–	–	4,657	4,657
Other comprehensive income						
Exchange differences on translation of						
Subsidiaries	(586)	(2)	–	–	2	(586)
Joint ventures	(136)	–	–	–	–	(136)
Associates	(131)	–	–	–	–	(131)
Cash flow hedges						
Net fair value gains	–	797	–	–	–	797
Reclassification to profit or loss	–	(199)	–	–	–	(199)
Tax on the above items	–	(171)	–	–	–	(171)
Costs of hedging						
Net fair value losses	–	–	(74)	–	–	(74)
Amortisation / reclassification to profit or loss	–	–	79	–	–	79
Tax on the above items	–	–	(1)	–	–	(1)
Fair value gains on equity investments	–	–	–	31	–	31
Remeasurement losses on defined benefit plans	–	–	–	–	(4)	(4)
Share of other comprehensive income of joint ventures	–	1	–	–	–	1
Total comprehensive income attributable to shareholders	(853)	426	4	31	4,655	4,263
Transfer to fixed assets	–	1	–	–	–	1
Appropriation of reserves	–	–	–	14	(14)	–
Dividends paid						
2018 fourth interim	–	–	–	–	(3,007)	(3,007)
2019 first to third interim	–	–	–	–	(4,775)	(4,775)
Acquisition of non-controlling interests	–	–	–	10	–	10
Reclassification of perpetual capital securities to other borrowings	–	–	–	–	(90)	(90)
Balance at 31 December 2019	**(8,282)**	**831**	**(39)**	**1,622**	**88,080** (note)	**82,212**

Note: The fourth interim dividend declared for the year ended 31 December 2019 was HK$3,007 million (2018: HK$3,007 million). The balance of retained profits after the fourth interim dividend of the Group was HK$85,073 million (2018: HK$88,304 million).

29. Perpetual Capital Securities and Redeemable Shareholder Capital

(A) Perpetual Capital Securities

A total of US$750 million perpetual capital securities (the "Old Securities") was issued by the wholly owned subsidiary, CLP Power HK Finance Ltd. (CLPPHKFL) in 2014. Pursuant to the terms and conditions of the Old Securities, all the outstanding principles were redeemed together with the distributions accrued on 7 November 2019.

CLPPHKFL issued US$500 million perpetual capital securities (the "New Securities") on 6 November 2019 and applied US$250 million internal resources to redeem the Old Securities. The New Securities are perpetual, non-callable in the first 5.25 years (with issuer call option at par at any time in the 3 months before 5 February 2025) and entitle the holders to receive distributions at a distribution rate of 3.55% per annum in the first 5.25 years, floating thereafter and with fixed step up margins at year 10.25 and at year 25.25, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, as long as the issuer and CLP Power Hong Kong, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capitals within each distribution payment period.

29. Perpetual Capital Securities and Redeemable Shareholder Capital (continued)

(B) Other Non-controlling Interests

Other non-controlling interests included CSG HK's pro-rata share of HK$5,115 million (2018: HK$5,115 million) of redeemable shareholder capital of CAPCO. The redeemable shareholder capital is subordinated, unsecured, interest free and has no fixed terms of repayment. CAPCO can, at its sole discretion, redeem all or part of the redeemable shareholder capital at any time after 31 December 2032.

As both the perpetual capital securities and redeemable shareholder capital do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as a part of non-controlling interests.

30. Notes to the Consolidated Statement of Cash Flows

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

	2019 HK$M	2018 HK$M
Profit before income tax	**8,541**	18,641
Adjustments for:		
Finance costs	**1,983**	2,049
Finance income	**(162)**	(192)
Dividend income from equity investments	**(13)**	(13)
Share of results of joint ventures and associates, net of income tax	**(2,713)**	(2,336)
Depreciation and amortisation	**8,118**	8,005
Impairment charge	**6,782**	912
Net loss on disposal of fixed assets	**424**	416
Revaluation loss / (gain) on investment property	**83**	(18)
Fair value changes of non-debt related derivative financial instruments and net exchange difference	**(230)**	(522)
SoC items		
Increase in customers' deposits	**203**	256
Increase / (decrease) in fuel clause account	**186**	(1,382)
Net decrease in rent and rates refunds	**(46)**	(181)
Transfer for SoC	**714**	322
	1,057	(985)
Decrease / (increase) in trade receivables and other current assets	**341**	(688)
Decrease in finance lease receivables	**–**	64
Decrease / (increase) in cash restricted for specific purposes	**119**	(51)
Changes in non-debt related derivative financial instruments	**(56)**	694
(Decrease) / increase in trade and other payables	**(725)**	361
(Decrease) / increase in current accounts due to joint ventures and associates	**(47)**	247
Net cash inflow from operations	**23,502**	26,584

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

(B) Reconciliation of liabilities arising from financing activities

	Bank Loans and Other Borrowings HK$M	Interest and Other Finance Costs Payables HK$M	Lease Liabilities HK$M	Debt-related Derivative Financial Instruments HK$M	Advances from Non-controlling Interests HK$M	Total HK$M
Balance at 1 January 2018	57,341	310	23	642	1,514	59,830
Cash flows changes						
Proceeds from long-term borrowings	3,906	–	–	–	–	3,906
Repayment of long-term borrowings	(6,660)	–	–	–	–	(6,660)
Increase in short-term borrowings	300	–	–	–	–	300
Interest and other finance costs paid	–	(1,890)	–	–	–	(1,890)
Settlement of derivative financial instruments	–	–	–	130	–	130
Decrease in advances from non-controlling interests	–	–	–	–	(1)	(1)
Non-cash changes						
Acquisitions of subsidiaries	1,209	3	–	–	9	1,221
Fair value gains of derivative financial instruments to equity	–	–	–	(80)	–	(80)
Additions of leases	–	–	60	–	–	60
Net exchange and translation difference	(849)	(9)	(6)	26	–	(838)
Interest and other finance costs charged to profit or loss	–	1,843	2	39	–	1,884
Other non-cash movements	51	6	–	–	–	57
Balance at 31 December 2018	55,298	263	79	757	1,522	57,919
Balance at 1 January 2019, as previously reported	55,298	263	79	757	1,522	57,919
Effect of adoption of HKFRS 16	–	–	178	–	–	178
Balance at 1 January 2019, as restated	55,298	263	257	757	1,522	58,097
Cash flows changes						
Proceeds from long-term borrowings	6,410	–	–	–	–	6,410
Repayment of long-term borrowings	(8,796)	–	–	–	–	(8,796)
Redemption of perpetual capital securities	(5,874)	–	–	–	–	(5,874)
Decrease in short-term borrowings	(968)	–	–	–	–	(968)
Interest and other finance costs paid	–	(1,771)	–	–	–	(1,771)
Settlement of derivative financial instruments	–	–	–	(50)	–	(50)
Payment of principal portion of lease liabilities	–	–	(126)	–	–	(126)
Decrease in advances from non-controlling interests	–	–	–	–	(178)	(178)
Non-cash changes						
Acquisitions of subsidiaries	381	2	–	–	–	383
Fair value losses of derivative financial instruments to equity	–	–	–	138	–	138
Additions of leases	–	–	164	–	–	164
Net exchange and translation difference	(28)	–	(4)	6	–	(26)
Interest and other finance costs charged to profit or loss	–	1,747	16	(277)	–	1,486
Reclassification from perpetual capital securities	5,881	–	–	–	–	5,881
Other non-cash movements	45	(16)	–	–	–	29
Balance at 31 December 2019	**52,349**	**225**	**307**	**574**	**1,344**	**54,799**

31. Commitments

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

	2019 HK$M	2018 HK$M
Fixed assets and leasehold land	**6,571**	5,235
Intangible assets	**9**	262
	6,580	5,497

(B) At 31 December 2019, the total future lease payments for leases committed but not yet commenced in relation to land and buildings and a water treatment plant were HK$778 million and HK$694 million respectively.

(C) The Group has entered into agreements for the purchase of power transmission assets in India at a total consideration of approximately HK$1.3 billion (2018: nil). These agreements remain subject to certain regulatory approvals. At 31 December 2019, outstanding committed shareholder's loan facilities to a joint venture amounted to HK$1,533 million (2018: nil). In addition, equity contributions to be made for joint ventures and private equity partnerships were HK$75 million (2018: HK$27 million) and HK$115 million (2018: HK$136 million) respectively.

32. Related Party Transactions

Accounting Policy

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

Related Parties ≠ Connected Parties

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

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

(A) CLP Power Hong Kong is obliged to purchase 70% of the output from Guangdong Daya Bay Nuclear Power Station (GNPS). The price paid by CLP Power Hong Kong for electricity generated by GNPS throughout the terms of the PPAs is determined by a formula based on GNPS's operating costs and a calculation of profits with reference to the capacity factors. The purchase of nuclear electricity under the arrangement was HK$5,643 million (2018: HK$5,543 million).

Under separate purchase arrangements with GNPJVC and its shareholder, Guangdong Nuclear Investment Company Limited, CLP Power Hong Kong would purchase approximately 10% of additional nuclear electricity from GNPS on a best endeavour basis from October 2014 to end of 2023, at the same unit price as that under the above purchase arrangement. The purchase of nuclear electricity under the arrangements was HK$813 million (2018: HK$791 million).

(B) The loans and shareholder's loan facilities to joint ventures are disclosed under Notes 14 and 31(C) respectively. Other amounts due from and to the related parties at 31 December 2019 are disclosed in Notes 19 and 22 respectively. At 31 December 2019, the Group did not have any guarantees which were of a significant amount given to or received from these parties (2018: nil).

32. Related Party Transactions (continued)

(C) Remuneration of key management personnel

Under HKAS 24 Related Party Disclosures, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any directors (whether executive or otherwise) of the Group. The total remuneration of the key management personnel shown below comprises the Non-executive Directors and the Senior Management Group. Members of the Senior Management Group include two (2018: two) Executive Directors and nine (2018: nine) senior management personnel.

	2019 HK$M	2018 HK$M
Fees	**12**	11
Recurring remuneration items (note)		
Base compensation, allowances & benefits	**66**	66
Performance bonus		
Annual incentive	**61**	60
Long-term incentive	**53**	39
Provident fund contribution	**13**	13
Non-recurring remuneration items (note)		
Other payments	**9**	–
	214	189

Note: Refer to remuneration items on page 173 of Human Resources & Remuneration Committee Report.

At 31 December 2019, the CLP Holdings' Board was composed of twelve Non-executive Directors and two Executive Directors. Remuneration of all Directors for the year totalled HK$61 million (2018: HK$56 million). With respect to the emoluments of the highest paid employees, the five highest paid individuals in the Group during the year included two Directors (2018: two Directors) and three members (2018: three members) of Senior Management. The total remuneration of these five highest paid individuals amounted to HK$116 million (2018: HK$107 million).
Further details of the remuneration of the Directors and Senior Management, on a named basis, and remuneration paid to the five highest paid individuals by bands are disclosed in highlighted sections of the Human Resources & Remuneration Committee Report with a heading of "Audited" on pages 172 to 175 and 181 to 183. These sections form the "auditable" part of the Human Resources & Remuneration Committee Report and are part of the financial statements.

(D) Interest of Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2018: nil).

During the year and at the year end, no director of the Company had or has a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Group's business to which the Group was or is a party (2018: nil).

33. Contingent Liabilities

Accounting Policy

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

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

Critical Accounting Estimates and Judgements

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

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

This is a dispute between CLP India and its offtaker Gujarat Urja Vikas Nigam Limited (GUVNL) under the PPA for Paguthan Plant (Paguthan). GUVNL is required to make a “deemed generation incentive” payment to CLP India when plant availability is above a set threshold. GUVNL has been making such payments since December 1997.

In September 2005, GUVNL filed a petition before the Gujarat Electricity Regulatory Commission (GERC) claiming that the “deemed generation incentive” payment should not be paid for periods when Paguthan is declared with availability to generate on “naphtha” as fuel rather than on “gas”. GUVNL’s contention is based on a 1995 Government of India notification which disallowed “deemed generation incentive” for naphtha-based power plants. The total amount of the claim plus interest and tax with respect to the “deemed generation incentive” is Rs8,533 million (HK$931 million) as at 31 December 2019. CLP India’s position, amongst other arguments, is that Paguthan is not naphtha-based and therefore the Government of India notification does not apply to disallow the payments of the “deemed generation incentive”.

GUVNL also claimed that CLP India has wrongly received interest on “deemed loans” under the existing PPA. GUVNL’s claim rests on two main grounds: (i) CLP India had agreed that interest paid by GUVNL for the period from December 1997 to 1 July 2003 was to be refunded; and (ii) interest was to be calculated on a reducing balance rather than on the basis of a bullet repayment on expiry of the loan term. The total amount of the claim plus interest for the “deemed loans” amounts to a further Rs830 million (HK$91 million) (2018: Rs830 million (HK$93 million)).

In February 2009, the GERC found in favour of GUVNL on the “deemed generation incentive” but held that GUVNL’s claim up to 14 September 2002 was time-barred under the Limitations Act of India. The GERC also dismissed GUVNL’s claim to recover interest on the “deemed loans”. CLP India appealed the GERC’s decision to the Appellate Tribunal for Electricity (APTEL). GUVNL also filed an appeal against the order for the time-barred claim. In January 2010, the APTEL upheld the decision of the GERC. Both CLP India and GUVNL have filed further cross appeals in the Supreme Court of India. The appeals were heard by the Supreme Court on 24 September 2019 and are now reserved for judgment, which is expected to be received in 2020.

33. Contingent Liabilities (continued)

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

While CLP India has not altered its view regarding the legal merits of the claim, in view of the expiry of the PPA in December 2018 and uncertainty on the timing of recoverability, a provision of Rs3,796 million (HK$450 million) was made in 2018 against the amounts withheld by GUVNL. This will not prejudice the stance CLP India has taken all along and CLP India remains committed to pursuing this case and closing it successfully. If this is eventually achieved and the monies are recovered from GUVNL, the provision would be reversed.

At 31 December 2019, the time-barred portion of the claim plus interest and tax with respect to the "deemed generation incentive" amounted to Rs4,737 million (HK$517 million) (2018: Rs4,737 million (HK$530 million)). On the basis of legal advice obtained, the Directors are of the opinion that CLP India has a strong case on appeal to the Supreme Court. In consequence, no provision has been made in the financial statements at this stage in respect of the time-barred portion of the claim plus interest and tax.

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

CLP India group has invested in approximately 533MW of wind power projects developed with Wind World India Limited (WWIL). WWIL's major shareholder, Enercon GmbH, commenced litigation against WWIL claiming infringement of intellectual property rights. CLP India group, as a customer of WWIL, has been named as a defendant. Enercon GmbH is also seeking an injunction restraining CLP India group's use of certain rotor blades acquired from WWIL. As at 31 December 2019, the Group considered that CLP India group has good prospects of defending these claims and the legal proceedings are unlikely to result in any material outflow of economic benefits from the Group.

(C) JPL – Disputed Charges with Offtakers

JPL has disputes with its offtakers over "Commercial Operation Date" of the project, applicable tariff of capacity charges and energy charges relating to transit loss. At 31 December 2019, total disputed amounts were Rs3,034 million (HK$331 million) (2018: Rs2,719 million (HK$305 million)). The Group considers that JPL has a strong case and hence, no provision has been made.

JPL filed a petition to Central Electricity Regulatory Commission (CERC) against its offtakers in September 2013. In January and April 2016, CERC pronounced its judgment in favour of JPL, which supports the Group's decision that no provision should be made. The offtakers filed an appeal against the CERC's order at the APTEL in April 2016 and April 2017. JPL also filed an appeal challenging certain findings of the CERC in April and August 2016. The appeal proceedings are currently underway.

(D) EnergyAustralia – Disposal of Iona Gas Plant

In December 2015, EnergyAustralia completed the disposal of its entire interest in the Iona Gas Plant for a total consideration of A$1,780 million (HK$9,991 million). On 19 May 2017, EnergyAustralia received a Statement of Claim issued by Lochard Energy (Iona Operations Holding) Pty Ltd, the purchaser of the Iona Gas Plant, and certain related entities (together "the plaintiff"), commencing formal legal proceedings seeking A$967 million (approximately HK$5,269 million) or alternatively A$780 million (approximately HK$4,250 million) in damages. The claims allege that certain information regarding the technical performance of the Iona Gas Plant, and on which the plaintiff claims to have relied to make its offer, were incomplete or misleading. On 6 May 2019, an amended Statement of Claim was issued by the plaintiff which introduced (as a third alternative method of quantifying its damages) a damages claim based on the cost to fix the alleged issues with the plant as well as alleged associated losses and costs. EnergyAustralia has rejected the claims and is vigorously defending the legal proceedings. On the basis of currently available information, the Directors' view is that a material outflow of economic benefits is unlikely and no provision has been made in the financial statements.

34. Statement of Financial Position of the Company

	2019 HK$M	2018 HK$M
Non-current assets		
Fixed assets	**112**	108
Right-of-use assets	**113**	–
Investments in subsidiaries	**46,857**	50,356
Advance to a subsidiary	**–**	39
Other non-current assets	**14**	3
	47,096	50,506
Current assets		
Trade and other receivables	**81**	47
Dividend receivable	**1,950**	4,700
Cash and cash equivalents	**8**	24
	2,039	4,771
Current liabilities		
Trade payables and other liabilities	**(487)**	(501)
Bank loans and other borrowings	**–**	(4,400)
	(487)	(4,901)
Net current assets / (liabilities)	**1,552**	(130)
Total assets less current liabilities	**48,648**	50,376
Financed by:		
Equity		
Share capital	**23,243**	23,243
Retained profits	**25,328**	27,133
Shareholders' funds	**48,571**	50,376
Non-current liabilities		
Lease and other liabilities	**77**	–
Equity and non-current liabilities	**48,648**	50,376

The movement of retained profits is as follows:

	2019 HK$M	2018 HK$M
Balance at 1 January	**27,133**	27,944
Profit and total comprehensive income for the year	**5,977**	6,692
Dividends paid		
2018 / 2017 fourth interim	**(3,007)**	(2,880)
2019 / 2018 first to third interim	**(4,775)**	(4,623)
Balance at 31 December	**25,328**	27,133

The fourth interim dividend declared for the year ended 31 December 2019 was HK$3,007 million (2018: HK$3,007 million). The balance of retained profits after the fourth interim dividend of the Company was HK$22,321 million (2018: HK$24,126 million).

William Mocatta
Vice Chairman
Hong Kong, 24 February 2020

Richard Lancaster
Chief Executive Officer

Geert Peeters
Chief Financial Officer

35. Subsidiaries

The table below lists the principal subsidiaries of the Group at 31 December 2019:

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2018 and 2019	Place of Incorporation / Business	Principal Activity
CLP Power Hong Kong Limited	HK$20,400,007,269.65 divided into 2,488,320,000 ordinary shares	100	Hong Kong	Generation and Supply of Electricity
Castle Peak Power Company Limited	HK$50,000,000 divided into 500,000 ordinary shares	70 [(a)]	Hong Kong	Generation and Sale of Electricity
Hong Kong Pumped Storage Development Company, Limited	HK$10,000,000 divided into 100,000 ordinary shares	100 [(a)]	Hong Kong	Provision of Pumped Storage Services
Hong Kong Nuclear Investment Company Limited	HK$300,000,000 divided into 300,000 ordinary shares	100	Hong Kong / Mainland China	Power Projects Investment Holding
CLP Nuclear Investment Company Limited	1 ordinary share of US$1 each	100	Hong Kong / British Virgin Islands	Power Projects Investment Holding
CLP*e* Solutions Limited (formerly known as CLP Engineering Limited)	HK$49,950,000 divided into 4,995 ordinary shares	100	Hong Kong	Energy and Infrastructure Solutions
CLP Power Asia Limited	1,000 ordinary shares of US$1 each	100	British Virgin Islands / International and Mainland China	Power Projects Investment Holding
CLP Power International Limited	692,000 ordinary shares of US$1,000 each	100 [(a)]	British Virgin Islands / International	Power Projects Investment Holding
CLP Power China Limited	192,000,000 ordinary shares of US$1 each	100 [(a)]	British Virgin Islands / Mainland China and Hong Kong	Power Projects Investment Holding
CLP Properties Limited	HK$150,000,000 divided into 15,000,000 ordinary shares	100	Hong Kong	Property Investment Holding
CLP Innovation Enterprises Limited	1 ordinary share of HK$1 each	100	Hong Kong	Innovation Projects Investment Holding
EnergyAustralia Holdings Limited	1,585,491,005 ordinary shares of A$1 each	100 [(a)]	Australia	Energy Business Investment Holding
EnergyAustralia Yallourn Pty Ltd	15 ordinary shares of A$1 each	100 [(a)]	Australia	Generation and Supply of Electricity
EnergyAustralia Pty Ltd	3,368,686,988 ordinary shares of A$1 each	100 [(a)]	Australia	Retailing of Electricity and Gas
EnergyAustralia NSW Pty Ltd	2 ordinary shares of A$1 each	100 [(a)]	Australia	Generation of Electricity

35. Subsidiaries (continued)

Name	Issued Share Capital / Registered Capital	% of Ownership Interest at 31 December 2018 and 2019	Place of Incorporation / Business	Principal Activity
CLP India Private Limited	2,842,691,612 equity shares of Rs10 each	60 [(a)]	India	Generation of Electricity and Power Projects Investment Holding
Jhajjar Power Limited	20,000,000 equity shares of Rs10 each; 2,324,882,458 compulsory convertible preference shares of Rs10 each	60 [(a)]	India	Generation of Electricity
CLP Sichuan (Jiangbian) Power Company Limited [(b)]	RMB496,380,000	100 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Changxin Hydro-electric Power Company Limited [(c)]	RMB69,098,976	84.9 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Gaotang Hydro-electric Power Company Limited [(c)]	RMB249,430,049	84.9 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Weifa Hydro-electric Power Company Limited [(c)]	US$13,266,667	84.9 [(a)]	Mainland China	Generation of Electricity
Guangdong Huaiji Xinlian Hydro-electric Power Company Limited [(c)]	RMB141,475,383	84.9 [(a)]	Mainland China	Generation of Electricity

Notes:

(a) Indirectly held through subsidiaries of the Company

(b) Registered as a Wholly Foreign Owned Enterprise under PRC law

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

35. Subsidiaries (continued)

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

	CLP India		CAPCO	
	2019 HK$M	2018 HK$M	**2019 HK$M**	2018 HK$M
Results for the year				
Revenue	**4,651**	5,269	**16,814**	17,232
Profit for the year	**267**	128	**2,745**	3,061
Other comprehensive income for the year	**(259)**	(725)	**57**	(16)
Total comprehensive income for the year	**8**	(597)	**2,802**	3,045
Dividends paid to non-controlling interests	**–**	–	**785**	964
Net assets				
Non-current assets	**10,828**	11,764	**34,151**	32,235
Current assets	**3,636**	3,416	**5,580**	7,517
Current liabilities	**(1,835)**	(2,244)	**(11,785)**	(10,366)
Non-current liabilities	**(4,321)**	(4,721)	**(9,953)**	(11,579)
Non-controlling interest	**–**	(99)	**–**	–
	8,308	8,116	**17,993**	17,807
Cash flows				
Net cash inflow from operating activities	**1,570**	1,638	**3,843**	3,502
Net cash (outflow) / inflow from investing activities	**(140)**	(398)	**50**	(659)
Net cash outflow from financing activities	**(1,352)**	(1,121)	**(3,373)**	(2,971)
Net increase / (decrease) in cash and cash equivalents	**78**	119	**520**	(128)

1. Financial Risk Factors

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

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

Foreign exchange risk

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

SoC Companies

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

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

	2019 HK$M	2018 HK$M
Increase / (decrease) in the cash flow hedge reserve		
Hong Kong dollar against US dollar		
If Hong Kong dollar weakened by 0.6% (2018: 0.6%)	**98**	83
If Hong Kong dollar strengthened by 0.6% (2018: 0.6%)	**(98)**	(83)
Hong Kong dollar against Euro		
If Hong Kong dollar weakened by 4% (2018: 6%)	**7**	16
If Hong Kong dollar strengthened by 4% (2018: 6%)	**(7)**	(16)

1. Financial Risk Factors (continued)

Foreign exchange risk (continued)

The Group's Asia Pacific Investments

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

The Group closely monitors translation risk using a Value-at-Risk (VaR) approach but does not hedge foreign currency translation risk because translation gains or losses do not affect the project company's cash flow or the Group's annual profit until an investment is sold. At 31 December 2019, the Group's net investment subject to translation exposure was HK$60,664 million (2018: HK$69,654 million), arising mainly from our investments in Mainland China, India, Southeast Asia and Taiwan and Australia. This means that, for each 1% (2018: 1%) average foreign currency movement, our translation exposure will vary by about HK$607 million (2018: HK$697 million). All the translation exposures are recognised in other comprehensive income and therefore have no impact on our profit or loss.

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

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

	2019 HK$M	2018 HK$M
US dollar		
If US dollar strengthened by 3% (2018: 5%)		
Post-tax profit for the year	**25**	52
Equity – cash flow hedge reserve	**21**	46
If US dollar weakened by 3% (2018: 5%)		
Post-tax profit for the year	**(25)**	(52)
Equity – cash flow hedge reserve	**(21)**	(46)
Renminbi		
If Renminbi strengthened by 3% (2018: 2%)		
Post-tax profit for the year	**13**	19
Equity – cash flow hedge reserve	**–**	–
If Renminbi weakened by 3% (2018: 2%)		
Post-tax profit for the year	**(13)**	(19)
Equity – cash flow hedge reserve	**–**	–

1. Financial Risk Factors (continued)

Energy portfolio risk

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

The electricity market is a competitive power pool. In this market generation supply and retail demand are exposed to spot (half-hour) prices. EnergyAustralia purchases and sells majority of its electricity through the pool, at the same time EnergyAustralia enters into electricity spot-price-linked derivative financial instruments to manage the spot electricity price risk against forecast retail and generation exposures.

The gas market is a balancing market. To meet retail demand, EnergyAustralia procures gas supply agreements from various gas producers. The contract price of certain agreements comprises a fixed component, and a variable component that is linked to oil spot prices on the global markets. EnergyAustralia enters into oil-price-linked derivative financial instruments to manage this oil price risk component.

Energy portfolio exposure is managed through an established risk management framework. The framework consists of policies which place appropriate limits on overall energy market exposures, hedging strategies and targets, delegations of authority on trading, approved product lists, regular exposure reporting, and segregation of duties. Risk monitoring includes physical position reporting, stress testing of the portfolios and "at-risk" analyses of potential earnings. At-risk measures are derived by modelling potential variability in spot and forward market prices and supply and demand volumes, across the wholesale energy portfolio, through Monte Carlo simulations, historic simulations, and scenarios.

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

Overall Earnings-at-Risk (EaR) exposure for the coming financial year is reported as the 1 in 4 probability downside (2018: 1 in 4 probability downside) of the expected earnings distribution, as simulated with the methods explained above. The energy portfolio risk exposure for EnergyAustralia as at 31 December 2019 was HK$550 million (2018: HK$640 million). The change in risk exposure is the result of a recent decrease in 2020 forward prices.

Interest rate risk

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

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

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

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

1. Financial Risk Factors (continued)

Interest rate risk (continued)

	2019 HK$M	2018 HK$M
Hong Kong dollar		
If interest rates were 0.7% (2018: 1%) higher		
Post-tax profit for the year	**(98)**	(110)
Equity – cash flow hedge reserve	**30**	–
If interest rates were 0.7% (2018: 1%) lower		
Post-tax profit for the year	**98**	110
Equity – cash flow hedge reserve	**(30)**	–
Indian rupee		
If interest rates were 0.3% (2018: 1%) higher		
Post-tax profit for the year	**(3)**	(10)
Equity – cash flow hedge reserve	**–**	–
If interest rates were 0.3% (2018: 1%) lower		
Post-tax profit for the year	**3**	10
Equity – cash flow hedge reserve	**–**	–
US dollar		
If interest rates were 0.3% (2018: 0.5%) higher		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**9**	31
If interest rates were 0.3% (2018: 0.5%) lower		
Post-tax profit for the year	**–**	–
Equity – cash flow hedge reserve	**(9)**	(27)

Credit risk

The Group's approach to managing credit risk for trade receivables is discussed in Note 19.

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

Liquidity risk

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

1. Financial Risk Factors (continued)

Liquidity risk (continued)

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

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2019					
Non-derivative financial liabilities					
Bank loans	10,116	5,415	5,028	3,961	24,520
Other borrowings	5,286	4,283	8,131	18,741	36,441
Customers' deposits	5,679	–	–	–	5,679
Fuel clause account	1,131	–	–	–	1,131
Trade payables and other liabilities	14,514	51	75	111	14,751
SoC reserve accounts	–	–	–	1,500	1,500
Asset decommissioning liabilities	–	–	–	1,179	1,179
	36,726	9,749	13,234	25,492	85,201
Derivative financial liabilities – net settled					
Interest rate swaps	17	14	33	16	80
Energy contracts	819	166	157	119	1,261
	836	180	190	135	1,341
Derivative financial liabilities – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	12,741	264	313	3,933	17,251
Cross currency interest rate swaps	349	1,285	5,332	3,566	10,532
	13,090	1,549	5,645	7,499	27,783
Gross contractual amounts receivable					
Forward foreign exchange contracts	(12,692)	(237)	(279)	(3,894)	(17,102)
Cross currency interest rate swaps	(273)	(951)	(5,021)	(3,437)	(9,682)
	(12,965)	(1,188)	(5,300)	(7,331)	(26,784)
Net payable	125	361	345	168	999
Derivative financial assets – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	7,902	134	474	–	8,510
Cross currency interest rate swaps	4,211	2,600	604	7,087	14,502
	12,113	2,734	1,078	7,087	23,012
Gross contractual amounts receivable					
Forward foreign exchange contracts	(8,182)	(155)	(590)	–	(8,927)
Cross currency interest rate swaps	(4,307)	(2,660)	(623)	(7,214)	(14,804)
	(12,489)	(2,815)	(1,213)	(7,214)	(23,731)
Net receivable	(376)	(81)	(135)	(127)	(719)
Total (receivable) / payable	(251)	280	210	41	280

1. Financial Risk Factors (continued)

Liquidity risk (continued)

	Within 1 year HK$M	Between 1 and 2 years HK$M	Between 2 to 5 years HK$M	Over 5 years HK$M	Total HK$M
At 31 December 2018					
Non-derivative financial liabilities					
Bank loans	12,751	4,377	4,961	4,562	26,651
Other borrowings	2,691	5,110	10,321	19,894	38,016
Customers' deposits	5,476	–	–	–	5,476
Fuel clause account	901	–	–	–	901
Trade payables and other liabilities	15,987	–	–	–	15,987
SoC reserve accounts	–	–	–	998	998
Asset decommissioning liabilities	–	–	–	991	991
	37,806	9,487	15,282	26,445	89,020
Derivative financial liabilities – net settled					
Interest rate swaps	26	18	37	29	110
Energy contracts	1,132	380	276	301	2,089
	1,158	398	313	330	2,199
Derivative financial liabilities – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	13,312	238	570	9	14,129
Cross currency interest rate swaps	1,524	528	5,771	11,952	19,775
	14,836	766	6,341	11,961	33,904
Gross contractual amounts receivable					
Forward foreign exchange contracts	(13,283)	(230)	(582)	(9)	(14,104)
Cross currency interest rate swaps	(1,398)	(458)	(5,073)	(11,812)	(18,741)
	(14,681)	(688)	(5,655)	(11,821)	(32,845)
Net payable	155	78	686	140	1,059
Derivative financial assets – gross settled					
Gross contractual amounts payable					
Forward foreign exchange contracts	10,867	735	481	–	12,083
Cross currency interest rate swaps	250	4,017	2,431	370	7,068
	11,117	4,752	2,912	370	19,151
Gross contractual amounts receivable					
Forward foreign exchange contracts	(10,946)	(1,025)	(642)	–	(12,613)
Cross currency interest rate swaps	(299)	(4,089)	(2,443)	(467)	(7,298)
	(11,245)	(5,114)	(3,085)	(467)	(19,911)
Net receivable	(128)	(362)	(173)	(97)	(760)
Total payable / (receivable)	27	(284)	513	43	299

2. Hedge Accounting

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

Hedges on debt related transactions

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

Hedges on non-debt related transactions

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

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

2. Hedge Accounting (continued)

Effects of hedge accounting

The tables below summarise the effect of the hedge accounting on financial position and performance of the Group for the year ended 31 December 2019 and 2018:

Cash Flow Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedging instrument assets / (liabilities) HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness		Hedging losses / (gains) recognised in cash flow hedge reserve HK$M	Hedge ineffectiveness recognised in profit or loss[a] HK$M	Amount reclassified from cash flow hedge reserve and (charged) / credited to profit or loss[a]	
			Hedging instruments HK$M	Hedged items HK$M			Hedged items affected profit or loss HK$M	Hedged future cash flows no longer expected to occur HK$M
At 31 December 2019								
Debt related transactions								
Interest rate risk[b]	**23,904**	**(568)**	**(6)**	**6**	**6**	**-**	**(49)**	**-**
Foreign exchange risk	**1,113**	**(7)**	**23**	**(23)**	**(23)**	**-**	**22**	**-**
Non-debt related transactions								
Foreign exchange risk	**19,585**	**(13)**	**59**	**(59)**	**(59)**	**-**	**110**	**-**
Energy portfolio risk – electricity[c]	**N/A**	**649**	**383**	**(383)**	**(390)**	**7**	**(236)**	**139**
Energy portfolio risk – gas[c]	**N/A**	**121**	**352**	**(352)**	**(352)**	**-**	**244**	**-**
At 31 December 2018								
Debt related transactions								
Interest rate risk[b]	24,259	(542)	(41)	38	41	-	34	-
Foreign exchange risk	1,608	35	145	(145)	(145)	-	141	-
Non-debt related transactions								
Foreign exchange risk	17,600	19	105	(105)	(105)	-	153	-
Energy portfolio risk – electricity[c]	N/A	123	(40)	40	40	-	26	-
Energy portfolio risk – gas[c]	N/A	14	166	(166)	(166)	-	373	-

Fair Value Hedges	Notional amount of hedging instruments HK$M	Carrying amount of hedged items HK$M	Accumulated fair value hedge adjustments included in carrying amount of hedged items HK$M	Favourable / (Unfavourable) changes in fair value used for measuring ineffectiveness		Hedge ineffectiveness charged / (credited) to finance costs HK$M
				Hedging instruments HK$M	Hedged items HK$M	
At 31 December 2019						
Debt related transactions						
Interest rate risk[b]	**5,502**	**(5,497)**	**(37)**	**333**	**(336)**	**3**
At 31 December 2018						
Debt related transactions						
Interest rate risk[b]	6,963	(6,639)	299	(141)	143	(2)

Notes:

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

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

(c) The aggregate notional volumes of the outstanding energy derivatives were 87,405 GWh (2018: 79,592 GWh) and 6.3 million barrels (2018: 5.3 million barrels) for electricity and oil, respectively.

2. Hedge Accounting (continued)

Effects of hedge accounting (continued)

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

Cash Flow Hedge Reserve	Interest Rate Risk [b] HK$M	Foreign Exchange Risk HK$M	Energy Portfolio Risk HK$M	Total HK$M
Balance at 1 January 2018	158	154	326	638
Hedging (losses) / gains	(41)	250	126	335
Reclassification to profit or loss				
Hedged items affect profit or loss	(34)	(294)	(399)	(727)
Transfer to hedged assets	–	(74)	–	(74)
Related deferred tax	18	17	82	117
Exchange difference	136	–	(51)	85
Balance at 31 December 2018	237	53	84	374
Balance at 1 January 2019	237	53	84	374
Hedging (losses) / gains	(6)	82	742	818
Reclassification to profit or loss				
Hedged items affect profit or loss	49	(132)	(8)	(91)
Hedged future cash flows no longer expected to occur	–	–	(139)	(139)
Transfer to hedged assets	–	1	–	1
Related deferred tax	4	9	(178)	(165)
Exchange difference	–	1	(1)	–
Balance at 31 December 2019	**284**	**14**	**500**	**798**

Costs of Hedging Reserves	Time Value of Options Reserve HK$M	Forward Element Reserve HK$M	Foreign Currency Basis Spread Reserve HK$M	Total HK$M
Balance at 1 January 2018	7	14	(96)	(75)
Changes due to transaction related hedged items				
Fair value losses	–	–	(40)	(40)
Reclassification to profit or loss	–	–	22	22
Transfer to hedged assets	–	–	(3)	(3)
Changes due to time-period related hedged items				
Fair value (losses) / gains	(8)	(60)	41	(27)
Amortisation to profit or loss	11	58	13	82
Related deferred tax	(1)	1	(5)	(5)
Exchange difference	(4)	(11)	–	(15)
Balance at 31 December 2018	5	2	(68)	(61)
Balance at 1 January 2019	5	2	(68)	(61)
Changes due to transaction related hedged items				
Fair value losses	–	–	(25)	(25)
Reclassification to profit or loss	–	–	42	42
Changes due to time-period related hedged items				
Fair value losses	(10)	(38)	(24)	(72)
Amortisation to profit or loss	6	45	13	64
Related deferred tax	2	(1)	–	1
Exchange difference	(1)	–	(1)	(2)
Balance at 31 December 2019	**2**	**8**	**(63)**	**(53)**

3. Fair Value Estimation and Hierarchy of Financial Instruments

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

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

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

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

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

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

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

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

	Level 1 HK$M	Level 2 (note) HK$M	Level 3 (note) HK$M	Total HK$M
At 31 December 2019				
Financial assets				
Investments at fair value through other comprehensive income	**296**	**–**	**35**	**331**
Investments at fair value through profit or loss	**–**	**–**	**247**	**247**
Forward foreign exchange contracts	**–**	**280**	**–**	**280**
Foreign exchange options	**–**	**19**	**–**	**19**
Cross currency interest rate swaps	**–**	**206**	**–**	**206**
Interest rate swaps	**–**	**46**	**–**	**46**
Energy contracts	**–**	**288**	**1,585**	**1,873**
	296	**839**	**1,867**	**3,002**
Financial liabilities				
Forward foreign exchange contracts	**–**	**121**	**–**	**121**
Cross currency interest rate swaps	**–**	**898**	**–**	**898**
Interest rate swaps	**–**	**89**	**–**	**89**
Energy contracts	**514**	**168**	**508**	**1,190**
	514	**1,276**	**508**	**2,298**
At 31 December 2018				
Financial assets				
Investments at fair value through other comprehensive income	265	–	35	300
Investments at fair value through profit or loss	–	–	101	101
Forward foreign exchange contracts	–	325	–	325
Foreign exchange options	–	31	–	31
Cross currency interest rate swaps	–	150	–	150
Interest rate swaps	–	123	–	123
Energy contracts	–	468	702	1,170
	265	1,097	838	2,200
Financial liabilities				
Forward foreign exchange contracts	–	89	–	89
Cross currency interest rate swaps	–	1,222	–	1,222
Interest rate swaps	–	107	–	107
Energy contracts	625	403	363	1,391
	625	1,821	363	2,809

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

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

Financial Instruments	Valuation Technique	Significant Inputs
Investments at fair value through profit or loss	Recent transactions	Based on recent arm's length transactions
Forward foreign exchange contracts	Discounted cash flow	Observable exchange rates
Foreign exchange options	Garman Kohlhagen Model	Observable exchange rates, interest rates and volatility levels
Cross currency interest rate swaps	Discounted cash flow	Observable exchange rates and swap rates of respective currency
Interest rate swaps	Discounted cash flow	Observable swap rates of respective currency
Energy contracts	Discounted cash flow	Brokers' quotes and observable exchange traded swap and cap price curves; and long term forward electricity price and cap price curve

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

The Group's policy is to recognise transfers into / out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During 2019 and 2018, there were no transfers between Level 1 and Level 2.

The movements and the sensitivity analysis of Level 3 financial instruments for the years ended 31 December are set out below:

	2019			2018		
	Investments HK$M	**Energy Contracts HK$M**	**Total HK$M**	Investments HK$M	Energy Contracts HK$M	Total HK$M
Opening balance	**136**	**339**	**475**	47	27	74
Total gains / (losses) recognised in						
Profit or loss and presented in fuel and other operating expenses [(a)]	**9**	**(157)**	**(148)**	(4)	125	121
Other comprehensive income	**–**	**741**	**741**	–	633	633
Purchase	**137**	**–**	**137**	105	–	105
Sales	**–**	**–**	**–**	(12)	–	(12)
Settlements	**–**	**106**	**106**	–	(428)	(428)
Transfer out of Level 3 [(b)]	**–**	**48**	**48**	–	(18)	(18)
Closing balance	**282**	**1,077**	**1,359**	136	339	475

Notes:

(a) Out of which, unrealised gains recognised in profit or loss relating to the assets and liabilities held at the end of the reporting period was HK$64 million (2018: HK$77 million).

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

At 31 December 2019 and 2018, the valuation of long tenure energy contracts is sensitive to electricity pool price assumptions. A favourable and unfavourable change of 15% (2018: 15%) would cause the balance of the energy contracts to rise by HK$859 million (2018: HK$596 million) and decline by HK$860 million (2018: HK$577 million) respectively, with all other variables held constant.

4. Offsetting Financial Assets and Financial Liabilities

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

	Effect of offsetting in the consolidated statement of financial position			Related amounts not offset in the consolidated statement of financial position		
	Gross amounts recognised HK$M	Gross amounts offset HK$M	Net amounts presented in the respective line HK$M	Financial instruments HK$M	Financial instrument collateral HK$M	Net amount [a] HK$M
At 31 December 2019						
Financial assets						
Bank balances, cash and other liquid funds	**279**	**–**	**279**	**(279)**	**–**	**–**
Trade and other receivables	**4,888**	**–**	**4,888**	**(2,873)**	**(2,015)**	**–**
Derivative financial instruments	**2,976**	**(883)**	**2,093**	**(172)[b]**	**–**	**1,921**
	8,143	**(883)**	**7,260**	**(3,324)**	**(2,015)**	**1,921**
Financial liabilities						
Customers' deposits	**5,677**	**–**	**5,677**	**(2,015)**	**–**	**3,662**
Bank loans and other borrowings	**10,686**	**–**	**10,686**	**–**	**(3,152)**	**7,534**
Derivative financial instruments	**3,063**	**(883)**	**2,180**	**(172)[b]**	**–**	**2,008**
	19,426	**(883)**	**18,543**	**(2,187)**	**(3,152)**	**13,204**
At 31 December 2018						
Financial assets						
Bank balances, cash and other liquid funds	398	–	398	(398)	–	–
Trade and other receivables	4,766	–	4,766	(2,649)	(2,117)	–
Derivative financial instruments	2,589	(1,198)	1,391	(206)[b]	–	1,185
	7,753	(1,198)	6,555	(3,253)	(2,117)	1,185
Financial liabilities						
Customers' deposits	5,474	–	5,474	(2,117)	–	3,357
Bank loans and other borrowings	11,759	–	11,759	–	(3,047)	8,712
Derivative financial instruments	3,908	(1,198)	2,710	(206)[b]	–	2,504
	21,141	(1,198)	19,943	(2,323)	(3,047)	14,573

Notes:

(a) Under HKFRS, amounts cannot be offset if the rights of set-off are conditional on a future event e.g. default of payment. "Net amount" column represents the net impact that would be shown on the consolidated statement of financial position if all set-off rights (e.g. master netting arrangements, collateral arrangements, etc.) were exercised. These items include (1) restricted cash of CLP India group disclosed under Note 20 to the Financial Statements; (2) trade receivables related to Hong Kong electricity business where customers' deposits are served as security for payments; (3) trade receivables of subsidiaries in Mainland China and India which are pledged against their bank loans and other borrowings; and (4) bank loans and other borrowings of subsidiaries in Mainland China and India which are secured by charges over certain financial assets or rights to income.

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

5. Capital Management

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

The Group manages its capital structure and fine-tunes it in light of changes in economic conditions and business strategies. To maintain or adjust the capital structure, the Group may adjust the dividend payments to shareholders, issue new shares or change the level of debts. The Group's capital management objectives, policies or processes were unchanged during 2019 and 2018.

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

	2019 HK$M	2018 HK$M
Total debt (a)	**52,349**	55,298
Net debt (b)	**44,023**	43,172
Total equity (c)	**120,673**	126,454
Total capital (based on total debt) (d)	**173,022**	181,752
Total capital (based on net debt) (e)	**164,696**	169,626
Total debt to total capital (based on total debt) ratio (%)	**30.3**	30.4
Net debt to total capital (based on net debt) ratio (%)	**26.7**	25.5

Moderate increase in the Group's net debt to total capital is mainly attributable to lower capital after EnergyAustralia's retail goodwill impairment.

Certain entities of the Group are subject to loan covenants. For both 2019 and 2018, there is no material non-compliance with those loan covenants.

Notes:

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

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

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

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

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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

Overview

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

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

The current SoC took effect from 1 October 2018 (2018 SoC), immediately after the expiry of the previous SoC which covered the period from 1 October 2008 to 30 September 2018 (2008 SoC). The 2018 SoC covers a term of over 15 years ending on 31 December 2033, and with key principles similar to the 2008 SoC.

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

Tariff Setting Mechanism

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

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

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

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

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

(ii) fuel clause charge or rebate (Fuel Cost Adjustment) which represents the difference between the costs of fuel (including natural gas, coal and oil) and the standard cost recovered through the basic tariff rate. The Fuel Cost Adjustment may be adjusted from time to time, including on a monthly basis, to reflect changes in the cost of fuels consumed by the SoC Companies for the generation of electricity.

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

Permitted and Net Return

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

- The annual permitted return under the 2018 SoC is 8% of the SoC Companies' average net fixed assets (2008 SoC: 9.99% of the SoC Companies' average net fixed assets other than renewable energy investments and 11% for renewable energy investments).
- The net return under the SoC is the permitted return after the deduction or adjustment of the following items:

(a) interest on borrowed capital arranged for financing fixed assets, up to a maximum of 7% per annum under the 2018 SoC (2008 SoC: 8% per annum);

(b) a charge of the average one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund under the SoC, which is credited to the Rate Reduction Reserve;

(c) an excess capacity adjustment, which under the 2018 SoC is 8% less an allowed interest charge up to 7% per annum on the average related excess capacity expenditure (2008 SoC: 9.99% less an allowed interest charge up to 8% per annum on the average related excess capacity expenditure);

(d) interest on the increase in average balance of the customers' deposits in excess of the balance as at 30 September 1998, up to 7% per annum under the 2018 SoC (2008 SoC: up to 8% per annum); and

(e) performance-linked incentives / penalties adjustments

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

The net return is divided between the SoC Companies in accordance with the provisions of the agreements between the SoC Companies. These provisions state that each company will receive that proportion of the total net return represented by the net return that company would receive if it were the only company under the SoC and the net return were calculated solely on the basis of its own financial statements.

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

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

	12 months ended 31 December 2019 HK$M	Period from 1 October to 31 December 2018 HK$M	9 months ended 30 September 2018 HK$M
SoC revenue	**40,633**	9,063	32,023
Expenses			
Operating costs	**5,036**	1,149	3,385
Fuel	**13,150**	3,081	10,021
Purchases of nuclear electricity	**5,643**	979	4,564
Provision for asset decommissioning	**188**	(88)	219
Depreciation	**4,753**	1,153	3,778
Operating interest	**978**	246	750
Taxation	**1,853**	412	1,589
	31,601	6,932	24,306
Profit after taxation	**9,032**	2,131	7,717
Interest on increase in customers' deposits	**4**	1	–
Interest on borrowed capital	**1,100**	266	789
Adjustment for performance incentives	**(392)**	(89)	(16)
Adjustment required under the SoC (being share of profit on sale of electricity to Mainland China attributable to the SoC Companies)	**–**	–	(43)
Profit for SoC	**9,744**	2,309	8,447
Transfer to Tariff Stabilisation Fund	**(526)**	(56)	(135)
Permitted return	**9,218**	2,253	8,312
Deduct interest on / Adjustment for			
Increase in customers' deposits as above	**4**	1	–
Borrowed capital as above	**1,100**	266	789
Performance incentives as above	**(392)**	(89)	(16)
Tariff Stabilisation Fund to Rate Reduction Reserve	**22**	4	7
	734	182	780
Net return	**8,484**	2,071	7,532
CESF / EEF contribution	**(195)**	(48)	(16)
Net return after CESF / EEF contribution	**8,289**	2,023	7,516
Divisible as follows:			
CLP Power Hong Kong	**5,582**	1,369	5,149
CAPCO	**2,707**	654	2,367
	8,289	2,023	7,516
CLP Power Hong Kong's share of net return after CESF / EEF contribution			
CLP Power Hong Kong	**5,582**	1,369	5,149
Interest in CAPCO	**1,895**	458	1,656
	7,477	1,827	6,805

Five-year Summary: CLP Group Statistics

Economic

	2019	2018	2017	2016	2015
Consolidated Operating Results, HK$M					
Revenue					
Hong Kong electricity business	**40,025**	40,872	39,485	37,615	38,488
Energy businesses outside Hong Kong	**45,088**	49,793	52,101	41,459	41,757
Others	**576**	760	487	360	455
Total	**85,689**	91,425	92,073	79,434	80,700
Earnings					
Hong Kong electricity business	**7,448**	8,558	8,863	8,640	8,260
Hong Kong electricity business related	**211**	227	335	203	206
Mainland China	**2,277**	2,163	1,238	1,521	1,977
India	**263**	572	647	469	614
Southeast Asia and Taiwan	**335**	162	160	274	312
Australia	**1,566**	3,302	2,738	1,849	836
Other earnings in Hong Kong	**(199)**	(92)	(65)	62	(60)
Unallocated net finance (costs) / income	**(42)**	(54)	(2)	33	17
Unallocated Group expenses	**(738)**	(856)	(607)	(717)	(643)
Operating earnings	**11,121**	13,982	13,307	12,334	11,519
Gain on sale of investment	**–**	–	–	–	6,619
Impairment and provision reversal	**(6,381)**	(450)	–	(203)	(1,723)
Property revaluation and transaction	**(83)**	18	369	497	99
Reversal of tax provision	**–**	–	573	83	–
Other items affecting comparability from Australia	**–**	–	–	–	(858)
Total earnings	**4,657**	13,550	14,249	12,711	15,656
Dividends	**7,782**	7,630	7,352	7,074	6,822
Depreciation and amortisation, owned and leased assets	**8,118**	8,005	7,368	6,909	6,765
Consolidated Statement of Financial Position, HK$M					
SoC fixed assets	**117,042**	113,295	109,824	106,886	104,479
Other fixed assets	**33,744**	34,650	33,914	32,535	31,533
Goodwill and other intangible assets	**20,111**	26,910	29,087	27,653	28,257
Interests in joint ventures	**9,999**	9,674	10,383	9,971	11,250
Interests in associates	**8,708**	7,746	8,081	813	785
Other non-current assets	**3,193**	2,739	3,152	4,837	5,385
Current assets	**28,826**	35,500	33,710	23,538	22,284
Total assets	**221,623**	230,514	228,151	206,233	203,973
Shareholders' funds	**105,455**	109,053	108,697	98,010	93,118
Perpetual capital securities	**3,887**	5,791	5,791	5,791	5,791
Other non-controlling interests	**9,987**	10,088	7,019	1,972	2,023
Equity	**119,329**	124,932	121,507	105,773	100,932
Bank loans and other borrowings	**52,349**	55,298	57,341	51,646	55,483
SoC reserve accounts	**1,500**	998	977	860	1,009
Other current liabilities	**26,911**	28,099	27,962	26,944	25,107
Other non-current liabilities	**21,534**	21,187	20,364	21,010	21,442
Total liabilities	**102,294**	105,582	106,644	100,460	103,041
Equity and total liabilities	**221,623**	230,514	228,151	206,233	203,973

A **ten-year summary** is on our website.

	2019	2018	2017	2016	2015
Consolidated Statement of Cash Flows, HK$M					
Funds from operations	**23,502**	26,584	26,506	25,353	20,994
Net cash inflow from operating activities	**21,345**	23,951	24,417	23,676	19,168
Net cash (outflow) / inflow from investing activities	**(5,824)**	(11,259)	(16,735)	(8,296)	1,066
Net cash outflow from financing activities	**(14,944)**	(11,505)	(5,863)	(14,288)	(20,505)
Capital expenditure, owned and leased assets	**(10,448)**	(10,327)	(9,538)	(9,756)	(10,871)
Per Share Data, HK$					
Shareholders' funds per share	**41.74**	43.16	43.02	38.79	36.86
Earnings per share	**1.84**	5.36	5.64	5.03	6.20
Dividends per share	**3.08**	3.02	2.91	2.80	2.70
Closing share price					
Highest	**96.85**	96.95	85.30	83.90	69.75
Lowest	**78.40**	75.35	72.55	62.45	62.20
As at year-end	**81.90**	88.50	79.95	71.25	65.85
Ratios					
Return on equity, %	**4.3**	12.4	13.8	13.3	17.3
Operating return on equity, %	**10.4**	12.8	12.9	12.9	12.7
Total debt to total capital, %	**30.3**	30.4	31.8	31.5	34.0
Net debt to total capital, %	**26.7**	25.5	27.8	29.5	32.4
FFO interest cover, times	**12**	13	15	14	9
Price / Earnings, times	**45**	17	14	14	11
Dividend yield, %	**3.8**	3.4	3.6	3.9	4.1
Dividend cover, times	**1.4**	1.8	1.8	1.7	1.7
Dividend pay-out, %					
Total earnings	**167.1**	56.3	51.6	55.7	43.5
Operating earnings	**70.0**	54.6	55.2	57.4	59.2
Total returns to shareholders [1], %	**8.7**	9.6	8.4	6.4	8.4
Group Generation Capacity [2]					
(owned / operated / under construction), MW					
– by region					
Hong Kong	**7,568**	7,543	7,483	7,483	6,908
Mainland China	**7,905**	7,869	7,985	7,181	7,072
India	**1,842**	1,796	2,948	2,978	3,048
Southeast Asia and Taiwan	**285**	285	285	285	285
Australia	**4,508**	4,478	4,505	4,505	4,505
	22,108	21,971	23,206	22,432	21,818
– by status					
Operational	**21,468**	21,127	22,118	21,560	20,336
Construction	**640**	844	1,088	872	1,482
	22,108	21,971	23,206	22,432	21,818

Notes:

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

2 Group generation capacity (in MW) is incorporated on the following basis: (a) CAPCO on 100% capacity as stations operated by CLP Power Hong Kong; (b) Ecogen (2015 to 2017) on 100% as having right to use; and (c) other stations (including Ecogen since 2018) on the proportion of the Group's equity interests.

Environmental

Performance Indicators	Units	2019	2018	2017	2016	2015	GRI Standard	HKEx ESG Reporting Guide Reference
GHG Emissions & Climate Vision 2050								
GHG Emissions[1]								
Total GHG emissions – on an equity basis[2]	kt	**71,720**	N/A	N/A	N/A	N/A		A1.2
Scope 1 CO_2e	kt	**50,047**	N/A	N/A	N/A	N/A	305-1	
Scope 2 CO_2e	kt	**250**	N/A	N/A	N/A	N/A	305-2	
Scope 3 CO_2e[3]	kt	**21,424**	N/A	N/A	N/A	N/A	305-3	
Total GHG emissions – on an operational control basis[4]								
Scope 1 & 2 CO_2e (from power generation)	kt	**50,676**	52,306[5]	48,082	46,681	46,723	102-48, 305-1, 305-2	A1.2
Scope 1 & 2 CO_2 (from power generation)	kt	**50,412**	52,052[5]	47,921	46,518	46,553	102-48, 305-1, 305-2	
Climate Vision 2050[1]								
Performance against targets – on an equity basis[2]								
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2/kWh	**0.70**	0.74	0.80	0.82	0.81	305-4	A1.2
Total renewable energy generation capacity	% (MW)	**12.8 (2,469)**	12.5 (2,387)	14.2 (2,751)	16.6 (3,090)	16.8 (3,051)		
Non-carbon emitting generation capacity	% (MW)	**21.1 (4,069)**	20.9 (3,987)	22.4 (4,350)	19.2 (3,582)	19.5 (3,543)		
Performance against targets – on an equity plus long-term capacity and energy purchase basis[2, 6]								
Carbon dioxide emissions intensity of CLP Group's generation portfolio	kg CO_2/kWh	**0.62**	0.66	0.69	0.72	N/A	305-4	A1.2
Total renewable energy generation capacity	% (MW)	**13.7 (3,294)**	12.8 (3,039)	13.1 (3,211)	14.9 (3,551)	N/A		
Non-carbon emitting generation capacity	% (MW)	**24.9 (5,979)**	24.1 (5,724)	23.2 (5,699)	20.7 (4,931)	N/A		
Resource Use & Emissions[4, 7]								
Nitrogen oxides (NO_x) emissions	kt	**47.0**	60.9	59.3	58.1	56.3	305-7	A1.1
Sulphur dioxide (SO_2) emissions	kt	**44.7**	76.1	81.6	71.2	63.4	305-7	A1.1
Particulates emissions	kt	**7.7**	8.5	8.3	8.5	9.8	305-7	A1.1
Non-hazardous waste produced[8]	t (solid) / kl (liquid)	**13,344 / 59**	11,471 / 52	20,334 / 103	8,317 / 84	11,455 / 199	306-2	A1.4
Non-hazardous waste recycled[8]	t (solid) / kl (liquid)	**4,986 / 57**	3,990 / 52	3,790 / 103	2,963 / 84	4,414 / 199	306-2	
Hazardous waste produced[8]	t (solid) / kl (liquid)	**862 / 1,578**	1,435 / 1,685	857 / 1,420	1,302 / 1,251	641 / 2,832	306-2	A1.3
Hazardous waste recycled[8]	t (solid) / kl (liquid)	**201 / 1,536**	631 / 1,648	469 / 1,384	260 / 1,149	203 / 1,176	306-2	
Total water withdrawal[9, 10, 11]	Mm^3	**5,377.4**	5,153.6	4,480.6	4,256.9	4,503.0	303-3	A2.2
For cooling purpose								
Water withdrawal from marine water resources	Mm^3	**5,319.3**	5,087.3	4,421.7	4,202.3	4,447.6		
Water withdrawal from freshwater resources	Mm^3	**45.7**	53.3	47.6	43.8	45.1		
For non-cooling purposes								
Water withdrawal from freshwater resources	Mm^3	**5.8**	6.0	4.9	4.2	3.8		
Water withdrawal from municipal sources	Mm^3	**6.7**	7.0	6.4	6.6	6.5		
Total water discharge[10, 12, 13]	Mm^3	**5,337.1**	5,103.2	4,437.7	4,219.3	4,463.1	303-4	
From cooling process								
Water discharge to marine water bodies	Mm^3	**5,319.3**	5,087.3	4,421.7	4,202.3	4,447.6		
Treated wastewater to freshwater bodies	Mm^3	**0**	0	0	0	0		
Wastewater to other destinations	Mm^3	**0**	0.02	0.05	0.06	0.03		
From non-cooling processes								
Treated wastewater to marine water bodies	Mm^3	**1.7**	1.6	1.6	1.5	1.1		
Treated wastewater to freshwater bodies	Mm^3	**14.4**	12.3	12.3	13.7	12.6		
Wastewater to other destinations	Mm^3	**1.7**	1.9	2.0	1.7	1.7		
Wastewater to sewerage	Mm^3	**0.03**	0.03	0.02	0.01	0.02		
Fuel use								
Coal consumed (for power generation)	TJ	**485,453**	521,568	471,976	453,904	450,937	302-1	A2.1
Gas consumed (for power generation)	TJ	**107,183**	83,364[5]	91,426	86,787	95,591	102-48, 302-1	A2.1
Oil consumed (for power generation)	TJ	**2,620**	3,807[5]	5,069	4,162	2,892	102-48, 302-1	A2.1
Environmental compliance								
Environmental regulatory non-compliances resulting in fines or prosecutions	number	**0**	0	0	0	1	307-1	
Environmental licence limit exceedances & other non-compliances	number	**10**	2	13	2	13	307-1	

Notes:

1 CO_2 emissions of the Yallourn and Hallett power stations were used in 2018. Prior to 2018, CO_2e emissions data of these assets were used.
2 Numbers include majority and minority share assets in the CLP Group portfolio.
3 Please refer to the Sustainability Report for a breakdown of Scope 3 emissions by category.
4 Numbers include operating assets where CLP has operational control during the calendar year. Paguthan power station, the power purchase agreements of which expired in December 2018, was not included in the 2019 numbers.
5 Restated as per updated data for Hallett power station in Australia.
6 Starting in 2018, "long-term capacity and energy purchase" is defined as a purchase agreement with duration of at least five years, and capacity or energy purchased being no less than 10MW.
7 Since 2019, numbers at the asset level are aggregated and then rounded.
8 Waste categorised in accordance with local regulations.
9 Starting in 2019, the breakdown of water withdrawal is recategorised into withdrawal for cooling and non-cooling purposes. Numbers of the years 2015-18 are not directly comparable with the previously reported numbers because of the recategorisation, except for marine water resources.
10 Numbers at the asset level are aggregated and then rounded for all years shown herein. They may be adjusted from the numbers reported previously, where they were rounded and then aggregated.
11 Numbers have been subject to rounding. Any discrepancies between the total shown and the sum of the amounts listed are due to rounding.
12 Starting in 2019, the breakdown of water discharge is recategorised into discharge for cooling and non-cooling purposes. Numbers of the years 2015-18 are not directly comparable with the previously reported figures because of the recategorisation, except for marine water bodies.
13 Starting in 2019, Yallourn's "water discharged to third-parties", which was previously reported under "wastewater to sewerage", is reported under "water discharged to other destinations".

*All 2019 data on this page have been independently verified by PricewaterhouseCoopers **except** those numbers which are shaded in grey.*

Packaging material and product recalls:

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

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

Social

Performance Indicators	Units	2019	2018	2017	2016	2015	GRI Standard	HKEx ESG Reporting Guide Reference
Employees [14]								
Employees by region							102-7	B1.1
Hong Kong	number	**4,604**	4,538	4,504	4,450	4,438		
Mainland China	number	**607**	596	577	560	527		
India	number	**469**	458	463	435	397		
Australia	number	**2,280**	2,042	1,998	1,983	1,998		
Total	number	**7,960**	7,634	7,542	7,428	7,360		
Employees eligible to retire within the next five years [15]							EU15	
Hong Kong	%	**19.5**	20.0	18.6	17.3	16.2		
Mainland China	%	**14.5**	13.2	10.6	12.1	11.9		
India	%	**4.8**	4.0	2.4	0.9	0.8		
Australia [16]	%	**5.4**	12.8	12.2	11.4	10.9		
Total	%	**13.9**	16.4	15.1	14.1	13.3		
Voluntary staff turnover rate [17,18]							401-1	B1.2
Hong Kong	%	**2.4**	2.3	1.9	2.3	2.8		
Mainland China	%	**2.0**	4.7	3.0	3.4	2.6		
India	%	**6.6**	5.6	3.5	8.4	9.8		
Australia	%	**12.9**	13.6	13.8	12.6	13.7		
Average training hours per employee	hours	**40.1**	46.1	46.9	49.2	57.2	404-1	B3.2
Safety [19]								
Fatalities – employees only [20]	number	**0**	1	0	0	0	403-2	B2.1
Fatalities – contractors only [20]	number	**1**	1	4	3	0	403-2	B2.1
Fatality Rate – employees only [20,21]	rate	**0.00**	0.01	0.00	0.00	0.00	403-2	B2.1
Fatality Rate – contractors only [20,21]	rate	**0.01**	0.01	0.03	0.02	0.00	403-2	B2.1
Lost Time Injury – employees only [22]	number	**7** [23]	11	11	3	8	403-2	
Lost Time Injury – contractors only [22]	number	**19**	11	16	10	8	403-2	
Lost Time Injury Rate – employees only [21,22]	rate	**0.07**	0.13	0.13	0.04	0.10	403-2	
Lost Time Injury Rate – contractors only [21,22]	rate	**0.14**	0.09	0.14	0.07	0.06	403-2	
Total Recordable Injury Rate – employees only [21,24]	rate	**0.19**	0.19	0.21	0.11	0.18	403-2	
Total Recordable Injury Rate – contractors only [21,24]	rate	**0.52**	0.29	0.36	0.19	0.28	403-2	
Days lost – employees only [22,25]	number	**464** [26]	249 [27]	252	9	199	102-48, 403-2	B2.2
Governance								
Convicted cases of corruption reported to the Audit & Risk Committee	cases	**0**	0	0	0	0	205-3	B7.1
Breaches of Code of Conduct reported to the Audit & Risk Committee	cases	**31**	20	28	21	6		

Notes:

14 2019 numbers include full-time and part-time employees. Numbers in the previous years include full-time employees only.

15 The percentages given refer to permanent employees within each region, who are eligible to retire within the next five years.

16 There is no mandatory retirement age in Australia. Retirement age assumption was adjusted in 2019 from 60 to 65 to reflect local norms, which led to a significantly lower percentage compared to previous years. Numbers in previous years adopting the adjusted retirement age for Australia are as follows: 2015 – Australia: 3.8% / Group total: 11.1%; 2016 – Australia: 4.6% / Group total: 12.0%; 2017 – Australia: 4.8% / Group total: 12.9%; 2018 – Australia: 4.6% / Group total: 14.0%.

17 Voluntary turnover is employees leaving the organisation voluntarily and does not include dismissal, retirement, company-initiated termination or end of contract.

18 Includes permanent employees only, except for Mainland China which refers to both permanent and fixed-term contract employees due to its specific employment legislation.

19 The system of rules applied in recording and reporting accident statistics complies with the International Labour Organization (ILO) Code of Practice on Recording and Notification of Occupational Accidents and Diseases. Each year's safety data cover the incidents that happened in that calendar year and are based on the latest information available at the time of publication.

20 A fatality is the death of an employee or contractor personnel as a result of an occupational illness / injury / disease incident in the course of employment.

21 All rates are normalised to 200,000 worked hours, which approximately equals to the number of hours worked by 100 people in one year.

22 An occupational illness / injury / disease sustained by an employee or contractor personnel causing him / her to miss one scheduled workday / shift or more after the day of the injury (including fatalities). A lost time injury does not include the day the injury incident occurred or any days that the injured person was not scheduled to work and it does not include restricted work injuries.

23 The health-related lost-time-injury in Australia was reported as lost time injury. It can also be categorised as occupational disease in Australia.

24 Total recordable injuries count all occupational injury incidents and illness other than first aid cases. They include fatalities, lost time injuries, restricted work injuries, and medical treatment.

25 Refers to the number of working days lost when workers are unable to perform their usual work because of an occupational accident or disease. A return to limited duty or alternative work for the same organisation does not count as lost days.

26 158 out of 464 days were carried forward from three incidents in the past.

27 Restated from 253 to 249 per update in Australia.

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

CLP Power Hong Kong Limited and Castle Peak Power Company Limited

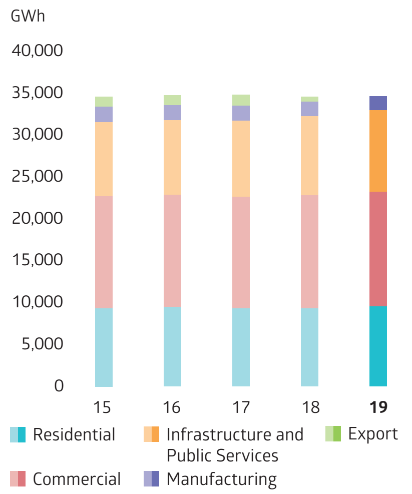
	2019	2018	2017	2016	2015
SoC Financial Statistics					
Combined Profit & Loss Statement, HK$M					
Profit for SoC	**9,744**	10,756	10,783	10,407	10,162
Transfer (to) / from Tariff Stabilisation Fund	**(526)**	(191)	42	151	124
Permitted return	**9,218**	10,565	10,825	10,558	10,286
Less: Interest on/Adjustment for					
Borrowed capital	**1,100**	1,055	976	952	920
Increase in customers' deposits	**4**	1	–	–	–
Performance incentives	**(392)**	(105)	(54)	(53)	(51)
Tariff Stabilisation Fund	**22**	11	4	2	2
Net return	**8,484**	9,603	9,899	9,657	9,415
Combined Balance Sheet, HK$M					
Net assets employed					
Fixed assets	**117,157**	113,295	109,824	106,886	104,479
Non-current assets	**213**	198	268	440	382
Current assets	**4,231**	6,559	7,606	4,061	5,327
	121,601	120,052	117,698	111,387	110,188
Less: current liabilities	**28,115**	24,699	22,565	21,474	18,565
Net assets	**93,486**	95,353	95,133	89,913	91,623
Exchange fluctuation account	**9**	81	(21)	(279)	113
	93,495	95,434	95,112	89,634	91,736
Represented by					
Equity	**46,205**	46,569	44,736	42,147	42,307
Long-term loans and other borrowings	**29,792**	32,274	34,251	28,885	30,730
Deferred liabilities	**16,020**	15,650	15,379	17,816	17,764
Tariff Stabilisation Fund	**1,478**	941	746	786	935
	93,495	95,434	95,112	89,634	91,736
Other SoC Information, HK$M					
Total electricity sales	**40,473**	40,982	39,161	37,120	38,087
Capital expenditure	**9,097**	8,922	8,068	7,292	7,630
Depreciation	**4,753**	4,931	4,706	4,375	4,143
SoC Operating Statistics					
Customers and Sales					
Number of customers (thousand)	**2,636**	2,597	2,556	2,524	2,485
Sales analysis, millions of kWh					
Commercial	**13,584**	13,425	13,220	13,234	13,209
Manufacturing	**1,663**	1,704	1,740	1,751	1,791
Residential	**9,451**	9,191	9,217	9,394	9,228
Infrastructure and Public Services	**9,586**	9,342	8,987	8,858	8,805
Local	**34,284**	33,662	33,164	33,237	33,033
Export	**–**	556	1,341	1,205	1,187
Total Electricity Sales	**34,284**	34,218	34,505	34,442	34,220
Annual change, %	**0.2**	(0.8)	0.2	0.6	0.2
Renewable Energy Certificate Sold, millions of kWh	**3**	–	–	–	–
Local consumption, kWh per person	**5,459**	5,433	5,397	5,451	5,466
Local sales, HK¢ per kWh (average)					
Basic Tariff	**90.7**	93.3	91.8	88.9	87.1
Fuel Cost Adjustment [1]	**27.9**	23.2	21.0	24.3	27.0
Total Tariff	**118.6**	116.5	112.8	113.2	114.1
Rent and Rates Special Rebate [2]	**(0.1)**	(1.1)	–	–	–
Net Tariff [3]	**118.5**	115.4	112.8	113.2	114.1
Annual change in Basic Tariff, %	**(2.8)**	1.6	3.3	2.1	(1.7)
Annual change in Total Tariff, %	**1.8**	3.3	(0.4)	(0.8)	2.8
Annual change in Net Tariff, %	**2.7**	2.3	(0.4)	(0.8)	2.8

A ten-year summary is on our website.

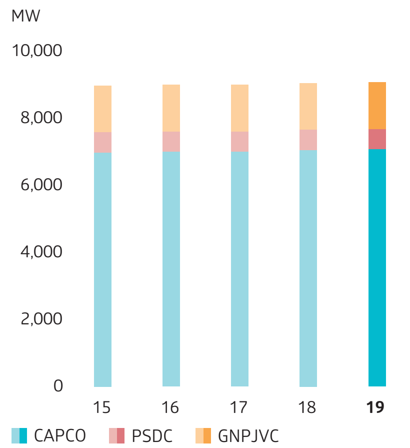
	2019	2018	2017	2016	2015
Generation (Including Affiliated Generating Companies)					
Installed capacity, MW	**8,988**	8,963	8,913	8,913	8,888
System maximum demand					
Local, MW [4]	**7,206**	7,036	7,155	6,841	6,878
Annual change, %	**2.4**	(1.7)	4.6	(0.5)	(2.2)
Local and Mainland China, MW	**7,206**	7,316	8,183	7,509	7,582
Annual change, %	**(1.5)**	(10.6)	9.0	(1.0)	1.1
System load factor, %	**59.8**	58.8	53.0	57.7	57.0
Generation by CAPCO stations, millions of kWh	**24,952**	24,642	25,032	26,056	25,739
Sent out, millions of kWh –					
From own generation	**23,369**	23,032	23,456	24,362	24,075
Net transfer from GNPS/GPSPS/Others	**12,276**	12,504	12,428	11,505	11,616
From Feed-in Tariff customers	**9**	–	–	–	–
Total	**35,654**	35,536	35,884	35,867	35,691
Fuel consumed, terajoules –					
Oil	**1,711**	2,714	3,894	3,452	2,160
Coal	**141,830**	150,310	148,065	160,661	161,988
Gas	**80,695**	72,969	75,807	74,559	71,406
Total	**224,236**	225,993	227,766	238,672	235,554
Cost of fuel, HK$ per gigajoule – Overall	**55.47**	54.79	49.30	43.77	51.25
Thermal efficiency, % based on units sent out	**37.5**	36.7	37.1	36.7	36.8
Plant availability, %	**86.4**	86.4	84.6	84.1	85.0
Transmission and Distribution					
Network, circuit kilometres					
400kV	**555**	555	555	555	555
132kV	**1,671**	1,642	1,646	1,656	1,645
33kV	**22**	22	22	24	24
11kV	**13,782**	13,643	13,455	13,046	12,739
Transformers, MVA	**68,251**	67,607	66,938	65,834	63,373
Substations –					
Primary	**232**	232	232	230	226
Secondary	**14,867**	14,685	14,483	14,254	14,019
Employees and Productivity					
Number of SoC employees	**3,815**	3,798	3,831	3,808	3,817
Productivity, thousands of kWh per employee	**9,007**	8,825	8,683	8,718	8,666

Notes:
1 The Fuel Cost Adjustment has replaced the Fuel Clause Charge effective from October 2014. Commencing 1 October 2018, the Fuel Cost Adjustment is automatically adjusted on a monthly basis to reflect changes in actual price of fuel used.
2 CLP Power Hong Kong provided customers with a Rent and Rates Special Rebate of 1.1 cents per unit from January 2018 to mid-February 2019, returning to customers the refunds received from the Government in relation to CLP Power's claims against the Government's overcharged rent and rates.
3 Effective net tariffs including one-off special fuel rebates in 2015 and 2017 were 110.3 cents per unit and 110.5 cents per unit respectively.
4 Taking into account the effect of the customer programme of demand response pursued to reduce electricity usage, the maximum demand in 2019 would have been higher at 7,268 MW.

Electricity Sales by Sector



Installed Capacity



SoC Net Fixed Assets