1. General information

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

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

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2019 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group") and the Trust Group's interest in a joint venture. The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the consolidated financial statements of the Company and its subsidiaries (together the "Group") and the Group's interest in a joint venture.

The Trust controls the Company and the sole activity of the Trust during the year ended 31 December 2019 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "consolidated financial statements of the Trust and of the Company".

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 37.

(c) Subsidiaries

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

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

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

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

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

(d) Joint venture

A joint venture is an arrangement whereby the Groups or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Groups' share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the joint venture that forms part of the Groups' equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the Groups' share of the investee's net assets and any impairment loss relating to the investment (see note 3 (h)(ii)). Any acquisition-date excess over cost, the Groups' share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Groups' share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Groups' share of losses exceeds their interest in the joint venture, the Groups' interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Groups have incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Groups' interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Groups' net investment in the joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see note 3(h)(i)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(d) Joint venture (continued)

Unrealised profits and losses resulting from transactions between the Groups and their joint venture are eliminated to the extent of the Groups' interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in a joint venture becomes an investment in an associate, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, when the Groups cease to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(e) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

(i) Property, plant and equipment including right-of-use assets arising from leases over leasehold properties where the Groups are not registered owner of the property interest, other than assets under construction, are stated at cost less accumulated depreciation (see note 3(f)(viii)) and impairment losses (see note 3(h)(ii)).

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

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

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

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

(vi) Leasehold land held for own use is stated at cost less accumulated amortisation (see note 3(f)(vii)) and impairment losses (see note 3(h)(ii)).

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

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

	Years
Cable tunnels	100
Buildings	60
Ash lagoon and gas pipeline	60
Transmission and distribution equipment, overhead lines and cables	60
Generating plant and machinery	35
Gas turbines and gas turbine combined cycle	30
Mechanical meters	30
Photovoltaic systems	25
Wind turbines	20
Electronic meters, microwave and optical fibre equipment and trunk radio systems	15
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles and marine craft	5 to 6
Workshop tools and office equipment	5
Properties lease for own use	Shorter of the unexpired term of lease and the properties' estimated useful life

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(g) Leased assets

At inception of a contract, the Groups assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) Policy applicable from 1 January 2019

At the lease commencement date, the Groups recognise a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Groups enter into a lease in respect of a low-value asset, the Groups decide whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 3(f) and (h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Groups' estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Groups will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(ii) Policy applicable prior to 1 January 2019

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

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

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

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

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

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

– variable rate financial assets: current effective interest rate.

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or past due event;

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

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

Write-off policy

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(ii) Impairment of other non-current assets

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

– property, plant and equipment, including right-of-use assets and interests in leasehold land;

– goodwill; and

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

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(i) Short-term employee benefits

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

(j) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(j) Retirement scheme obligations (continued)

(ii) Contributions to defined contribution retirement schemes

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

(k) Inventories

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

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

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

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

(l) Trade and other receivables

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

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

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 3(q)(i)), interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Groups' accounting policy for borrowing costs (see note 3(v)).

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

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

(n) Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Contract liabilities

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

(p) Derivative financial instruments

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

(q) Hedging

The Groups designate certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges), or as hedging instruments to hedge changes in the fair value of a recognised asset or liability (fair value hedges).

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(q) Hedging (continued)

(ii) Cash flow hedges (continued)

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

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

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

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

(r) Revenue recognition

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

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

The Government has approved the 2019-2023 Development Plan covering the period from 1 January 2019 to 31 December 2023. No further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) Fuel Clause Recovery Account

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

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

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

(iii) Income recognition

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

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

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

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

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

(3) Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 3(h)(i)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(s) Translation of foreign currencies

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

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

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

(t) Cash and cash equivalents

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

(u) Income tax

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

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

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

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

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

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

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

(v) Borrowing costs

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

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

(w) Provisions and contingent liabilities

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(x) Related parties

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

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

(2) has significant influence over the Groups; or

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

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

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

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

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

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

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

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

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

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

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

(y) Segment reporting

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

4. Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following developments are relevant to the Trust's and the Company's consolidated financial statements:

- HKFRS 16, *Leases*
- HK(IFRIC)-Int 23, *Uncertainty over income tax treatments*
- Annual improvements to HKFRSs 2015-2017 Cycle
- Amendments to HKAS 19, *Plan amendments, curtailment or settlement*
- Amendments to HKAS 28, *Long-term interests in associates and joint ventures*

The adoption of HKFRS 16, *Leases* and these amendments to HKFRSs does not have a material impact on the Groups' results and financial positions for the current or prior periods. Details of the changes in accounting policies for HKFRS 16 are discussed below.

The Groups have not applied any new standard or amendment that is not effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC)-Int 4, *Determining whether an arrangement contains a lease*, HK(SIC)-Int 15, *Operating leases – incentives*, and HK(SIC)-Int 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Groups have initially applied HKFRS 16 as from 1 January 2019 and elected to use the modified retrospective approach. The adoption of HKFRS 16 does not have material effect to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Changes in accounting policies (continued)

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Groups apply the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Groups have used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lease accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Groups are required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Groups are concerned, these newly capitalised leases are primarily in relation to properties leased for own use. For an explanation of how the Groups apply lessee accounting, see note 3(g).

The adoption of HKFRS 16 does not have material impact on the Groups' financial position and opening balance of equity as at 1 January 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Groups are not required to make any adjustments at the date of initial application of HKFRS 16.

5. Revenue

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

	2019 **$ million**	2018 $ million
Sales of electricity	**10,694**	11,541
Less: concessionary discount on sales of electricity	**(4)**	(4)
	10,690	11,537
Electricity-related income	**49**	75
	10,739	11,612

6. Segment reporting

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

7. Other revenue and other net income

	2019 **$ million**	2018 $ million
Interest income on financial assets measured at amortised cost	**7**	14
Sundry income	**30**	40
	37	54

8. Other operating costs

	2019 **$ million**	2018 $ million
Administrative expenses, government rent and rates	**343**	360
Staff costs in relation to corporate and administrative supports	**218**	201
Provisions for asset decommissioning obligation	**207**	244
Portion of depreciation and amortisation of leasehold land included in other operating costs	**182**	182
Net loss on disposal and written off of property, plant and equipment	**128**	109
	1,078	1,096

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

(Expressed in Hong Kong dollars unless otherwise indicated)

9. Finance costs

	2019 $ million	2018 $ million
Interest on borrowings and other finance costs	**1,283**	1,177
Less: interest expense and other finance costs capitalised to assets under construction	**(261)**	(191)
interest expense transferred to fuel costs	**(18)**	(19)
Total interest expense arising from financial liabilities not at fair value through profit or loss and other finance costs	**1,004**	967

Interest expense has been capitalised at an average rate of approximately 3.1% (2018: 3.0%) per annum for assets under construction.

10. Profit before taxation

	2019 $ million	2018 $ million
Profit before taxation is arrived at after charging:		
Depreciation		
– owned property, plant and equipment	**2,790**	2,834
– properties leased for own use	**2**	–
Amortisation of leasehold land	**196**	194
Expenses of short-term leases with remaining lease term ending on or before the end of reporting period	**7**	–
Costs of inventories	**3,884**	4,569
Write down of inventories	**16**	17
Staff costs	**734**	699
Net loss on disposal and written off of property, plant and equipment	**128**	109
Auditor’s remuneration		
– audit and audit related work	**5**	5

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

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

	2019 $ million	2018 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**547**	458
Deferred tax (see note 29(b))		
Origination and reversal of temporary differences	**67**	301
	614	759

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Groups which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first $2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

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

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

	2019 $ million	2018 $ million
Profit before taxation	**3,209**	4,119
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate (see note below)	**529**	680
Tax effect of non-deductible expenses	**88**	84
Tax effect of non-taxable income	**(3)**	(4)
Tax effect of recognition of previously unrecognised temporary differences	**–**	(1)
Actual tax expense	**614**	759

For the year ended 31 December 2019, the notional tax is calculated at 16.5% (2018: 16.5%), except for one subsidiary of the Groups which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, tax on the first $2 million of profits is calculated at 8.25% and tax on the remaining profits is calculated at 16.5%. The notional tax of this subsidiary is calculated at the same basis as 2018.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

12. Directors' emoluments and senior management remuneration

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

Name of Directors	Fees $ million	Basic salaries, allowances and other benefits [10] $ million	Retirement scheme contributions $ million	Bonuses $ million	2019 Total emoluments $ million	2018 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning [2]						
Chairman	0.12	0.64	–	–	**0.76**	0.73
Wan Chi Tin						
Chief Executive Officer	0.07	8.44	–	9.30	**17.81**	17.94
Chan Loi Shun	0.07	3.18	–	–	**3.25**	3.01
Chen Daobiao [6]	0.07	2.78	0.02	0.58	**3.45**	1.70
Cheng Cho Ying, Francis	0.07	3.99	0.02	1.94	**6.02**	5.78
Shan Shewu [7]	–	–	–	–	**–**	1.36
Non-executive Directors						
Victor T K Li						
Deputy Chairman to the Company Board	0.07	0.29	–	–	**0.36**	0.34
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	**0.07**	0.07
Ronald Joseph Arculli [1]	0.14	0.04	–	–	**0.18**	0.18
Duan Guangming [8]	0.06	–	–	–	**0.06**	–
Jiang Xiaojun [9]	0.01	–	–	–	**0.01**	0.07
Deven Arvind Karnik	0.07	–	–	–	**0.07**	0.07
Zhu Guangchao	0.07	–	–	–	**0.07**	0.07
Independent Non-executive Directors						
Fong Chi Wai, Alex [2]	0.09	0.01	–	–	**0.10**	0.10
Kwan Kai Cheong	0.07	0.01	–	–	**0.08**	0.08
Lee Lan Yee, Francis [1]	0.14	0.02	–	–	**0.16**	0.16
George Colin Magnus	0.07	0.02	–	–	**0.09**	0.09
Donald Jeffrey Roberts [1] [2]	0.16	0.01	–	–	**0.17**	0.18
Ralph Raymond Shea	0.07	0.03	–	–	**0.10**	0.10
Alternate Directors						
Woo Mo Fong, Susan						
(alias Chow Woo Mo Fong, Susan) [4]	–	0.07	–	–	**0.07**	0.07
Frank John Sixt [5]	–	0.02	–	–	**0.02**	0.02
Total for the year 2019	**1.49**	**19.55**	**0.04**	**11.82**	**32.90**	
Total for the year 2018	1.49	17.65	0.04	12.94		32.12

Notes:
(1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
(2) Member of the Remuneration Committee.
(3) All current Executive Directors, Non-executive Directors and Independent Non-executive Directors are members of the Nomination Committee.
(4) An Alternate Director to Mr. Fok Kin Ning, Canning.
(5) An Alternate Director to Mr. Victor T K Li.
(6) Appointed as Executive Director with effect from 22 May 2018.
(7) Resigned as Executive Director with effect from 22 May 2018.
(8) Appointed as Non-executive Director with effect from 26 February 2019.
(9) Resigned as Non-executive Director with effect from 26 February 2019.
(10) Other benefits include electricity allowances to Directors for residential use. For Directors who are employees of the Groups, other benefits also include insurance and medical benefits entitled by the employees of the Groups.

The five highest paid individuals of the Groups included two directors (2018: two) whose total emoluments are shown above. The remuneration of the other three individuals (2018: three) who comprise the five highest paid individuals of the Groups is set out below:

	2019 $ million	2018 $ million
Basic salaries, allowances and other benefits	**8.97**	8.46
Retirement scheme contributions	**1.20**	1.48
Bonuses	**3.60**	3.76
	13.77	13.70

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

	2019 Number	2018 Number
Nil – $1,000,000	**–**	1
$2,500,001 – $3,000,000	**3**	3
$3,000,001 – $3,500,000	**6**	6
$5,000,001 – $5,500,000	**2**	2

The remuneration of Directors and senior management is as follows:

	2019 $ million	2018 $ million
Short-term employee benefits	**70**	68
Post-employment benefits	**2**	3
	72	71

At 31 December 2019 and 2018, there was no amount due from Directors and senior management.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

13. Scheme of Control transfers

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

Pursuant to 2013 mid-term review of 2009-2018 SoCA, a Smart Power Fund was established in June 2014 to support the carrying out of improvement works to upgrade the energy efficiency performance of building services installations for communal use in non-commercial buildings. Specifically, HK Electric consented to contribute to the Smart Power Fund each year during the period from 1 January 2014 to 31 December 2018 an amount being deducted from its financial incentive under the energy efficiency incentive mechanism in the SoCA for outperforming the energy audit and energy saving targets (if any) each year during the period from 1 January 2013 to 31 December 2017.

Under the new SoCA, a Smart Power Care Fund has to be established no later than 1 January 2019 with initial funding provided by the net closing balance of the Smart Power Fund to promote energy efficiency and conservation, such as accelerating end-use energy efficiency through programmes designed to help residential, industrial and commercial customers, and also disadvantaged customers/groups to replace or upgrade end-use appliances to more energy-efficient electrical models. HK Electric consented to deduct an amount equal to 65% of the Energy Efficiency Incentive Amount of each year during the period from 1 January 2019 to 31 December 2033 for funding the contribution to the Smart Power Care Fund provided that there is an Energy Efficiency Incentive Amount in respect of that year.

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

	2019 $ million	2018 $ million
Tariff Stabilisation Fund	**222**	303
Rate Reduction Reserve	**14**	6
Smart Power Care Fund		
– Provisional sum to be injected in the following year	**32**	–
	268	309

A provisional sum of $32,379,000, representing deduction of HK Electric's 2019 financial incentive, was transferred from the consolidated statement of profit or loss and included in the trade and other payables and contract liabilities as at 31 December 2019 for injection into the Smart Power Care Fund in the following year.

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

$ million	Tariff Stabilisation Fund	Rate Reduction Reserve	Smart Power Fund/Smart Power Care Fund	Total
At 1 January 2018	316	1	18	335
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	1	(1)	–	–
Transfer from the consolidated statement of profit or loss	303	6	–	309
Injection for the year	–	–	5	5
Disbursement for the year	–	–	(1)	(1)
At 31 December 2018 and 1 January 2019	**620**	**6**	**22**	**648**
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	**6**	**(6)**	**–**	**–**
Transfer from the consolidated statement of profit or loss	**222**	**14**	**–**	**236**
Disbursement for the year	**–**	**–**	**(6)**	**(6)**
At 31 December 2019	**848**	**14**	**16**	**878**

Pursuant to SoCA, the year-end balance of the Rate Reduction Reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

14. Distributions/dividends

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

	2019 **$ million**	2018 $ million
Audited consolidated profit attributable to the holders of Share Stapled Units	**2,327**	3,051
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	**5,188**	5,421
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(208)**	(1,916)
– changes in working capital	**25**	(267)
– adjustment for employee retirement benefit schemes	**11**	12
– taxes paid	**(107)**	(535)
	(279)	(2,706)
(iii) capital expenditure payment	**(3,585)**	(3,397)
(iv) net finance costs	**(1,022)**	(883)
Distributable income	**2,629**	1,486
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	**201**	2,052
Distributable income after adjustment of the discretionary amount	**2,830**	3,538

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

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

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

Note 4 In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2019, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

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

	2019 **$ million**	2018 $ million
Interim distribution/first interim dividend declared and paid of 15.94 cents (2018: 19.92 cents) per Share Stapled Unit/share	**1,408**	1,760
Final distribution/second interim dividend proposed after the end of the reporting period of 16.09 cents (2018: 20.12 cents) per Share Stapled Unit/share	**1,422**	1,778
	2,830	3,538

For the year ended 31 December 2019, the Company Board declared the payment of a second interim dividend of 16.09 cents per ordinary share (2018: 20.12 cents per ordinary share), amounting to $1,422 million (2018: $1,778 million), in lieu of a final dividend after the end of the reporting period and therefore no final dividend was proposed by the Company Board.

For the year ended 31 December 2019, the Trustee-Manager Board declared a final distribution of 16.09 cents per Share Stapled Unit (2018: 20.12 cents per Share Stapled Unit), amounting to $1,422 million (2018: $1,778 million), after the end of the reporting period.

The final distribution/second interim dividend declared after the end of the reporting period is based on the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 31 December 2019 (2018: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2019 **$ million**	2018 $ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 20.12 cents (2018: 20.12 cents) per Share Stapled Unit/share	**1,778**	1,778

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

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/ordinary shares of the Company of $2,327 million (2018: $3,051 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2018: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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

$ million	Site formation and buildings	Properties leased for own use	Plant, machinery and equipment	Fixtures, fittings and motor vehicles	Assets under construction	Sub-total	Interests in leasehold land held for own use	Total
Cost								
At 1 January 2018	16,649	–	51,696	759	5,336	74,440	6,844	81,284
Additions	9	–	266	38	3,382	3,695	114	3,809
Transfer	15	–	1,613	65	(1,693)	–	–	–
Disposals	–	–	(334)	(10)	–	(344)	–	(344)
At 31 December 2018 and 1 January 2019	**16,673**	**–**	**53,241**	**852**	**7,025**	**77,791**	**6,958**	**84,749**
Additions	**3**	**4**	**191**	**48**	**4,328**	**4,574**	**1**	**4,575**
Transfer	**152**	**–**	**1,366**	**76**	**(1,594)**	**–**	**–**	**–**
Disposals	**(17)**	**–**	**(364)**	**(20)**	**–**	**(401)**	**–**	**(401)**
At 31 December 2019	**16,811**	**4**	**54,434**	**956**	**9,759**	**81,964**	**6,959**	**88,923**
Accumulated depreciation and amortisation								
At 1 January 2018	1,996	–	7,752	280	–	10,028	754	10,782
Written back on disposals	–	–	(186)	(10)	–	(196)	–	(196)
Charge for the year	510	–	2,300	100	–	2,910	194	3,104
At 31 December 2018 and 1 January 2019	**2,506**	**–**	**9,866**	**370**	**–**	**12,742**	**948**	**13,690**
Written back on disposals	**(5)**	**–**	**(220)**	**(19)**	**–**	**(244)**	**–**	**(244)**
Charge for the year	**511**	**2**	**2,247**	**105**	**–**	**2,865**	**196**	**3,061**
At 31 December 2019	**3,012**	**2**	**11,893**	**456**	**–**	**15,363**	**1,144**	**16,507**
Net book value								
At 31 December 2019	**13,799**	**2**	**42,541**	**500**	**9,759**	**66,601**	**5,815**	**72,416**
At 31 December 2018	14,167	–	43,375	482	7,025	65,049	6,010	71,059

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to $261 million (2018: $191 million).

Depreciation charges for the year included $73 million (2018: $76 million), relating to assets utilised in development activities, which have been capitalised.

17. Goodwill

(a) Carrying amount of goodwill

	2019 **$ million**	2018 $ million
Cost		
At 1 January and 31 December	**33,623**	33,623

(b) Impairment test for goodwill

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

In the case of triggering events and at least annually, the Groups test whether the goodwill has suffered any impairment. Recoverable amount of the CGU, to which the goodwill has been allocated, was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a 16-year period (2018: 16-year period). Projections for a period of greater than five years have been used on the basis that a longer projection period represents the long-lived nature of generation, transmission and distribution assets and a more appropriate reflection of future cash flows of HK Electric under the regulatory regime. The cash flow projections are discounted using a pre-tax discount rate of 5.50% (2018: 6.16%). The discount rate used reflects specific risks relating to the relevant CGU. Cash flows beyond the 16-year period are extrapolated using the terminal growth rate of 1.0% (2018: 1.0%).

There was no indication of impairment arising from review on goodwill as at 30 November 2019.

If the discount rate rose to 6.66% (2018: 6.47%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value-in-use calculation would not affect management's view on impairment test result as at 30 November 2019.

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18. Investments in subsidiaries

Details of the subsidiaries at 31 December 2019 are as follows:

Name of subsidiary	Issued share capital and debt securities	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
Century Rank Limited	US$1	100%	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US$1	100% [(1)]	British Virgin Islands/ Hong Kong	Investment holding
The Hongkong Electric Company, Limited	$2,411,600,000	100% [(1)]	Hong Kong	Electricity generation and supply
Hongkong Electric Finance Limited	US$1 HK$6,505 million Hong Kong dollar fixed rate notes US$1,500 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$650 million United States dollar callable zero coupon notes (see note 25)	100% [(1)]	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

19. Interest in a joint venture

Details of the Groups' interest in a joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Issued share capital	Groups' effective interest	Place of incorporation/ operation	Principal activity
Hong Kong LNG Terminal Limited ("HKLTL")	$10	30%	Hong Kong	Develop, construct, operate, maintain and own a liquefied natural gas (LNG) terminal in Hong Kong and providing related services

HKLTL is jointly owned by HK Electric and Castle Peak Power Company Limited ("CAPCO"), for the development of an LNG terminal in Hong Kong. HKLTL is a joint venture of HK Electric and CAPCO as its significant operational and financial decisions require unanimous consent of both shareholders.

HKLTL, the only joint venture in which the Groups participate, is an unlisted corporate entity whose quoted market price is not available.

Summarised financial information below represents amounts shown in HKLTL's financial statements prepared in accordance with HKFRSs and the Groups' share of results and net assets:

	2019 **$ million**	2018 $ million
Current assets		
Bank deposits and cash	**4**	–
Other current assets	**1**	–
	5	–
Non-current assets	**165**	–
Current liabilities	**(29)**	–
Non-current liabilities		
Loans from shareholders	**(141)**	–
Net assets	**–**	–
Revenue	**1**	–
Profit for the year	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

	2019 **$ million**	2018 $ million
Groups' share of net assets	**–**	–
Loan to joint venture (see note below)	**42**	–
	42	–

HK Electric entered into a Shareholder Loan Facility Agreement with HKLTL under which two tranches of loan facilities totaling $699 million are provided by HK Electric to finance HKLTL's obtaining the land lease and construction of the jetty for the LNG terminal. Both tranches of loans are unsecured and interest-bearing with the rates benchmarked with market rates.

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(Expressed in Hong Kong dollars unless otherwise indicated)

20. Inventories

	2019 **$ million**	2018 $ million
Coal, fuel oil and natural gas	**522**	675
Stores and materials (see note below)	**297**	314
	819	989

Included in stores and materials is capital stock of $153 million (2018: $159 million) which was purchased for future maintenance of capital assets.

21. Trade and other receivables

	2019 **$ million**	2018 $ million
Trade debtors, net of loss allowance (see notes (a) and (b) below)	**513**	563
Other receivables (see note below)	**414**	402
	927	965
Derivative financial instruments (see note 26)	**86**	2
Deposits and prepayments	**47**	61
	1,060	1,028

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

Other receivables of the Groups include unbilled electricity charges of $341 million (2018: $336 million) to be received from electricity customers.

(a) Ageing analysis of trade debtors

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

	2019 **$ million**	2018 $ million
Current and within 1 month	**476**	513
1 to 3 months	**30**	35
More than 3 months but less than 12 months	**7**	15
	513	563

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

(b) Expected credit losses of trade debtors

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

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

	2019			
	ECL rate %	**Gross carrying amount $ million**	**Lifetime ECLs $ million**	**Net carrying amount $ million**
Live accounts				
Provision on collective basis	**2**	**502**	**(11)**	**491**
Final accounts				
Provision on individual basis	**8**	**12**	**(1)**	**11**
Other trade debtors				
Provision on collective basis	**0**	**11**	**–**	**11**
		525	**(12)**	**513**

	2018			
	ECL rate %	Gross carrying amount $ million	Lifetime ECLs $ million	Net carrying amount $ million
Live accounts				
Provision on collective basis	0	548	–	548
Final accounts				
Provision on individual basis	6	12	(1)	11
Other trade debtors				
Provision on collective basis	0	4	–	4
		564	(1)	563

HK Electric obtained collateral in the form of security deposits or bank guarantees from customers (see note 31(a)).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Trade and other receivables (continued)

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

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

	2019 **$ million**	2018 $ million
At 1 January	**1**	1
Impairment losses recognised during the year	**12**	1
Amounts written off during the year	**(1)**	(1)
At 31 December	**12**	1

22. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2019 **$ million**	2018 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	**263**	–
Cash at bank and in hand	**36**	34
Bank overdrafts – unsecured	**(33)**	–
Cash and cash equivalents in the consolidated cash flow statement	**266**	34
Bank overdrafts – unsecured	**33**	–
Bank deposits and cash in the consolidated statement of financial position	**299**	34

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

	Note	**2019** **$ million**	2018 $ million
Profit before taxation		**3,209**	4,119
Adjustments for:			
Interest income	7	**(7)**	(14)
Finance costs	9	**1,004**	967
Interest expense transferred to fuel costs	9	**18**	19
Depreciation	10	**2,792**	2,834
Amortisation of leasehold land	10	**196**	194
Net loss on disposal and written off of property, plant and equipment	10	**128**	109
Increase in provisions for asset decommissioning obligation	28(a)	**207**	244
Net financial instrument revaluation and exchange gains		**–**	(9)
Smart Power Care Fund/Smart Power Fund disbursement	13(c)	**(6)**	(1)
Changes in working capital:			
Decrease in inventories		**164**	10
Decrease in trade and other receivables		**57**	35
Movements in Fuel Clause Recovery Account		**(208)**	(1,916)
Decrease in trade and other payables and contract liabilities		**(194)**	(312)
Increase/decrease in net employee retirement benefit assets/liabilities		**11**	12
Cash generated from operations		**7,371**	6,291

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Reconciliation of liabilities arising from financing activities:

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

$ million	Bank loans (note 25)	Medium term notes (note 25)	Customers' deposits	Lease liabilities (note 28(b))	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2019	**17,755**	**24,210**	**2,195**	**–**	**(562)**	**235**	**43,833**
Changes from financing cash flows:							
Proceeds from bank loans	2,048	–	–	–	–	–	2,048
Repayment of bank loans	(1,500)	–	–	–	–	–	(1,500)
Issuance of medium term notes	–	500	–	–	–	–	500
Redemption of medium term notes	–	(330)	–	–	–	–	(330)
Payment of lease liabilities	–	–	–	(2)	–	–	(2)
New customers' deposits	–	–	315	–	–	–	315
Repayment of customers' deposits	–	–	(269)	–	–	–	(269)
Total changes from financing cash flows	548	170	46	(2)	–	–	762
Changes in fair value	–	7	–	–	103	(235)	(125)
Other changes:							
Increase in lease liabilities	–	–	–	5	–	–	5
Interest on borrowings and other finance costs	30	292	–	–	–	–	322
At 31 December 2019	**18,333**	**24,679**	**2,241**	**3**	**(459)**	**–**	**44,797**

$ million	Bank loans (note 25)	Medium term notes (note 25)	Customers' deposits	Derivative financial instrument held to hedge borrowings (assets)	Derivative financial instrument held to hedge borrowings (liabilities)	Total
At 1 January 2018	17,359	24,012	2,130	(808)	155	42,848
Changes from financing cash flows:						
Proceeds from bank loans	365	–	–	–	–	365
New customers' deposits	–	–	311	–	–	311
Repayment of customers' deposits	–	–	(246)	–	–	(246)
Total changes from financing cash flows	365	–	65	–	–	430
Changes in fair value	–	(88)	–	246	80	238
Other changes:						
Interest on borrowings and other finance costs	31	286	–	–	–	317
At 31 December 2018	17,755	24,210	2,195	(562)	235	43,833

23. Trade and other payables and contract liabilities

	2019 $ million	2018 $ million
Trade and other payables		
Creditors measured at amortised cost (see note (a) below)	**2,921**	2,403
Lease liabilities (see note 28(b))	**2**	–
Derivative financial instruments (see note 26)	**39**	6
	2,962	2,409
Contract liabilities (see note (b) below)	**18**	38
	2,980	2,447

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

23. Trade and other payables and contract liabilities (continued)

(a) Creditors' ageing is analysed as follows:

	2019 **$ million**	2018 $ million
Due within 1 month or on demand	**1,778**	1,316
Due after 1 month but within 3 months	**270**	139
Due after 3 months but within 12 months	**873**	948
	2,921	2,403

(b) Contract liabilities

(i) The contract liabilities relate to the advance consideration received from customers for electricity-related services, which consists mainly of (1) permanent supply service, primarily associated with the supply of electricity to customer substations for large new developments and to small new developments without customer substation provisions, and (2) site service primarily associated with the temporary supply of electricity to construction sites or special functions, for which revenue is recognised upon completion of the electricity-related services.

(ii) Movements in contract liabilities during the year is as follows:

	2019 **$ million**	2018 $ million
At 1 January	**38**	41
Increase in contract liabilities as a result of billing in advance for performance of electricity-related services	**5**	31
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	**(25)**	(34)
At 31 December	**18**	38

24. Fuel Clause Recovery Account

Effective from 2019, the Fuel Clause Charge per unit for electricity sales was adjusted on a monthly basis to reflect actual cost of fuels in a timely manner (2018: 23.4 cents per unit for electricity sales was applicable for full year).

During the year, Special Fuel Rebate of 2.3 cents per unit for electricity sales (2018: 16 cents) was offered to customers. Movements in the Fuel Clause Recovery Account were as follows:

	2019 $ million	2018 $ million
At 1 January	**855**	2,771
Transferred to profit or loss	**(2,051)**	(2,696)
Fuel Clause Charges during the year	**2,087**	2,466
Special Fuel Rebates during the year	**(244)**	(1,686)
At 31 December	**647**	855

This account, inclusive of interest, has been and will continue to be used to stabilise electricity tariffs.

25. Bank loans and other interest-bearing borrowings

	2019 $ million	2018 $ million
Bank loans	**18,333**	17,755
Current portion	**(113)**	(110)
	18,220	17,645
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**6,465**	6,295
Zero coupon notes (see note (b) below)	**727**	702
	7,192	6,997
Current portion	**–**	(330)
	7,192	6,667
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**11,697**	11,673
Zero coupon notes (see note (b) below)	**5,790**	5,540
	17,487	17,213
Current portion	**(5,897)**	–
	11,590	17,213
Non-current portion	**37,002**	41,525

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25. Bank loans and other interest-bearing borrowings (continued)

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.55% to 4% per annum (2018: 2.55% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 2.875% to 4.25% per annum (2018: 2.875% to 4.25% per annum).

(b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of $1,056 million (2018: $1,056 million) and accrual yield of 3.5% per annum (2018: 3.5% per annum).

The United States dollar zero coupon notes have nominal amount of US$650 million (2018: US$650 million) and accrual yields ranging from 4.375% to 4.8% per annum (2018: 4.375% to 4.8% per annum). These notes embed with issuer call options allowing issuer to early redeem the notes. US$250 million of these notes are callable on 20 October 2020 and annually thereafter until the penultimate year to maturity. The remaining US$400 million are callable on 12 October 2022 and annually thereafter until the penultimate year to maturity.

(c) Details of the issuer of the Hong Kong dollar and United States dollar medium term notes are set out in note 18.

(d) Some banking facilities of the Groups are subject to the fulfilment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Groups regularly monitors its compliance with these covenants. Further details of the Groups' management of liquidity risk are set out in note 31(b). As at 31 December 2019 and 2018, none of the covenants relating to drawn down facilities had been breached.

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

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

	2019 **$ million**	2018 $ million
After 1 year but within 2 years	**15,222**	5,881
After 2 years but within 5 years	**3,596**	17,944
After 5 years	**18,184**	17,700
	37,002	41,525

26. Derivative financial instruments

	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
	$ million	**$ million**	$ million	$ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**24**	**–**	–	(172)
– Interest rate swaps	**230**	**–**	497	–
– Forward foreign exchange contracts	**407**	**(51)**	10	(244)
Fair value hedges:				
– Cross currency swaps	**70**	**–**	63	–
– Forward foreign exchange contracts	**4**	**(2)**	–	(1)
	735	**(53)**	570	(417)
Analysed as:				
Current	**86**	**(39)**	2	(6)
Non-current	**649**	**(14)**	568	(411)
	735	**(53)**	570	(417)

27. Employee retirement benefits

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

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

Another scheme is defined contribution in nature and offers its members various investment funds in which they can invest. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund (the "Guaranteed Return Scheme"). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 27(b)).

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

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

Since the introduction of the Mandatory Provident Fund System in Hong Kong in December 2000, both the Pension Scheme and the Guaranteed Return Scheme have been closed to new entrants and all new recruits are enrolled in the MPF Scheme.

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

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27. Employee retirement benefits (continued)

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

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include discount rate, long term salary increase rate and future pension increase rate which are disclosed in note 27(a)(viii) together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1 January 2018. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

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

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2019 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

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

	2019 $ million	2018 $ million
Present value of defined benefit obligations	**3,459**	3,463
Fair value of assets of the Schemes	**(3,900)**	(3,663)
	(441)	(200)
Represented by:		
Employee retirement benefit scheme assets	**(809)**	(593)
Employee retirement benefit scheme liabilities	**368**	393
	(441)	(200)

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

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

	2019 $ million	2018 $ million
At 1 January	**3,463**	3,707
Current service cost	**62**	70
Interest cost	**69**	67
Employee contributions paid to the Schemes	**14**	15
Actuarial losses/(gains) due to:		
– liability experience	**11**	1
– change in financial assumptions	**99**	(75)
– change in demographic assumptions	**9**	41
Benefits paid	**(268)**	(363)
At 31 December	**3,459**	3,463

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

	2019 $ million	2018 $ million
At 1 January	**3,663**	4,067
Interest income on the Schemes' assets	**72**	73
Return on Schemes' assets, excluding interest income	**371**	(181)
Employer contributions paid to the Schemes	**48**	52
Employee contributions paid to the Schemes	**14**	15
Benefits paid	**(268)**	(363)
At 31 December	**3,900**	3,663

The Groups expect to contribute $51 million to the Schemes in 2020.

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

	2019 $ million	2018 $ million
Current service cost	**62**	70
Net interest income on net defined benefit asset/liability	**(3)**	(6)
	59	64

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27. Employee retirement benefits (continued)

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

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

	2019 **$ million**	2018 $ million
Direct costs	**40**	44
Other operating costs	**19**	20
	59	64

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

	2019 **$ million**	2018 $ million
At 1 January	**151**	299
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**252**	(148)
At 31 December	**403**	151

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

	2019 **$ million**	2018 $ million
Hong Kong equities	**365**	346
European equities	**224**	188
North American equities	**576**	478
Asia Pacific and other equities	**173**	148
Global bonds	**2,468**	2,432
Deposits, cash and others	**94**	71
	3,900	3,663

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

(viii) The principal actuarial assumptions used as at 31 December are as follows:

	2019	2018
Discount rate		
– The Pension Scheme	**1.8%**	2.2%
– The Guaranteed Return Scheme	**1.8%**	1.9%
Long-term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

(ix) Sensitivity analysis

(1) The Pension Scheme

	Increase/(decrease) in defined benefit obligations	
	2019	2018
	$ million	$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(57)**	(54)
– decrease by 0.25%	**60**	57
Pension increase rate		
– increase by 0.25%	**57**	54
– decrease by 0.25%	**(54)**	(52)
Mortality rate applied to specific age		
– set forward one year	**(72)**	(65)
– set backward one year	**74**	66

(2) The Guaranteed Return Scheme

	Increase/(decrease) in defined benefit obligations	
	2019	2018
	$ million	$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(26)**	(29)
– decrease by 0.25%	**26**	29
Interest to be credited		
– increase by 0.25%	**26**	29

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position. The analysis has been performed on the same basis as for 2018.

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

	2019	2018
The Pension Scheme	**13.2 Years**	13.2 Years
The Guaranteed Return Scheme	**6.2 Years**	6.5 Years

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Employee retirement benefits (continued)

(b) Defined contribution retirement schemes

	2019 **$ million**	2018 $ million
Expenses recognised in profit or loss	**58**	52

Forfeited contributions of $1,148,000 (2018: $1,306,000) have been received during the year.

28. Other non-current liabilities

	2019 **$ million**	2018 $ million
Provisions (see note (a) below)	**954**	747
Lease liabilities (see note (b) below)	**1**	–
	955	747

(a) Provisions

	2019 **$ million**
Provisions for asset decommissioning obligation	
At 1 January	**747**
Additional provisions made	**207**
At 31 December	**954**

Under SoCA, provision which represents the best estimation of expenditure required to settle asset decommissioning obligation has to be made to the extent that HK Electric incurs an obligation for the costs of dismantling and removing property, plant and equipment and restoring the sites on which they are located either when the assets are acquired or as a consequence of having used them during a particular period for electricity-related activities.

(b) Lease liabilities

The following table shows the remaining contractual maturities of the Groups' lease liabilities at the end of the current and previous reporting periods:

	2019		2018	
	Present value of the minimum lease payments $ million	**Total minimum lease payments $ million**	Present value of the minimum lease payments $ million	Total minimum lease payments $ million
Within 1 year	**2**	**2**	–	–
After 1 year but within 2 years	**1**	**1**	–	–
	3	**3**	–	–
Less: total future interest expenses		**–**		–
Present value of lease liabilities		**3**		–

29. Income tax in the consolidated statement of financial position

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

	2019 $ million	2018 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**547**	458
Provisional Profits Tax paid	**–**	(321)
	547	137
Balance of Profits Tax provision relating to prior year	**30**	–
	577	137

(b) Deferred tax liabilities

	2019 $ million	2018 $ million
Deferred tax liabilities	**9,540**	9,353

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

(Expressed in Hong Kong dollars unless otherwise indicated)

29. Income tax in the consolidated statement of financial position (continued)

(b) Deferred tax liabilities (continued)

(i) The components of deferred tax liabilities/(assets) recognised in the consolidated statement of financial position and the movements during the year are as follows:

$ million	Depreciation allowances in excess of the related depreciation	Fuel Clause Recovery Account	Defined benefit retirement schemes	Others	Total
At 1 January 2018	9,565	(457)	(12)	53	9,149
(Credited)/charged to profit or loss	(19)	316	5	(1)	301
Credited to other comprehensive income	–	–	(24)	(73)	(97)
At 31 December 2018 and 1 January 2019	**9,546**	**(141)**	**(31)**	**(21)**	**9,353**
Charged to profit or loss	**27**	**34**	**5**	**1**	**67**
Charged to other comprehensive income	**–**	**–**	**42**	**78**	**120**
At 31 December 2019	**9,573**	**(107)**	**16**	**58**	**9,540**

(ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2019 and 2018.

30. Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

$ million	Share capital (note 30(b))	Share premium (note 30(c))	Hedging reserve (note 30(d)(i))	Revenue reserve (note 30(d)(ii))	Proposed/ declared dividend (note 14)	Total
Balance at 1 January 2018	8	47,472	25	2,119	1,778	51,402
Changes in equity for 2018:						
Profit for the year	–	–	–	3,714	–	3,714
Other comprehensive income	–	–	4	–	–	4
Total comprehensive income	–	–	4	3,714	–	3,718
Second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,778)	(1,778)
First interim dividend paid (see note 14(b))	–	–	–	(1,760)	–	(1,760)
Proposed second interim dividend (see note 14(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2018 and 1 January 2019	**8**	**47,472**	**29**	**2,295**	**1,778**	**51,582**
Changes in equity for 2019:						
Profit for the year	**–**	**–**	**–**	**2,972**	**–**	**2,972**
Other comprehensive income	**–**	**–**	**(21)**	**–**	**–**	**(21)**
Total comprehensive income	**–**	**–**	**(21)**	**2,972**	**–**	**2,951**
Second interim dividend in respect of previous year approved and paid (see note 14(c))	**–**	**–**	**–**	**–**	**(1,778)**	**(1,778)**
First interim dividend paid (see note 14(b))	**–**	**–**	**–**	**(1,408)**	**–**	**(1,408)**
Proposed second interim dividend (see note 14(b))	**–**	**–**	**–**	**(1,422)**	**1,422**	**–**
Balance at 31 December 2019	**8**	**47,472**	**8**	**2,437**	**1,422**	**51,347**

All of the Company's share premium and revenue reserve is available for distribution. The Company Board declared the payment of a second interim dividend of 16.09 cents (2018: 20.12 cents) per ordinary share, amounting to $1,422 million (2018: $1,778 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Capital, reserves and dividends (continued)

(b) Share capital

The Company

	2019	
	Number of Shares	**Nominal value $**
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	**20,000,000,000**	**10,000,000**
Preference shares of $0.0005 each		
At 1 January and 31 December	**20,000,000,000**	**10,000,000**
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	**8,836,200,000**	**4,418,100**
Preference shares of $0.0005 each		
At 1 January and 31 December	**8,836,200,000**	**4,418,100**

	2018	
	Number of Shares	Nominal value $
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

(c) Share premium

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

(d) Nature and purpose of reserves

(i) Hedging reserve

The hedging reserve includes cash flow hedge reserve and cost of hedging reserve. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 3(q)(ii). Under HKFRS 9, *Financial Instruments*, if the Groups exclude the forward element of forward contracts and the foreign currency basis spread of financial instruments (the "excluded elements") from the designation of the hedging instruments, then the excluded elements may be separately accounted for as cost of hedging. The fair value changes of the excluded elements are recognised in a separate component of equity as cost of hedging reserve to the extent that it relates to the hedged items.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(i) Hedging reserve (continued)

The following tables provide a reconciliation of the components in hedging reserve and an analysis of other comprehensive income by risk category that arises from hedge accounting:

(1) Cash flow hedge reserve

$ million	Interest rate risk	Currency Risk	Total
Balance at 1 January 2018	136	12	148
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(9)	(19)	(28)
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	8	(2)	6
Net deferred tax credited to other comprehensive income	1	3	4
	–	(18)	(18)
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	–	1	1
Balance at 31 December 2018 and 1 January 2019 (see note 3 below)	**136**	**(5)**	**131**
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(4)**	**(1)**	**(5)**
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**(51)**	**–**	**(51)**
Net deferred tax credited to other comprehensive income	**6**	**–**	**6**
	(49)	**(1)**	**(50)**
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**(6)**	**(6)**
Balance at 31 December 2019 (see note 3 below)	**87**	**(12)**	**75**

Note 1 Amounts reclassified to profit or loss are recognised in the "Finance costs" line item in the consolidated statement of profit or loss.

Note 2 Amounts transferred to the initial carrying amount of hedged items are recognised in the "Property, plant and equipment" or "Inventories" line items in the consolidated statement of financial position.

Note 3 The entire balance relates to continuing hedges.

(2) Cost of hedging reserve

$ million	Foreign currency basis spread	Forward element	Total
Balance at 1 January 2018	109	57	166
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(17)	(316)	(333)
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	–	(54)	(54)
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	–	(30)	(30)
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	(3)	(3)
Net deferred tax credited to other comprehensive income	3	66	69
Balance at 31 December 2018 and 1 January 2019 (see note 3 below)	**95**	**(280)**	**(185)**
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(16)**	**616**	**600**
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**–**	**(63)**	**(63)**
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**–**	**(27)**	**(27)**
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	**–**	**8**	**8**
Net deferred tax credited/(charged) to other comprehensive income	**3**	**(87)**	**(84)**
Balance at 31 December 2019 (see note 3 below)	**82**	**167**	**249**

Note 1 Amounts reclassified to profit or loss are recognised in the "Finance costs" line item in the consolidated statement of profit or loss.

Note 2 Amounts transferred to the initial carrying amount of hedged items are recognised in the "Property, plant and equipment" or "Inventories" line items in the consolidated statement of financial position.

Note 3 The entire balance relates to continuing hedges.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(ii) Revenue reserve

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

(e) Capital management

The Groups' primary objectives when managing capital are:

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

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

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

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

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

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

During 2019, the Groups' strategy, which was unchanged from 2018, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

The net debt-to-net total capital ratio at 31 December 2019 and 2018 was as follows:

	2019 $ million	2018 $ million
Bank loans and other interest-bearing borrowings	**43,012**	41,965
Bank overdrafts – unsecured	**33**	–
Less: Bank deposits and cash	**(299)**	(34)
Net debt	**42,746**	41,931
Total equity	**48,472**	48,743
Net debt	**42,746**	41,931
Net total capital	**91,218**	90,674
Net debt-to-net total capital ratio	**47%**	46%

31. Financial risk management and fair values of financial instruments

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

(a) Credit risk

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

In respect of trade and other receivables relating to electricity customers, HK Electric obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. The collateral covered $353 million of trade and other receivables at 31 December 2019 (2018: $386 million). The credit policy is set out in note 21.

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

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

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

Further quantitative disclosures in respect of the Groups' exposure to credit risk arising from trade and other receivables are set out in note 21.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) Credit risk (continued)

Offsetting financial assets and financial liabilities

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

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

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

		2019			2018		
$ million	Note	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
Financial assets							
Cross currency swaps	31(f)(i)	**94**	**(1)**	**93**	63	(32)	31
Interest rate swaps	31(f)(i)	**230**	**(28)**	**202**	497	(294)	203
Forward foreign exchange contracts	31(f)(i)	**411**	**(23)**	**388**	10	(2)	8
Total		**735**	**(52)**	**683**	570	(328)	242
Financial liabilities							
Cross currency swaps	31(f)(i)	**–**	**–**	**–**	172	(119)	53
Forward foreign exchange contracts	31(f)(i)	**53**	**(52)**	**1**	245	(209)	36
Total		**53**	**(52)**	**1**	417	(328)	89

(b) Liquidity risk

The Groups operate a central cash management system in order to achieve a better control of risk and minimise the costs of funds. The Groups' policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, to ensure that the Groups maintain sufficient reserves of cash and adequate committed lines of funding to meet liquidity requirements in the short and longer term. The Groups had undrawn committed bank facilities of $5,950 million at 31 December 2019 (2018: $5,495 million).

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

	2019					
	Contractual undiscounted cash outflows/(inflows)					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	**7,194**	**15,913**	**4,773**	**31,945**	**59,825**	**43,157**
Bank overdrafts – unsecured	**33**	**–**	**–**	**–**	**33**	**33**
Creditors and accrued charges	**2,744**	**–**	**–**	**–**	**2,744**	**2,744**
	9,971	**15,913**	**4,773**	**31,945**	**62,602**	**45,934**
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	**(122)**	**(80)**	**(237)**	**(174)**	**(613)**	**(236)**
Gross settled						
Cross currency swaps and related interest accruals						**(98)**
– outflow	**373**	**170**	**511**	**254**	**1,308**	
– inflow	**(417)**	**(168)**	**(505)**	**(252)**	**(1,342)**	
Forward foreign exchange contracts held as cash flow hedging instruments:						**(356)**
– outflow	**2,486**	**68**	**240**	**16,750**	**19,544**	
– inflow	**(2,437)**	**(63)**	**(216)**	**(17,523)**	**(20,239)**	
Other forward foreign exchange contracts:						**(2)**
– outflow	**767**	**–**	**–**	**–**	**767**	
– inflow	**(769)**	**–**	**–**	**–**	**(769)**	

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk (continued)

	2018					
	Contractual undiscounted cash outflows/(inflows)					
$ million	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	1,573	6,977	19,319	31,714	59,583	42,110
Creditors and accrued charges	2,245	–	–	–	2,245	2,245
	3,818	6,977	19,319	31,714	61,828	44,355
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	(76)	(77)	(192)	(199)	(544)	(501)
Gross settled						
Cross currency swaps and related interest accruals						106
– outflow	371	370	510	425	1,676	
– inflow	(417)	(417)	(505)	(420)	(1,759)	
Forward foreign exchange contracts held as cash flow hedging instruments:						234
– outflow	3,087	1,262	279	16,750	21,378	
– inflow	(3,088)	(1,209)	(247)	(17,523)	(22,067)	
Other forward foreign exchange contracts:						1
– outflow	62	–	–	–	62	
– inflow	(61)	–	–	–	(61)	

(c) Interest rate risk

The Groups are exposed to interest rate risk on its interest-bearing assets and liabilities. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Groups' interest rate risk arises primarily from long-term external borrowings.

(i) Hedges of interest rate risk

The Groups' policy is to maintain a balanced combination of fixed and variable rate borrowings to reduce its interest rate risk exposure. The Groups also use cross currency swaps and interest rate swaps to manage the exposure in accordance with the Groups' treasury policy.

The Groups classify cross currency swaps and interest rate swaps as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(q). Foreign currency basis spread of cross currency swaps are excluded from the designation of the hedging instrument and are separately accounted for as a cost of hedging, which is recognised in equity in a cost of hedging reserve.

The Groups seek to hedge the benchmark interest rate component only and apply a hedge ratio of 1:1. The existence of an economic relationship between the cross currency swaps/interest rate swaps and the fixed and variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the borrowings.

The hedge ineffectiveness in these hedging relationships can arise from:

– the effect of the counterparty and the Groups' own credit risk on the fair value of the swaps; and

– differences in repricing dates between the swaps and the borrowings.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(ii) Interest rate profile

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

	2019 Weighted average interest rate %	**2019** $ million	2018 Weighted average interest rate %	2018 $ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	**2.61**	**263**	–	–
Bank loans and other borrowings	**3.02**	**(30,224)**	3.03	(29,250)
		(29,961)		(29,250)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**0.03**	**36**	0.03	34
Bank loans and other borrowings	**3.19**	**(12,788)**	2.99	(12,715)
Bank overdrafts – unsecured	**5.00**	**(33)**	–	–
Customers' deposits	*	**(2,241)**	0.13	(2,195)
		(15,026)		(14,876)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups' profit after taxation and revenue reserve by approximately $128 million (2018: $130 million). Other components of consolidated equity would have increased/decreased by approximately $522 million (2018: $562 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2018.

(d) Currency risk

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

(i) Hedges of currency risk

The Groups' policy is to hedge 100% of their foreign currency borrowings and to hedge their estimated foreign currency exposures in respect of forecast purchases in accordance with their treasury policy. The Groups use forward foreign exchange contracts and cross currency swaps to manage currency risk and classify as cash flow or fair value hedges and states them at fair value in accordance with the policy set out in note 3(q). The Groups designate the spot element of forward foreign exchange contracts to hedge the Groups' currency risk. The forward elements of forward exchange contracts are excluded from the designation of the hedging instrument and are separately accounted for as a cost of hedging, which is recognised in equity in a cost of hedging reserve. The Groups' policy is for the critical terms of the forward exchange contracts to align with the hedged item.

The Groups apply a hedge ratio of 1:1 and determine the existence of an economic relationship between the forward exchange contracts and the committed and forecast transactions/foreign currency borrowings based on their currency amounts and the timing of their respective cash flows.

The hedge ineffectiveness in these hedging relationships can arise from:

– the effect of the counterparty's and the Groups' own credit risk on the fair value of the forward foreign exchange contracts; and

– changes in the timing of the hedged transactions.

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(ii) Exposure to currency risk

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

	2019	
'million (expressed in original currencies)	**USD**	**JPY**
Bank deposits and cash	**–**	**13**
Trade and other payables and contract liabilities	**(89)**	**(1,834)**
Bank loans and other borrowings	**(2,243)**	**–**
Gross exposure arising from recognised assets and liabilities	**(2,332)**	**(1,821)**
Notional amounts of forward foreign exchange contracts designated as hedging instruments	**827**	**1,566**
Notional amounts of cross currency swaps designated as hedging instruments	**1,500**	**–**
Net exposure arising from recognised assets and liabilities	**(5)**	**(255)**

	2018	
'million (expressed in original currencies)	USD	JPY
Bank deposits and cash	–	2
Trade and other payables and contract liabilities	(102)	(252)
Bank loans and other borrowings	(2,211)	–
Gross exposure arising from recognised assets and liabilities	(2,313)	(250)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	717	192
Notional amounts of cross currency swaps designated as hedging instruments	1,500	–
Net exposure arising from recognised assets and liabilities	(96)	(58)

(iii) Sensitivity analysis

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

	2019		2018	
$ million	**Effect on profit after taxation and revenue reserve Increase/ (decrease)**	**Effect on other components of equity Increase/ (decrease)**	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)
Japanese Yen	**9**	**87**	–	86

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

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Groups which expose the Groups to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2018.

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(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Hedge accounting

The following tables summarise the hedging instruments, hedged items and hedged risks of the Groups for the years ended 31 December 2019 and 2018.

(i) Cash flow hedges

	2019									
				Carrying amount of hedging instruments included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average fixed swap rates/ contract rates	Notional amount of hedging instruments $ million	Derivative financial instruments under non-current assets $ million	Trade and other receivables $ million	Derivative financial instruments under non-current liabilities $ million	Trade and other payables and contract liabilities $ million	Hedging instruments $ million	Hedged items $ million	Hedge ineffectiveness recognised in profit or loss $ million
(1)For hedging currency risk of foreign currency borrowings and interest rate risk of variable rate borrowings										
Cross currency swaps and interest rate swaps	Ranging from 2020 to 2029	2.18%	18,772	242	12	–	–	(4)	4	–
(2)For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2020 to 2032	See note below	14,004	272	–	(14)	(37)	5	(5)	–
(3)For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	5,540	135	–	–	–	(6)	6	–

	2018									
				Carrying amount of hedging instruments included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average fixed swap rates/ contract rates	Notional amount of hedging instruments $ million	Derivative financial instruments under non-current assets $ million	Trade and other receivables $ million	Derivative financial instruments under non-current liabilities $ million	Trade and other payables and contract liabilities $ million	Hedging instruments $ million	Hedged items $ million	Hedge ineffectiveness recognised in profit or loss $ million
(1)For hedging currency risk of foreign currency borrowings and interest rate risk of variable rate borrowings										
Cross currency swaps and interest rate swaps	Ranging from 2020 to 2027	2.17%	17,772	497	–	(172)	–	(9)	9	–
(2)For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2019 to 2032	See note below	16,077	6	2	(176)	(5)	(8)	8	–
(3)For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	5,301	2	–	(63)	–	(11)	11	–

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(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Hedge accounting (continued)

(ii) Fair value hedges

	2019									
				Carrying amount included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average variable swap rates/ contract rates	Notional amount $ million	Derivative financial instruments under non-current assets $ million	Trade and other receivables $ million	Derivative financial instruments under non-current liabilities $ million	Trade and other payables and contract liabilities $ million	Hedging instruments $ million	Hedged items $ million	Hedge ineffectiveness recognised in profit or loss $ million
Cross currency swaps	2020	3.10%	4,272	–	70	–	–	7	(7)	–
Forward foreign exchange contracts	Ranging from 2020 to 2024	See note below	767	–	4	–	(2)	2	(2)	–

	2019		
Hedged items	Carrying amount of hedged items (including accumulated fair value hedge adjustments) $ million	Accumulated fair value hedge adjustments of hedged items $ million	Line item in the consolidated statement of financial position in which the hedged items are included
Fixed rate borrowings	(4,341)	(70)	Bank loans and other interest-bearing borrowings under current liabilities
Financial liabilities	(771)	(2)	Trade and other payables and contract liabilities

				2018						
				Carrying amount included in				Changes in fair value used for calculating hedge ineffectiveness		
Hedging instruments	Maturity date	Weighted average variable swap rates/ contract rates	Notional amount $ million	Derivative financial instruments under non-current assets $ million	Trade and other receivables $ million	Derivative financial instruments under non-current liabilities $ million	Trade and other payables and contract liabilities $ million	Hedging instruments $ million	Hedged items $ million	Hedge ineffectiveness recognised in profit or loss $ million
Cross currency swaps	2020	2.56%	4,272	63	–	–	–	(88)	88	–
Forward foreign exchange contracts	Ranging from 2019 to 2023	See note below	62	–	–	–	(1)	(1)	1	–

	2018		
Hedged items	Carrying amount of hedged items (including accumulated fair value hedge adjustments) $ million	Accumulated fair value hedge adjustments of hedged items $ million	Line item in the consolidated statement of financial position in which the hedged items are included
Fixed rate borrowings	(4,327)	(63)	Bank loans and other interest-bearing borrowings under non-current liabilities
Financial liabilities	(62)	1	Trade and other payables and contract liabilities

Note: The following table provides information on the weighted average contract rates of outstanding forward foreign exchange contracts at the end of the reporting period:

	2019	2018
Weighted average contract rates		
USD:HKD	**7.4965**	7.5108
JPY:HKD	**0.0759**	0.0761
GBP:HKD	**–**	10.8818
EUR:HKD	**9.2545**	9.3155
JPY:USD	**102.2087**	108.1617

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

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

(f) Fair value measurement

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

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

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

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

(i) Recurring fair value measurements

		Level 2	
	Note	**2019 $ million**	2018 $ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	31(a)	**94**	63
– Interest rate swaps	31(a)	**230**	497
– Forward foreign exchange contracts	31(a)	**411**	10
		735	570
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	31(a)	**–**	172
– Forward foreign exchange contracts	31(a)	**53**	245
Medium term notes subject to fair value hedges		**4,341**	4,327
		4,394	4,744

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

Trade and other receivables, trade and other payables and contract liabilities, and also external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2019 and 2018.

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

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

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

32. Commitments

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

	2019 $ million	2018 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**5,465**	4,155
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**18,412**	20,717

(b) At 31 December 2019, the Groups' share of capital commitments of a joint venture was $29 million (2018: Nil).

At 31 December 2019, the Groups' share of the lease and other commitments of a joint venture approximated to $1,170 million (2018: Nil).

33. Contingent liabilities

At 31 December 2019, the Groups had no guarantee or indemnity to external parties (2018: Nil).

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(Expressed in Hong Kong dollars unless otherwise indicated)

34. Material related party transactions

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

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to $41 million (2018: $41 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2019, the total outstanding balance receivable from Power Assets group was $3 million (2018: $4 million).

(b) Joint Venture

(i) The details of Shareholder Loan Facility provided to HKLTL by the Groups and the outstanding loan balance as at 31 December 2019 are disclosed in note 19.

(ii) Under a Joint Development Agreement entered into between HK Electric, CAPCO and HKLTL for the development of LNG terminal, HK Electric and CAPCO will perform project management and provide supports to HKLTL in the development and construction of the LNG terminal. In 2019, HKLTL reimbursed related costs of $7 million (2018: Nil) to HK Electric.

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

The related party transactions in respect of note 34(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, the transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

35. Statement of financial position of the Company

	Note	2019 $ million	2018 $ million
Non-current assets			
Investments in subsidiaries		**60,041**	60,241
Derivative financial instruments		**8**	29
		60,049	60,270
Current assets			
Trade and other receivables		**4**	4
Bank deposits and cash		**2**	1
		6	5
Current liabilities			
Trade and other payables		**(25)**	(23)
Net current liabilities		**(19)**	(18)
Total assets less current liabilities		**60,030**	60,252
Non-current liabilities			
Bank loans		**(8,683)**	(8,670)
Net assets		**51,347**	51,582
Capital and reserves	30(a)		
Share capital		**8**	8
Reserves		**51,339**	51,574
Total equity		**51,347**	51,582

Approved and authorised for issue by the Boards on 17 March 2020.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

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

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid Corporation of China and Qatar Investment Authority hold approximately 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2019 and are considered substantial holders of Share Stapled Units of the Trust Group.

37. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Groups' accounting policies have a significant impact on the Groups' financial position and operating results. Some of the accounting policies require the Groups to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 27 and 31 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Groups' accounting policies are described below.

(a) Depreciation and amortisation

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

(b) Impairment

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

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

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

See note 17 for key assumptions used in goodwill impairment test for the year ended 31 December 2019.

38. Comparative figures

The Groups have initially applied HKFRS 16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 4.

39. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Groups.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

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