港燈電力投資

HK Electric Investments

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

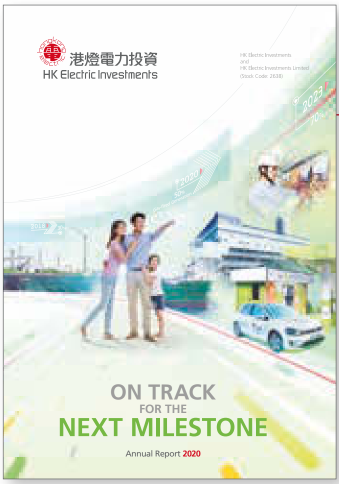
ON TRACK FOR THE NEXT MILESTONE

Annual Report 2020

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

Our main operating company, HK Electric, is a power utility responsible for the generation, transmission, distribution and supply of electricity to more than 583,000 customers in Hong Kong. Powering the city's economic growth since 1890 with affordable, safe and reliable electricity, HK Electric is increasing its gas-fired generation to help combat climate change and bring cleaner air to Hong Kong.

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



On Track for the Next Milestone

The journey towards low carbon is a significant one with a number of key milestones in the years ahead. HKEI and our wholly owned subsidiary HK Electric are committed to this goal, with the mission of creating cleaner air and a greener Hong Kong for current and future generations.

The cover of our 2020 Annual Report showcases that despite major socio-economic disruption, we remain on track to achieve approximately 70% gas-fired generation by 2023.

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PERFORMANCE HIGHLIGHTS

Financials

	2020	2019
Revenue	**HK$10,389 million**	HK$10,739 million
Distributable Income	**HK$2,830 million**	HK$2,830 million
Total Distribution per SSU	**HK 32.03 cents**	HK 32.03 cents
Interim Distribution per SSU	**HK 15.94 cents**	HK 15.94 cents
Final Distribution per SSU	**HK 16.09 cents**	HK 16.09 cents
Total Assets	**HK$111,567 million**	HK$109,717 million
Net Debt-to-Net Total Capital Ratio	**48%**	47%
S&P Credit Rating		
HK Electric	**A-/ Stable**	A-/ Stable
HK Electric Investments Limited	**A-/ Stable**	A-/ Stable

Operations

Generation

Generation Capacity
3,617 MW
2019: 3,237 MW

Electricity Generation

Gas-fired	Coal-fired
~50%	~50%
2019: ~30%	2019: ~70%

Number of Renewable Energy (RE) Installations under Feed-in Tariff (FiT) Scheme
130
(Total capacity 2.3 MW)
2019: 58 (Total capacity 1.0 MW)

RE Subscribed by Customers
~3.5 GWh
2019: ~2.3 GWh

Generated by FiT	Generated by HK Electric
~1.5 GWh	~2.0 GWh
2019: ~0.5 GWh	2019: ~1.8 GWh

Transmission & Distribution

Supply Reliability
>99.9999%
2019: >99.999%

Unplanned Power Interruption per Customer
<0.5 minute
2019: 0.6 minute

Network Length
6,638 km
2019: 6,536 km

Customer Services

Units Sold
10,134 GWh
2019: 10,519 GWh

Number of Customers
583,000
2019: 581,000

Number of Free Electric Vehicle Charging Operations
20,385
2019: 12,314

Smart Meters Installed
>40,000
Mass rollout commenced in 2020

Average Customer Satisfaction Index (5-Point Scale)
4.72
2019: 4.63

BUSINESS REVIEW

Achieving key milestones and supporting the community

CHAIRMAN'S STATEMENT

2020 demonstrated HKEI's resilience and progress on our decarbonisation journey despite the COVID-19 pandemic.

At the outset, I would like to acknowledge the dedication and commitment of my colleagues, our contractors and suppliers who have met the operational challenges of the pandemic and transferred seamlessly to new ways of working in order to stay on track for our next milestone.

The commissioning of L10, a 380-MW gas-fired combined-cycle generating unit, in February 2020, marked a major step forward in our coal-to-gas transition to supply Hong Kong with greener energy. With L10 fully operational, we now generate 50% of our electricity from gas, compared to about 30% before.

At the same time, we overcame the travel restrictions and shipping delays prevalent through the year to make satisfactory progress with other key infrastructural projects in line with our 2019-2023 Development Plan: the development of L11 and L12, two more 380-MW gas-fired generating units, supported by an offshore liquefied natural gas terminal.

Alongside this extensive development programme, we maintained normal operations of our generation facilities at Lamma Power Station, while taking due precautions to ensure the health and safety of our employees and contractors. Performance of generation, transmission and distribution, and customer services remained strong. Despite the socio-economic challenges of 2020, the company has set a new supply reliability record, achieving an impeccable rating of over 99.9999% and unplanned power interruption of less than 0.5 minute on average per customer.

To help those sectors of the community that have been particularly hard-hit by the economic downturn, we offered a package of relief measures and energy-saving initiatives with a total of about HK$34 million. These included provision of dining coupons to underprivileged households, catering subsidies for NGOs and electricity payment relief to tenants of sub-divided units.

Financial results and distributions

For the year ended 31 December 2020, HKEI's EBITDA was HK$7,140 million (2019: HK$7,194 million) and audited profits attributable to holders of Share Stapled Units (SSU) was HK$2,732 million (2019: HK$2,327 million).

The Board of the Trustee-Manager has declared a final distribution by the Trust of HK16.09 cents (2019: HK16.09 cents) per SSU, payable on 13 April 2021 to SSU holders whose names appear on the Share Stapled Units Register on 31 March 2021. This, together with the interim distribution of HK15.94 cents (2019: HK15.94 cents) per SSU, amounts to a total distribution of HK32.03 cents (2019: HK32.03 cents) per SSU for the year.

On track for decarbonisation

We are progressing towards decarbonisation along three pathways. The first pathway is reduction of emissions, including carbon dioxide, during electricity generation. This is one of the primary goals of our 2019-2023 Development Plan. Following L10, we are constructing L11 and L12, two more 380-MW gas-fired generating units, for launch in 2022 and 2023 respectively. Despite the disruptions in 2020,

construction made satisfactory progress on both units in tandem, including sourcing of equipment from overseas vendors, construction of civil structures and installation of critical plant equipment.

An offshore liquefied natural gas terminal using Floating Storage and Regasification Unit (FSRU) technology is also included in the plan and will be launched in 2022. We commenced the environmental monitoring and audit programme for the terminal during the year and the site work also started in late 2020. When all three new gas-fired generating units are operational in 2023, 70% of our electricity will be generated from natural gas, allowing us to reduce absolute carbon emissions by about 40% compared with the 2005 level.

The second pathway is providing infrastructure to improve energy efficiency within the community. Smart meters and Advanced Metering Infrastructure, which provide customers with real-time information on electricity consumption to optimise their energy use, are an essential part of this. Following a successful pilot project in 2019, we rolled out 40,000 smart meters during the year and are setting up the network infrastructure needed to operate smart meters. Our goal is to migrate our entire customer base to smart meters by 2025.

We are also helping the community improve road-side air quality by providing supporting infrastructure for Hong Kong's growing population of electric vehicles (EVs). In October 2020, in support of a government subsidy scheme, we launched the "Smart Power EV Charging Solution" – a free advisory and technical consultancy service for customers seeking to install EV charging facilities on their premises. The service was well received with over 200 applications from building owners and managers.

The third pathway is encouraging energy conservation and installation of renewable energy generation facilities among our customers. We continued to operate a number of initiatives under the Smart Power Services umbrella during the year. The Smart Power Building Fund approved about HK$13 million worth of subsidies to help customers improve energy efficiency of their residential buildings and business premises. Our Feed-in Tariff Scheme connected another 72 customer-operated renewable energy generation sites to the grid and the total renewable energy generated by all customer-side renewable installations during the year was about 1.5 GWh. The Renewable Energy Certificates covering the total green electricity of about 3.5 GWh generated in 2020 had been fully subscribed by our customers for reducing their own carbon footprints.

Our achievements were recognised by the Environment Bureau and the Electrical and Mechanical Services Department with the "Hanson Grand Retro-Commissioning (RCx) (Implementation) Award" for the excellent performance in energy efficiency at one of our operational headquarters.

Resilience driving continued reliability

Our ongoing commitment to proactive maintenance, crisis preparedness and business continuity planning have enabled us to pivot our activities quickly during 2020 to maintain high-quality, reliable power supply and excellent customer service.

CHAIRMAN'S STATEMENT

We served more than 583,000 customers and delivered a total of 10,134 GWh of electricity over the year (2019: 10,519 GWh). The decline due to the impact of the COVID-19 pandemic in the commercial and industrial sectors was partly offset by increased consumption from the residential sector. With a supply reliability rating of over 99.9999%, customers only experienced unplanned power interruption of less than 0.5 minute on average in 2020, a new record for the company.

Network expansion and upgrade progressed over the year. These included enhancement of cable network, submarine cable landing points and network infrastructure to make them more resilient in the event of extreme weather, such as super-typhoons, torrential rain and floods.

Despite social distancing requirements across the city and in the workplace, we achieved all 18 pledged customer service standards in 2020. Our 24-hour Emergency Services and Customer Services hotlines offered high-quality information, advice and support on an ongoing basis.

Supporting our stakeholders

It is our priority to support our stakeholders, the community and our own staff through COVID-19. Throughout the year, we offered a package of five relief measures to SME customers. About 70,000 non-residential customers were granted six-month waivers from tariff increases and equipment subsidies were provided to help our customers save costs and become more energy efficient. Small catering establishments in particular were badly affected by the economic downturn of the year. In response, we offered a two-month electricity payment deferral scheme to 180 SME caterers. We also provided needy customers with dining coupons worth HK$20 million and NGOs with food subsidies, in turn generating revenues for SME caterers.

In response to the COVID-19 pandemic and to maintain business continuity, we encouraged customers to use our extensive range of online and remote channels for billing, payment and other routine matters. Further initiatives include the roll-out of e-learning tools for students such as an animated series, virtual guided tours of Smart Power Gallery and an interactive drama to help younger audiences understand and experience more about "Smart Power for Smart City".

We took all possible measures to keep our employees safe while running capital works and maintaining business-as-usual operations at Lamma Power Station and across the network. Sanitisation facilities were set up across all our sites, and personal protective equipment was supplied when needed. Drills were carried out at different workplaces to test our preparedness in the event of confirmed COVID-19 cases. Thanks to the stringent precautionary measures adopted in the company, there had been no secondary infections from the three COVID-19 confirmed cases involving our employees and contractors in 2020.

We also pivoted our community schemes for the new normal. In place of home visits and talks, we supported the elderly and those in need with communications via phone, text or online media.

Outlook

We support the Government's goal of achieving carbon neutrality for Hong Kong before 2050. As a major utility, no doubt we will have an important role to play on this decarbonisation journey. We will engage with the Government on the best way forward including exploring the wider use of zero-carbon energy and carbon reduction technologies. We look forward to the Government updating of the "Hong Kong's Climate Action Plan" which we believe will set a clear decarbonisation roadmap for the power sector.

We have frozen tariffs across the board for 2021 and will also extend relief measures to continue our support for customers. The freeze has been made possible, despite tariff pressure caused by an increase in capital expenditure and a decline in electricity sales due to COVID-19, by a reduction in the Fuel Clause Charge which fully offsets upward adjustment of the Basic Tariff.

Sustainability is firmly integrated into our ethos and we have now reorganised our structure with a new Sustainability Committee to steer our efforts on this front. The Committee, reporting to the Board and supported by the Sustainability Management Committee, is vested with the authority and expertise to assess and manage all of our environmental, climate, social and governance-related issues.

We expect the restrictions and economic impact of the pandemic to ease and that Hong Kong will emerge from the shadow of COVID-19 following the worldwide rollout of vaccines. We remain committed to supplying Hong Kong with a safe and reliable power supply to support the sustainable development of the city.

Once again, I extend my heartfelt gratitude to the Board, the management team and every member of our staff whose hard work under challenging conditions during the year is at the heart of our success.

Fok Kin Ning, Canning
Chairman
Hong Kong, 16 March 2021

LONG-TERM DEVELOPMENT STRATEGY

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

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

Serve Hong Kong through world-class power provision

A fail-safe supply of electricity is critical for Hong Kong's economic success. Our priority is maintaining world-class supply reliability, delivered with unrivalled customer service standards. We are also innovating, deploying technology and equipment that allow us to minimise environmental impact.

In recent years, we have been increasing gas-fired generation in support of Hong Kong's Climate Action Plan 2030+. In the long term, we look forward to working with our stakeholders to help achieve the Government's carbon neutrality vision for the city by 2050.

Sustain steady growth in our asset base

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

Run our business on prudent financial and efficient principles

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

YEAR AT A GLANCE

JAN - JUN

HK Electric publishes targets to track its performance against the three most relevant United Nations' Sustainable Development Goals (SDGs) – SDG 7: Affordable and Clean Energy, SDG 9: Industry, Innovation and Infrastructure, and SDG 13: Climate Action.

Unit L10 is commissioned in February. The new gas-fired generating unit enables HK Electric to raise the proportion of gas-fired generation to about 50%, marking a significant milestone on the road to low carbon energy.

The company implements a range of precautionary measures to ensure business continuity and a safe and healthy workplace during the pandemic. Drills are carried out to test employee preparedness and operational resilience in the event of confirmed COVID-19 cases.

Deployment of smart meters across our entire customer base begins, aiming for completion by 2025. The meters will help customers understand and manage their energy consumption more efficiently.

Various activities organised to support the United Nations' World Environment Day, including a "Natural Ecosystems, Environmental Protection" photo contest and recycling of books and electric gadgets to encourage staff to think green everyday.

Following the suspension of outreach activities due to the pandemic, HK Electric moves its CAREnJOY programme online, supporting the elderly through phone calls and messages with health and electrical safety tips.

ESF Bradbury School pioneers a solar power system using flexible mono-crystalline photovoltaic panels under the Feed-in Tariff Scheme. Since the rollout of the scheme, 130 renewable energy customer installations have come onstream, with a total capacity of 2.3 MW.

HK Electric launches the "Care and Share" subsidy scheme, providing dining coupons to families in need, for use at small-and-medium-sized eateries. This augments the company's "2+3 relief measures" to help families and food outlets affected by the economic impact of social unrest and the outbreak of COVID-19.

In June, HK Electric joins other group companies in raising funds for The Community Chest of Hong Kong by matching public contributions, doubling total donations to help the community.

GO GREEN

YEAR AT A GLANCE

JUL - DEC

In the wake of a government subsidy scheme for EV users, HK Electric launches a new one-stop "Smart Power EV Charging Solution" to support the installation of EV charging infrastructure in private residential buildings.

To support online learning during the pandemic, a series of online learning tools under the Happy Green Campaign is launched to help students learn about smart power at home. Approximately 140 "Smart Power Ambassadors" also receive training via online platforms.

Construction of L11, another gas-fired generating unit, reaches its first major milestone: the main station building is substantially completed and all critical components of the gas turbine and the steam drum of the Heat Recovery Steam Generator are installed.

HK Electric is presented with the "Hanson Grand Retro-commissioning (RCx) (Implementation) Award" in recognition of the excellent energy conservation performance at its operational headquarter, Electric Tower.

A Marine Conservation Enhancement Fund and a Fisheries Enhancement Fund are established to help preserve marine ecology and sustainable fishing industries in the vicinity of the offshore LNG terminal under development.

SMART CITY

HK Electric announces that tariffs for 2021 will be frozen at 2020 levels while continuing to provide support to customers in need through a number of schemes and initiatives.

The Belt and Road Advanced Professional Development Programme, in its third year of operation, goes online in 2020, with nearly 150 industry professionals from 26 countries/regions attending.

HK Electric pledges full support for the Government's carbon neutrality target for Hong Kong by 2050. A new Sustainability Committee is established under the Board to help steer the company's efforts on this front.

Despite the macro-economic challenges of 2020, the company achieves a world-leading record supply reliability rating of over 99.9999%. This translates to unplanned power interruption of less than 0.5 minute on average per customer.

HK Electric participates in the "Hong Kong Energy Evolution Exhibition" held by the Construction Industry Council showcasing our achievements in energy efficiency and environmental protection through upgrading supply network and equipment.

Volunteers from HK Electric deliver food parcels to underprivileged families affected by the pandemic and join a video tribute for 10,000 medical staff at the Hong Kong East Cluster of the Hospital Authority.

CEO'S REPORT

Despite the obstacles presented by the COVID-19 pandemic, we stayed on track with all our key strategic priorities.

Wan Chi Tin
Chief Executive Officer

Progressing steadily towards our strategic milestones

2020 was a year of significant progress towards our decarbonisation goals, overcoming unprecedented challenges in operating in a new normal. Despite the obstacles presented by the COVID-19 pandemic, HKEI, and its wholly-owned subsidiary HK Electric stayed on track with all our key strategic priorities.

During the year, we made steady progress towards decarbonising our operation as we entered the second year of our five-year Development Plan. Included in the HK$26.6 billion plan are numerous capital initiatives to migrate from coal-fired to gas-fired generation and to roll out smart meters while at the same time, maintaining the highest standards of reliability and customer service.

Our efforts to help the community improve energy efficiency and save money also progressed unabated as we went above and beyond to support our stakeholders – particularly our customers, employees and contractors – tide over this unprecedented period.

OPERATION REVIEW

A key sustainability milestone achieved

The first key milestone of the 2019-2023 Development Plan was achieved in February 2020 with the commissioning of L10, a 380-MW gas-fired generating unit. With this new unit, we were able to increase our proportion of gas-fired electricity generation at Lamma Power Station (LPS) for our customers to about 50%, in line with the Government's targets.

L10 is a highly efficient combined-cycle gas-fired unit equipped with a Selective Catalytic Reduction (SCR) System that produces about 50% less carbon dioxide emission, trace amounts of nitrogen oxides, and negligible sulphur dioxide and respirable suspended particulates, compared with conventional coal-fired units. It has already yielded significant improvements in our carbon performance, reducing carbon emissions by about 16% in 2020 compared to 2019.

A delegation from the Environment Bureau and Environmental Protection Department of the Government visited LPS to see the commissioning activity of L10 and its SCR system in January 2020. We took the opportunity to reiterate to the Government our commitment to the coal-to-gas transition in order to combat climate change and contribute to improving Hong Kong's air quality.

L10, L11 and L12 are an integral part of HK Electric's carbon reduction efforts.

Increased gas-fired electricity generation to

~50%

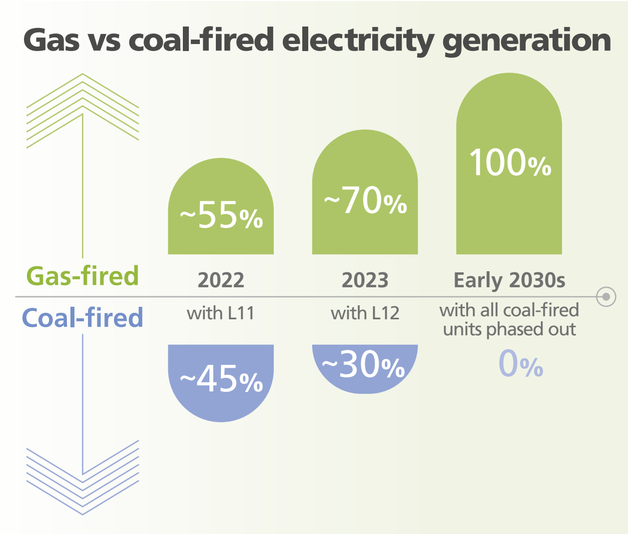
of total output

CEO'S REPORT

In parallel, construction progressed on L11 and L12, the remaining two 380-MW gas-fired generating units included in our Development Plan. Despite 2020's global travel restrictions, delays in overseas shipments, and on-site distancing guidelines, we are confident that both units remain on track for commissioning in 2022 and 2023 respectively.

Construction of the L11 main station building was substantially completed. Gas turbine, generator and steam turbine equipment were installed successfully in September 2020, followed by installation of critical pressure parts and steam drums of the heat recovery steam generator (HRSG) in November 2020. The next critical phase of work is hydrostatic testing of HRSG, planned for the first half of 2021.

Simultaneously, development works associated with L12, including engineering design and shop fabrication of major equipment, took place as planned. Construction of the L12 main station building commenced in December 2020. When the unit comes into operation in 2023, we expect approximately 70% of the electricity for our customers would come from gas-fired generation cutting our absolute carbon emissions by about 40% when compared with 2005.



Construction of the floating LNG terminal in progress. This will enable us to secure long-term gas supplies through marine routes.

In order to enhance the security and cost competitiveness of our gas supply, we have been working to put in place the infrastructure needed to import through marine routes. To this end, we have commenced construction of an offshore liquefied natural gas (LNG) terminal in partnership with CLP Power, using Floating Storage and Regasification Unit (FSRU) technology. The LNG terminal will be connected to LPS via an 18-km subsea gas pipeline.

Following the successful completion of all necessary approval and planning processes, including environmental monitoring and audit, site works commenced in late 2020. During the year, we set up a Marine Conservation Enhancement Fund and a Fisheries Enhancement Fund, in conjunction with CLP Power, to support the conservation of marine ecology and the sustainability of fisheries in the vicinity of the terminal.

Another key initiative under the Development Plan is a full-scale rollout of smart meters with the associated Advanced Metering Infrastructure (AMI). Deployments in other global markets have demonstrated that the information smart meters provide on energy consumption patterns helps customers manage their own electricity use. In turn, HK Electric will have better visibility of the supply grid through data analytics, facilitating our transition to a smart grid to support Hong Kong's evolution into a smart city.

After a successful pilot project and significant preparation work in preceding years, we started with a full-scale smart meter rollout in 2020. Our aim is full deployment across our entire customer base of over half a million by 2025. After meeting our target of 40,000 meters in 2020, the foundation has been established to rapidly scale up our deployment in the coming years. Setup of the AMI network is also in full swing. It will enable our communication with smart meters in the field, providing both customers and HK Electric with valuable data on energy usage.

OPERATION REVIEW

Even though these projects will cut carbon emissions significantly, they are just the first stage of the journey to carbon neutrality. More needs to be done to achieve the Hong Kong 2050 carbon neutrality target set by the Government. We fully support this vision and will work closely with the Government as it works to update the city's Climate Action Plan.

Smart meter deployment across our customer base will support our move to a smart grid, which is a major step towards Hong Kong's evolution into a smart city.

Providing world-class electricity supply

In 2020 HK Electric sold 10,134 GWh of electricity due to lower demand from the commercial sectors impacted by the pandemic (2019: 10,519 GWh). Careful operational planning and management enabled LPS to operate at high availability in parallel with the ongoing capital works and social distancing guidelines that were in place throughout the year.

The Lamma Winds plays an important role in enabling us to understand and educate the community on renewable generation. The Lamma Winds and solar power system at LPS and on other premises of HK Electric together generated about 2 GWh of green electricity, equivalent to the annual electricity consumption of over 400 households in Hong Kong.

Despite the challenges of the year, we took our 24-year record of world leadership in supply reliability to a new level, achieving an even stronger rating of over 99.9999%. It was the first time we recorded unplanned power interruption of less than 0.5 minute on average per customer per year.

Supply reliability 2020

>99.9999%

Unplanned power interruption per customer

<0.5min

Maintaining a state-of-the-art network

Underpinning our reliability record is a strategic condition and risk-based approach to the management of our transmission and distribution systems. This strategy includes robust network design, well organised refurbishment, proactive system improvement, and modern diagnostics techniques for early detection of incipient faults to prevent equipment failure.

During the year we systematically progressed with our calendar of works to upgrade the network to 22-kV. Major cable replacement works progressed in the Kennedy Road – Davis area while planned replacements of older 11-kV voltage transformers and vacuum circuit breakers at major zone substations were completed according to schedule. Switchgear and associated equipment was replaced at the Chai Wan Zone Substation in preparation for a future upgrade to 22-kV.

Proactive maintenance allows us to deliver outstanding reliability to our customers.

CEO'S REPORT

To further enhance the reliability of our distribution network, online partial discharge monitoring systems were deployed on some critical 11-kV and 22-kV switchgear panels. In addition, online monitoring systems were also introduced on our low voltage (LV) network to further enhance the visibility and utilisation of our LV assets.

On the emergency response front, we developed a software system that makes use of existing load data to detect blown fuses. This system has helped further reduce supply restoration time by generating early alert messages to our operators on possible fuse malfunctions.

To improve network resilience through efficient identification and location, we retrofitted electronic earth fault indicators for prompt detection of intermittent fault in the 11-kV cable system at all required 15 zone substations. We also redesigned the LV fault indicator system, which will be wireless-enabled, to enhance our visibility on LV network in the coming years.

Electronic earth fault indicators increase network resilience.

The construction of MTR's Shatin to Central Link (Hong Kong Island Section) is a major transportation project on Hong Kong Island, and HK Electric has been working closely with MTR to support the project with the provision of advanced and efficient energy infrastructure. In 2020 we installed and commissioned two units of 132/25-kV 26.5-MVA single-phase oil-immersed traction transformers at MTR's South Ventilation Building and associated 132-kV cable circuits in Causeway Bay to meet the MTR's testing schedule for the new section.

Concrete mattresses and other weatherproofing works protect our infrastructure from extreme weather.

Following the impact of super typhoons like Typhoon Mangkhut in recent years, we have been carrying out a series of projects across the entire network to increase resilience in the face of severe weather events. During the year we reinforced the concrete mattresses and armour rocks protecting submarine cable landing points of the transmission network, which had been damaged and dislocated at South Horizons in Apleichau and Luk Chau Wan on Lamma Island.

HK Electric's 132-kV overhead lines have been in service for over 45 years. To eliminate the adverse visual impact of overhead lines and maximise reliability, we are in the process of phasing out these overhead lines and replacing them by expanding the subterranean 275-kV transmission system. 19.4 km of overhead lines were replaced by 6.2 km of underground cables during the year.

Ensuring the physical security of our premises

We continued to closely monitor the security of our premises and to improve the existing security monitoring systems to safeguard our generation and distribution infrastructure from vandalism or other threats. During the year, we conducted a review of our plans to protect company buildings and assets and maintain our services to the general public even during adverse situations.

OPERATION REVIEW

Various technologies have been deployed, including access control through facial recognition, two-factor authentication for high-security areas, video monitoring and analytics, and detection of open access doors. As a continuation of our physical security improvement project, advanced security systems were installed in the corporate offices at Electric Centre and two key substations at Morrison Hill and Tamar in the year. We have engaged a security consultant to work out a holistic security design in preparation for an upcoming security system upgrade at our headquarters.

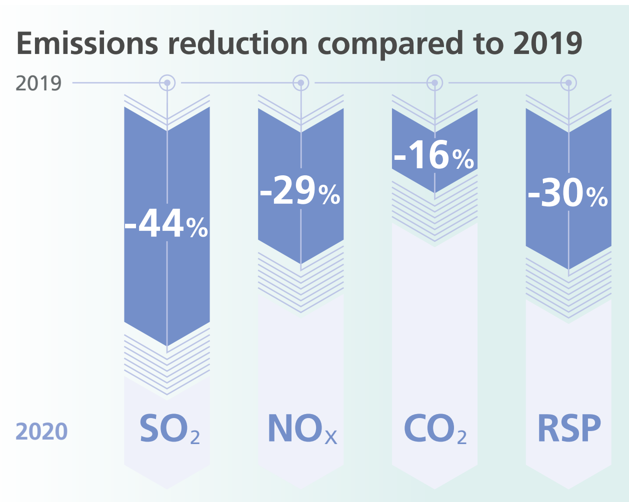
Comprehensive privacy impact assessments were carried out before the implementation of these new security projects to assuage any concerns in this regard. In addition, pre-implementation workshops were held to explain the features and benefits of the security systems to staff.

Reducing our environmental impact

Following the launch of L10, we achieved reductions in sulphur dioxide (SO_2), nitrogen oxides (NOx) and respirable suspended particulates (RSP) by around 29-44% as compared to 2019, meeting the annual emission targets set by the Government.

We minimise the environmental impact of our day-to-day operations by aligning our operations with the ISO 14001:2015 Environmental Management System. We have followed the 4R policy to reduce, reuse, recover and recycle wherever possible. Our efforts extend across our own operations as well as those of our vendors and suppliers to drive energy efficiency and lower emissions.

We are a member of the Government's "Programme on Source Separation of Commercial and Industrial Waste". We used electricity generation by-products such as pulverised fly ash, gypsum, and in-house waste for other purposes. With the gradual coal-to-gas transition by commissioning L10 in 2020, ash and gypsum produced were reduced by 34% and 44% respectively, compared with 2019. We also operated 50 environmental management programmes and the two Wastewi$e Schemes across our operations during the year.



In recognition of its achievements in waste reduction, LPS was awarded a "Class of Excellence" Wastewi$e Label for the 14th year in a row.

At LPS, our rainwater and plant processing water collection system helped on-site recovery and reuse more than 120,000 m^3 of water. This is used for preparation of limestone slurry in flue gas desulphurisation plants, for gardening, and promoting habitat restoration around the site. We have cut down the volume of town water used by the station and reduced the environmental impact of operations. Water consumption for domestic use in buildings at LPS was 2% lower than that in 2019 whilst that for station use was about 20% lower. One of the main reasons for the drastic reduction in water consumption of the station was the increased proportion of gas-fired electricity from LPS, reducing the amount of water used for the Flue Gas Desulphurisation Plant.

We monitor and adjust room temperatures to cut energy consumption.

We retrofitted 26 motion sensor controls to lighting fixtures at LMX 275-kV Switching Station, and adjusted temperature settings for equipment rooms to further reduce electricity consumption. As a result of these initiatives, energy usage of lighting fixtures at the LMX 275-kV Switching Station was reduced by 70% in 2020.

Building Organisational Resilience amidst a Global Pandemic

Temperature monitoring at office entrances helps minimise the risk of infection.

HK Electric's focus on being a reliable partner for all our stakeholders became even stronger during COVID-19. Our colleagues rose to every challenge in the most exceptional of circumstances, ensuring that we delivered record reliability, outstanding customer services, and had effective safety measures in place to protect our customers, employees and on-site contractors.

Maintaining smooth operations across the business

One of our top priorities was to maintain uninterrupted operations throughout the pandemic with a resilient and flexible management approach. Review meetings chaired by the Operations Director were held with divisional representatives regularly, ensuring that our precautionary measures and contingency plans were continuously reviewed, and that the continuity of our operations, construction programmes and services to our customers will not be impacted.

We introduced a range of measures across our operations to manage the risk of infection that cover manpower deployment, workforce segregation, workspace arrangements, hygiene and social distancing, contact tracing, update and release of pandemic information and investigation. Work-from-home was arranged for non-operational staff while those in critical roles were assigned staggered work shifts. We required all employees to strictly observe social distancing requirements, issuing face masks, hand sanitisers, and ensuring increased sanitisation of all work areas, transport vehicles, and ferries.

We ran a series of drills across departments to rehearse and test our response to potential outbreaks within the company. The drills tested the responsiveness of all relevant working parties, familiarised them with the proper procedures for

Crisis preparedness drills help us test responses to potential COVID-19 outbreaks.

Social distancing is implemented across our staff transport.

handling suspected and confirmed cases, with areas for improvement identified following the drills. Being prepared in this situational manner allowed us to respond rapidly when two employees and a contractor were tested positive for COVID-19 in the year. We performed contact tracing and other necessary responses promptly, with no secondary infections reported in the company.

Our success in maintaining operations unaffected during the pandemic was reflected in our record high reliability rating of over 99.9999% in 2020.

Keeping our stakeholders safe and supporting our employees

Like all businesses and organisations across the world, we had to adapt to the new normal. Despite social distancing, it was the key priorities of HK Electric to enable customers to access our services while keeping them safe against the risk of infection. To help limit face-to-face exposure, we temporarily closed our customer centre and suspended visits for meter readings for a brief period. With the help of a series of social media videos, we encouraged customers to go digital with their enquiries, bill payments and account applications.

Online meetings with stakeholders replaced face-to-face discussions, and webinars took the place of classroom training. We continued to deliver the community care programmes through phone calls and text messages while environmental education was promoted through various social media platforms.

To support our employees with up-to-date knowledge, we introduced an online COVID-19 Info Hub on the HK Electric Intranet portal and My HKE mobile app. A daily bulletin was sent out to all employees informing them of the latest situation and the names of buildings and transport with confirmed cases, as well as Specified Premises requiring compulsory tests of residents and visitors. We also set up an emergency hotline to communicate useful information relating to precautionary measures against COVID-19 along with 11 in-house educational videos, posters, news, and announcements. Two quizzes were launched to raise employees' awareness and understanding of the precautionary measures.

Our measures were over and above those required by the Government. We enforced home quarantine for employees if there were confirmed cases in their apartment blocks even if they were not identified as "close contacts", or require them to undergo enhanced social distancing in the office. Testing was mandatory for employees under certain circumstances.

We believe that our response to the COVID-19 pandemic has strengthened our capacity and our organisational resilience in coping with other unforeseen challenges in the future.

Increased sanitisation keeps infection at bay.

CEO'S REPORT

Transfer and termination requests made via e-form

20.0% 2020

2019 **15.0%**

2018 **14.3%**

Digital services like Account-On-Line and e-Bill make bill payments more convenient for customers.

Delivering customer service excellence

At the core of our values is a commitment to excellent customer service. We measure our own performance against a set of 18 pledged customer service standards that are reviewed annually.

We achieved all pledged customer service standards in 2020. The average waiting time for telephone calls to the Customer Emergency Services Centre was 2.97 seconds, surpassing our target of 9 seconds. Notable performance of 100% was achieved on the Appointment Punctuality Index and Connection & Supply Performance Index. Throughout the year, our Customer Emergency Services Centre provided uninterrupted support to customers with 24-hour emergency telephone calls and SMS services.

Building on proactive crisis preparedness plans established in previous years, we were able to quickly deploy appropriate processes to enable minimal disruption to staff and customer services during the pandemic. This included the provision of all relevant personal protective equipment to staff and ensuring management was equipped with the right information and resources to support their teams. By keeping our staff and customers safe and informed, we were able to offer uninterrupted customer support services.

Customer feedback especially is essential to drive improvement. To help foster positive customer experiences, our Stakeholder Satisfaction Steering Committee met regularly to review customer complaints and seek opportunities for improvement. During the year, we received a total of eight complaints from stakeholders, of which seven were product or service-related cases from customers. All the complaints were handled in accordance with established procedures.

To match the diverse preferences and lifestyles of our half-a-million customers, we constantly seek to provide more convenient options and methods for bill payments. During the year we entered into an agreement with the A.S. Watson Group, allowing customers to pay their bills in cash via some 200 Watsons stores across Hong Kong.

For customers preferring more digital channels of engagement, we developed a more streamlined authentication process to make it easier for customers to register for our Account-On-Line (AOL) and e-Bill services. This allows customers to sign up within minutes and pay bills more quickly and efficiently. The AOL service was further enhanced in July 2020 to enable customers to make direct payments via AlipayHK and Faster Payment System. Processes were set up to allow customers to login more conveniently with the Government's "iAM Smart" platform after initial set-up.

OPERATION REVIEW

To help customers save time, we refined our bill carry-over facility to allow customers with bills below HK$200 to defer payments to the next bill.

Following the COVID-19 pandemic, people stayed at home more and increasingly relied on online services for shopping, meeting friends and service requirements. In response to this, we encouraged customers to go digital with their billing matters and account applications. As a result, the number of e-form based service requests for transfer and termination of electricity accounts increased by 48% and 5% respectively, compared with 2019. The number of new e-Bill registrations also grew by 58% in 2020 as compared with the previous year.

Dining coupons for used at SME eateries are provided for underprivileged families under the "Care and Share" subsidy programme.

Helping the vulnerable

Hong Kong's economic downturn has hit the underprivileged and vulnerable particularly hard during 2020. To alleviate the financial stress felt by SMEs and underprivileged families we launched a package of "2+3 relief measures" including bill payment deferral for small catering establishments and a 6-month waiver of tariff increases for about 70,000 non-residential customers.

Under the "Care and Share" subsidy programme, we distributed 40,000 sets of HK$500 coupons (worth a total of HK$20 million) to needy customers via NGO-run community centres, which could be used to settle food expenses at over 200 eateries. Likewise, subsidies were provided to NGOs to purchase food and beverages from the same eateries, bringing business to a sector hard hit by the pandemic.

Supporting sustainable transportation

Apart from the activities under the Development Plan, we also continued to support the decarbonisation of transportation in Hong Kong, thereby also contributing to cutting roadside emissions.

In line with our own goals of increasing the availability of electrified private and public transportation, we continued to offer free electric vehicle (EV) charging facilities for the public. In 2020, our network of 12 charging stations supported almost 20,000 charging operations during the year, an increase of 66% over 2019. We have extended this offer as a free service in 2021.

For public transportation, we facilitated its electrification by providing technical support to Citybus and First Bus to erect charging facilities for electric buses at key bus terminus locations.

To encourage more private EV adoption in the city, the Government launched a HK$2 billion EV-charging at Home Subsidy Scheme (EHSS) in October 2020. In support of this scheme, we initiated the "Smart Power EV Charging Solution (SPECS)", a one-stop free service to assist owners of private residential buildings seeking to install EV charging facilities in their parking areas. We have received over 200 requests for the SPECS service and issued 190 confirmation letters on power supply capacity to customers for facilitating their EHSS applications. We also provided technical support and advice to customers installing their own EV charging points and received 388 inquiries during the year.

We provide advisory service to assist customers in installing EV charging infrastructure.

We have systematically increased the number of EVs incorporated into our own operations over the years, and EVs now represent over 50% of our fleet (2019: more than 47%), which has reduced fuel consumption by 15,631 litres when compared with 2019.

Helping to Reduce Roadside Emissions with Electric Vehicles

We believe that the future of transportation, both private and public, is electric. The easy availability of charging facilities is a key factor in the wider adoption of electric vehicles (EVs); and power companies like us have a key role to play in this regard. Since 1984, HK Electric has pioneered EVs in our own fleet and for use within the community.

Year-on-year, there has been a steady increase in the uptake of EVs in Hong Kong. At the end of 2020, there were 18,417 EVs for road use in Hong Kong, up from less than 100 in 2010, demonstrating increased awareness and support for the use of EVs.

Utilising EVs in our own operations

CO_2

Our strategic sustainability goals include reducing carbon emissions from our operations. As a result, we increasingly rely on EVs within our fleet of more than 300 vehicles. Over 50% of our fleet is now electric or hybrid to reduce emissions from fossil fuels and save on fuel costs.

While the mileage of our EV fleet has increased over 28% between 2016 and 2020, its fossil fuel consumption has reduced by over 35% during the same period.

HK Electric's Fleet

	2016	2017	2018	2019	2020
Number of EVs	107	114	132	149	166
Mileage of EVs (km)	700,287	723,572	749,915	796,961	899,799
Fuel consumption of non-EVs (litres)	155,189	141,239	132,120	116,064	100,433

Did you know?

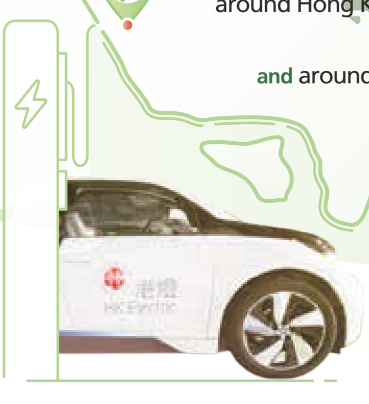
Our EV fleet drove **899,799** km in 2020

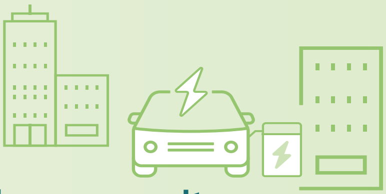
15 mins HK Electric EV Charging Stations

Equivalent to travelling

around Hong Kong Island **16,977** times,

and around the world **22** times!





Supporting EV use within the community

We promote EV use across Hong Kong in two ways: by offering free roadside charging facilities at 12 convenient locations on Hong Kong Island; offering consultation and technical support for residential and commercial clients seeking to set up their own charging infrastructure.

For more than ten years, we have offered a network of charging stations which supported almost 20,000 charging operations in 2020, an increase of 66% over 2019. To help expand the use of EVs in public transport, we have been facilitating the installation of electric bus charging facilities at the Central Public Transport Interchange and Central Ferry Piers Bus Terminus. We also assisted in the exploration of use of electric ferries at various piers including Central Nos. 7 & 8, North Point West, and Sai Wan Ho.

Our support for electric transportation extends to ferries which are under planning.

As EV uptake increases steadily in Hong Kong, there has been increasing interest from residential buildings in installing charging facilities in their parking areas. Under the "Smart Power EV Charging Solution" (SPECS) service, our team helps customers implement EV charging solutions in private residential buildings. The team will carry out onsite inspections, evaluate historical electricity loading data, and provide technical advice on infrastructure design, facilities upgrade, metering arrangement as well as installation of power supply and EV charging facilities. We also provide on-the-spot technical support to customers on their requests and join the meetings of owners' corporations and facility managers, and the Government's site inspections for verifying application details.

Property owners are increasingly receptive to installing EV charging infrastructure at their premises.

CEO'S REPORT

Promoting renewable energy and energy efficiency

To support a sustainable community, we continued with the suite of funding and service schemes offered under the Smart Power Services totalling approximately HK$17 million. These included subsidies and support for the implementation of energy-saving projects at homes and residential buildings, energy audits for non-residential customers, and the purchase and installation of energy-efficient appliances for more than 600 families.

In 2020, HK Electric launched two new low-carbon technology subsidy programmes under Smart Power Care Fund – providing subsidies of up to HK$500,000 for NGOs, transitional housing organisations, and non-government schools to implement low-carbon living projects, and up to HK$300,000 for elderly, children and rehabilitation centres to implement gerontechnology and smart technology projects to create energy-efficient, safe and comfortable environments for those in need.

Our Feed-in Tariff (FiT) Scheme encourages customers to set up their own renewable energy (RE) power systems, such as rooftop solar installations and we would purchase their electricity at a favourable tariff of HK$3 to HK$5 per unit of electricity. In total, 72 systems were connected to the grid in 2020, bringing the total number of FiT installations to 130 with a combined capacity of 2.3 MW. Key educational institutions continued to respond positively to the FiT Scheme, with the ESF Bradbury School launching its flexible mono-crystalline solar installation during the year, which is the first of its kind in our supply territory. In 2020, these customers' RE systems generated about 1.5 GWh of green electricity.

Smart Power Services including FiT Scheme, Smart Power Building Fund and energy-efficient appliance subsidy scheme help the community go green.

OPERATION REVIEW

The cost of the FiT Scheme is partly offset by the sale of Renewable Energy Certificates (RECs) to customers which allows them to support the production of renewable energy and take an active part in reducing their own carbon emissions. This has proved popular with the community and our entire stock was fully subscribed for two consecutive years since the launch of the scheme in 2019. In 2020, 3.5 GWh of zero-carbon electricity was sold through the purchase of RECs by 54 commercial customers.

~3.5 GWh
Renewable Energy Certificates fully subscribed

2020 Smart Power Services

ENERGY EFFICIENCY

Smart Power Building Fund
48 applications were approved, covering 85 buildings and allocating HK$13 million in subsidies

Smart Power Energy Audit
210 free energy audits were completed for our non-residential customers

Smart Power Loan Fund
MoUs signed with three major banks for implementation of energy efficiency projects

EDUCATION FUND

Smart Power Education Fund
HK$5 million was committed for educating the community about energy efficiency and conservation, and renewable energy

智惜用電 smart power

RENEWABLE ENERGY

Feed-in Tariff Scheme
135 applications were approved. 72 installations amounting to about 1.3 MW in total capacity were connected to the grid

Renewable Energy Certificates
227 certificates were issued covering around 3.5 GWh of renewable energy

CARE FUND

Smart Power Care Fund
604 applications to subsidise energy-efficient appliances were approved, providing 2,013 energy-efficient appliances to disadvantaged households

We funded
2,000 **energy-saving cases via Smart Power Services**

CEO'S REPORT

We are committed to tackling climate change head-on, placing community values at the heart of everything we do and being a responsible employer.

Governance for sustainability

The Group has established a Sustainability Committee at the Board level whose role is to review and assess related objectives and strategies and make recommendations on matters concerning the Group's sustainability development and risks.

The Committee is supported by the Sustainability Management Committee (previously Corporate Social Responsibility Committee) which will drive, promote understanding and coordinate the Group's efforts. To formalise our commitment, we have developed a governance framework and updated the CSR policy as the Group's sustainability policy to ensure that this is integrated across our entire business.

A wide range of policies are now accessible on the corporate website as we continue to enhance the transparency of our operation and our practices. These changes further foster our culture of embracing green initiatives.

Our Sustainability Governance Structure

The Board
Accountability and Leadership

↕

Sustainability Committee
(Board Level)
Governance and Oversight

↕

Sustainability Management Committee
(Management Level)
Strategy, Management and Monitoring

↕

Business Units
Implementation and Reporting

SUSTAINABILITY REVIEW

On track to meet Sustainable Development Goals

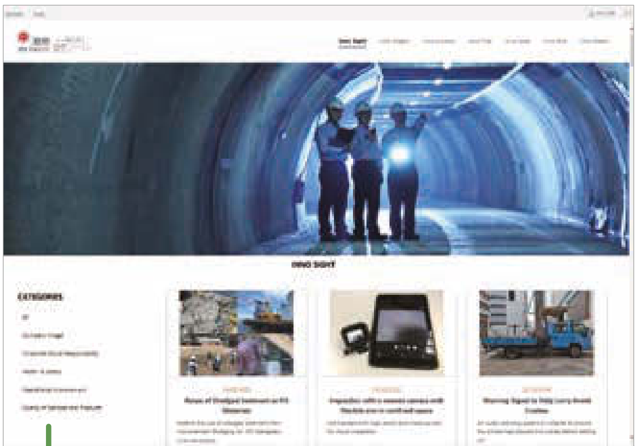
As part of our drive to reduce our carbon footprint over the long term, we have pledged to contribute to the United Nations' Sustainable Development Goals (SDGs) most relevant to our business, i.e. SDG 7 – Affordable and Clean Energy, SDG 9 – Industry, Innovation and Infrastructure, and SDG 13 – Climate Action.

In 2020, despite the impact of the COVID-19 pandemic, we made good progress towards these through various decarbonisation initiatives, nurturing innovation across the company, and investment in capital projects for clean energy which are closely aligned with the three SDGs.

We maintained a safe and affordable electricity supply with record-high reliability. Construction of critical infrastructure, such as new gas-fired generating units and the offshore LNG terminal were also on track to help achieve our emission reduction targets.

Programmes to educate the public and support customers to go green, including the full-scale deployment of smart meters, were implemented during the year. We are pleased to report that our 2023 target for aggregate electricity generated from renewable energy of HK Electric and its customers has been achieved in 2020 and we are looking to set a more aggressive target.

We seek to innovate across all aspects of our operations and since the launch of our innovation strategy in July 2018, we have introduced over 240 projects deploying technologies such as nano-coating, camera drones, automated guided vehicles, artificial intelligence, big data analytics, an end-user computing platform, robotic process automation, Low Power Wide Area Network and Internet-of-Things devices.



The Inno Hub on our intranet keeps employees up-to-date with the latest innovative ideas and provides inspiration and feedback.

Furthermore, we have partnered with independent research institutes, universities, and business partners, to explore collaboration opportunities for innovation. A highlight was a proof-of-concept project with The Hong Kong University Science and Technology. This explored the viability of applying machine learning for forecasting load trends with a view to improving reactive power control in zone substations, and was completed successfully in 2020. The new forecasting model will now be integrated with an existing real-time control application in 2021.

We completed the update of our "Code of Practice for Suppliers" to build capacity in our supply chain regarding climate action.

CEO'S REPORT

Our Sustainability Framework

Guided by our Vision, Mission and Core Values
Aligned with our Sustainability Policy and other Key Corporate Policies

Commitment

Operating our business in a responsible and transparent manner while supporting sustainable development and meeting the long-term energy needs of our community.

Objective

Striving to be a world-class electricity supplier, a good corporate citizen and an employer of choice.

Approach

Integrating sustainability considerations into our operations and engaging with our stakeholders to create shared value.

Strategic Direction 01

Running a Sustainable Business

Ensuring a strong foundation for supporting sustainable development

Material Areas:

1.1 Delivering long-term value for our investors through sustainable growth
1.2 Upholding high standards of corporate governance and disclosure
1.3 Managing risks and opportunities effectively
1.4 Building mutual trust with our stakeholders
1.5 Fostering a culture of innovation

Strategic Direction 02

Sharing our Planet

Sustaining a beautiful and liveable planet for our future generations

Material Areas:

2.1 Combating climate change
2.2 Minimising the environmental impact of our operations
2.3 Promoting environmental awareness

Strategic Direction 03

Serving Hong Kong

Making our home a prosperous, smart and caring city

Material Areas:

3.1 Providing reliable and affordable electricity supply
3.2 Delivering excellent customer services
3.3 Caring for the community

Strategic Direction 04

Working with Partners

Engaging with our employees and business partners to ensure safe and responsible business operations

Material Areas:

4.1 Caring for our employees and their families
4.2 Improving health and safety performance continuously
4.3 Managing our supply chain responsibly

Supporting the United Nations'
Sustainable Development Goals, specifically:

SUSTAINABILITY REVIEW

Maintaining engagement with our stakeholders in difficult times

In order to maintain close relationships with our key stakeholders, we issue regular communications to keep them abreast of our latest developments and new initiatives. Major channels include our annual report, sustainability report, corporate information brochure, quarterly "HK Electric On-line" customer bulletin, a YouTube channel, and increasingly our Facebook page "@44KennedyRoad".

The pandemic placed constraints on face-to-face engagement with our stakeholders. Regular stakeholder visits to our facilities were cancelled – only one tour to Lamma Power Station was organised for 38 HKEI Share Stapled Units (SSU) holders in January 2020. We maintained relations with business partners and community stakeholders through video conferences as much as possible. Face-to-face meetings, if they could not be avoided, were held with strict adherence to appropriate social distancing requirements.

The annual Customer Liaison Group meeting was replaced by information packs in May and a video presentation in September. Company representatives updated members of our ongoing projects as well as our extensive precautionary measures against the pandemic. Earlier in the year, we participated in 14 community events before others were cancelled due to the COVID-19 pandemic.

We maintained engagement and promotion of Smart Power Services via the corporate website, emails, and letters to targeted stakeholders. Due to COVID-19, only around 70 stakeholder engagement events were conducted in 2020.

Sharing with the Customer Liasion Group continues during COVID-19 through video presentations.

A virtual Smart Power Gallery guided tour on climate change and renewable energy was rolled out in October 2020 to maintain relations with our stakeholders online.

Customer feedback is an essential part of our efforts to enhance our services. We continued to gather customer feedback systematically through regular satisfaction surveys. Our "We Meet on Friday" surveys were conducted with all necessary social distancing measures in place for customers and staff.

We also attach great importance to the opinions of our employees. Our long-standing Joint Consultation Committee gives staff a platform for raising opinions and held 11 meetings across its six panels in 2020. 16 quarterly focus group meetings were held in the form of telephone interviews with employees invited randomly to voice their opinions and offer suggestions.

The only shareholders visit held in 2020 – in January – before all others are cancelled.

"Triple-O" Approach Keeps Green Learning Going

With the pandemic halting most face-to-face events and activities in 2020, we had to adapt to the new normal for green education. Through a "Triple-O" approach using videos, online and social media platforms, we continued to promote energy efficiency, renewable energy and low-carbon lifestyles in this trying time.

Happy Green Campaign offers online tools

Our flagship "Happy Green Campaign" has grown over the years to 482 schools that enjoy a variety of learning experiences to supplement classroom teaching on green education. To keep the momentum going in 2020, we produced a range of online learning resources, including an animation series titled "Smart City Take Action", an interactive drama called "Smart Power Alliances", and a guided virtual tour of our Smart Power Gallery to support e-learning.

All this content introduced the concept of a smart city and what actions everyone can take in their daily lives to contribute to its development, and was promoted on popular online forums and social media.

Our "Happy Green Ambassadors" programme also moved online via a 2-day event that helped ambassadors learn first-hand about the development of Hong Kong as a smart city. In addition, a workshop was organised in conjunction with the InnoWing of The University of Hong Kong where students gained hands-on experience in designing and creating smart devices.

Happy Green Ambassadors attend an online workshop on "Smart Power for Smart City" to understand about the journey to a low carbon society.

Smart Power Ambassador training goes online to promote green messages among local retirees.

Showcasing the hidden gems of Hong Kong

Under the "Green Hong Kong Green" programme, we partner with a local green group, The Conservancy Association, to encourage Hong Kong citizens to learn more about the city's hidden eco-heritage treasures through eco-tours.

With tours suspended because of COVID-19, we switched to awareness building activities through online channels. These included weekly Facebook posts to enhance the community's understanding of Hong Kong's rich ecology and heritage, and video highlights on YouTube introducing our various routes, including the newly-developed "The Eastern Sparkle" featuring the sights and sounds of North Point. We also organised interactive games, quizzes and public polls on social media to further promote engagement and interest.

A new eco-heritage route "The Eastern Sparkle" unveils the unique history, culture and ecology of North Point.

Retirees become green ambassadors

Our efforts to educate people on sustainability extends beyond physical barriers and across generations. We offered retirees within our University of the Third Age Network a 4-day training course to prepare them to be "Smart Power Ambassadors". The programme introduced them to critical environmental issues including climate change and green energy, recycling and waste reduction, energy efficiency and conservation, the safe use of electricity, even during the pandemic.

The programme was delivered through a series of videos and online quizzes which also helped to enhance retirees' IT literacy. Out of 130 retirees trained, 10 outstanding ones were awarded in recognition of their participation and initiative in sharing their learnings with their peers.

Smart Power Ambassador
Ng Ip-mui

I have learnt a lot about how to protect the environment as a Smart Power Ambassador. After taking up this role, I started to adopt a green lifestyle in my daily life and encourage my family to do so too, for example by paying bills online, using less paper. I am always looking for ways to decarbonise through various "4R" practices: I even made a door fence at home out of some old wooden blinds to put the idea of "Reuse" into practice.

355 120 comments 106 shares

CEO'S REPORT

Securing a greener future

As one of Hong Kong's leading energy providers, we believe it is our responsibility to take a lead in the fight against climate change, not only by continuously cutting our carbon footprint but also by educating the community on how to live a low-carbon lifestyle. Over the course of 2020, we delivered both new and well-established annual initiatives promoting renewable and green energy use to employees and the wider community.

Our efforts are aligned with the Government's own Energy Saving Charter and 4T Charter and we remained a signatory to the Wastewi$e policy.

Conserving resources across our operations

We expanded our efforts to reduce the use of resources in our operations. Our efforts resulted in about 10% and 8% reduction in waste and paper respectively across our corporate offices. The use of electricity also went down slightly.

Segregated waste collection facilities on every floor in the office make it convenient for staff to recycle waste.

To prepare for the Government's new policy to charge for the disposal of municipal solid waste, and to raise awareness of waste reduction and recycling, we collaborated with the Hong Kong Productivity Council on an MSW Charging Trial backed by the Environment and Conservation Fund.

Indoor air quality (IAQ) gained further importance given the events of 2020. Hongkong Electric Centre and Electric Tower, two of our main office buildings, obtained the Excellent Class certification from the Government's IAQ Certification Scheme.

In addition, we were presented with the "Hanson Grand Retro-commissioning (RCx) (Implementation) Award" in recognition of the excellent energy conservation performance at our Electric Tower office premises. We are now using RCx as one of the key measures to enhance the energy efficiency of Hongkong Electric Centre, our headquarter.

"Overtime buttons" are installed at Electric Tower for staff to adjust air-conditioning supply after office hours to optimise energy use.

Bringing stakeholders on board to care for the environment

Our employees are our best environmental stewards and one of our strategies is to encourage staff to launch projects that improve our sustainability performance. In 2020, we formulated 50 environmental management programmes under our environmental management systems. Eight refresher training sessions were provided via online channels to update colleagues on eco-friendly management and energy conservation initiatives as well as changes in legal and other statutory requirements.

We continued to back several green community programmes run by third parties. To mark the United Nations' World Environment Day 2020, over 800 employees participated in an extended event to go green in their daily lives, for example, by wearing climate-friendly clothes, following a greener diet, and using low-emission transport.

SUSTAINABILITY REVIEW

We endeavour to extend our own high standards to our suppliers and contractors to incorporate the same level of environmental consciousness in their daily operations and adhere to a high standard of integrity when conducting business.

Green education goes online

Empowering younger generations

One of our core principles is to support environmental conservation in Hong Kong and we operate a schedule of annual events to educate the community, especially younger generations. Due to social distancing restrictions, we switched this year to digital channels to ensure we maintain momentum.

Under the annual Happy Green Campaign, a new interactive drama, "Smart Power Alliance", was produced to drive home the importance of energy conservation. It was shown to over 3,300 members of the public and students on campus or online during the year. At the same time, a series of animations to enhance understanding of smart cities was released on Facebook and YouTube.

The "Smart Power Alliance" interactive drama reminds younger generations about the need to save resources today for tomorrow.

So far, 482 primary and secondary schools have joined the Happy Green Schools network, participating in various activities promoting energy efficiency, renewable energy and low carbon lifestyles. Funding of up to HK$10,000 each was given to 27 member schools to implement or enhance green projects, while 15 winning projects in previous years' "Green Energy Dreams Come True" Competition received up to HK$20,000 each for further enhancement.

During the year, more than 40 secondary school students were recruited as "Happy Green Ambassadors". Partnering with the Faculty of Engineering of The University of Hong Kong and The Hong Kong Federation of Youth Groups, we arranged online training for these ambassadors to learn more about the skills and knowledge necessary for Hong Kong's transformation into a Smart City.

The Happy Green Campaign provides schools with a variety of learning resources on green awareness and smart cities.

A new eco-heritage route

In 2020, we developed a new eco-heritage route, "The Eastern Sparkle", and released a series of mini videos for viewers covering the sights and sounds of the Eastern District. With this launch, our "Green Hong Kong Green" programme now offers 11 routes that cover all the districts within our supply territory.

About 60 members of the public participated in physical eco-heritage tours before further trips were cancelled. We continued to raise public awareness of Hong Kong's natural resources and biodiversity through video tours and sharing on social media. For instance, we produced a drone video to enable the community to enjoy the scenic Tai Tam route remotely, and invited eco-leaders to contribute their stories on Facebook to inspire others to explore on their own.

Our annual support for the "Clean Up the World in Hong Kong" programme organised by Green Power also went social in 2020. A Facebook campaign reminded the community to "leave no trace behind" as more people visited the countryside during the pandemic.

CEO'S REPORT

Supporting the community – reaching young and old

We firmly believe in playing an active role in the community to support those less fortunate than ourselves. Our programmes aim to improve health and wellbeing, foster a more inclusive community and deliver meaningful change to residents.

An online training session on the new North Point heritage route prepares eco-leaders to lead future tours.

While our regular elderly care and community outreach initiatives were mostly suspended, we continued to actively support the community through other means. We were one of the first organisations to help purchase supplies for people undergoing mandatory quarantine and our volunteers delivered free meals to deprived families in collaboration with The Hong Kong Federation of Youth Groups. They also assisted Hong Kong Fair Trade in packing anti-virus sanitary bags for "Love Reborn – Family Renewal Project" under Caritas Hong Kong's Project Hyacinth and helped produce face masks for our frontline workers.

Volunteering 2020

712 hours

for

22 services

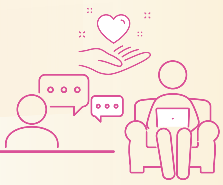
We were especially aware of the vulnerable elderly who might be seriously affected by the psychological impact of the isolation following government-mandated suspension of public services and welfare activities. We re-engineered our service offerings and extended care and concern by arranging phone calls instead of the normal home visits and community talks.

HK Electric volunteers deliver meal packs to deprived families affected by the pandemic.

SUSTAINABILITY REVIEW

2020 Community Investment

- In collaboration with elderly services agencies, our volunteers reached out to **141** single elders via phone calls through the **"CAREnJOY Call-to-Care"** service
- The **"CAREnJOY Non-stop"** provided useful information in the form of text messages to about **6,100** single elders and **700** local retirees under **"U3A network"** each week
- The **"U3A Network"** encouraged close to **200** local retirees to continue self-learning at home through an incentive scheme and trained online about **140** U3A students to be Smart Power Ambassadors



Elderly Care

Environmental Protection

- The **"Happy Green Campaign"** engaged **482** primary and secondary schools with its Happy Green School network
- The **"Green Energy Dreams Come True"** programme provided grants for **15** previously shortlisted projects that brought green ideas to life
- Funding was provided to **27** other schools to carry out their green projects on campus
- More than **40** secondary school students have been appointed as **"Happy Green Ambassadors"** to share tips on a green lifestyle with their local communities
- A new eco-heritage route was developed under **"Green Hong Kong Green"**, bringing the total number of routes to **11** for where the public to appreciate local eco-heritage resources

Empowered employees power our business

The talent, diversity, and commitment of our employees is crucial to enable us to achieve our ambitious targets and redefine the energy sector in Hong Kong. Over the years, we have worked hard to create an environment that fosters both personal and professional growth, and rewards creativity and innovation. HK Electric aims to be an employer of choice and attract, develop, retain and safeguard the best talent.

While the majority of our 1,713 permanent employees are engineering and technical staff, around 18% of total permanent employees were female in 2020. We recorded a voluntary employee turnover rate of 2.4%, the lowest in recent years.

CEO'S REPORT

HK Electric graduate trainees receive a strong grounding to launch their careers through comprehensive training.

Opening the door for future generations of talent

At HK Electric we are firmly committed to being an equal opportunity employer in our recruitment, training, transfer, compensation, benefits provision, and termination processes, regardless of our employees' backgrounds, beliefs, or other personal factors.

Thanks to our ongoing commitment to employee engagement and career opportunities, we were ranked third based on a survey of 2,549 jobseekers and employees among Hong Kong's top 75 companies in the annual Randstad Brand survey. We were honoured with a Randstad Employer Brand Award.

We review remuneration on an annual basis and benchmark against comparable organisations in relevant industries. This forms the basis of our "pay-for-performance" policy that appraises and rewards our employees for their overall performance, including target achievements and competencies displayed.

Following a series of online talks, we recruited five university graduates to join our graduate trainee programme in 2020 and offered five third-year students the chance to gain valuable hands-on experience under industrial placement.

Cultivating homegrown talent

We invest in employee development through a variety of learning opportunities, such as training courses, e-learning materials, on-the-job coaching and job rotation to build their capabilities and resilience while broadening their expertise. Despite the pandemic, 33,524 training hours were offered in 2020.

Our learning and development programmes are based on a four-level leadership competency framework. We encouraged interactive and self-learning with new e-learning and multimedia content, including lecturer-led training via video conferences. Six webinars on leadership and two e-learning series were offered to high-potential Leadership Development Programme participants via a new e-learning portal. All employees were encouraged to self-learn with a range of resources made available on our employee communication platforms such as corporate intranet portal and My HKE mobile application.

This year, we expanded the scope of job-related e-learning training topics to cover knowledge and skills in operation and maintenance of electricity generation, transmission and distribution assets, customer services, commercial processes and cybersecurity for relevant employees, as well as code of conduct, legal compliance and other general knowledge for all employees.

Job-related learning and workshops help encourage personal development among our employees.

SUSTAINABILITY REVIEW

Together with the Hong Kong Polytechnic University, Xi'an Jiaotong University and State Grid Corporation of China, HK Electric conducted webinars for 146 engineering professionals and academics from 26 "Belt and Road" countries and regions. Experienced engineers of HK Electric delivered lectures on the design and operations of our distribution networks, and received positive feedback.

A safe and healthy workplace for our employees

One of our foremost priorities is safeguarding our employees. We have developed an extensive range of precautionary measures and business continuity plans to ensure an uninterrupted power supply to our customers whatever the circumstances.

Office lift capacity is reduced – from 15 people to 6 – to maintain proper social distancing.

To fight the COVID-19 pandemic, we have implemented strict social distancing measures in all the workplaces of the company to avoid secondary infections. We have also organised drills for dealing with confirmed cases in workplaces of different settings.

We continue to equip our employees with the right tools and skills to perform their tasks without risk to themselves and others. The foundation of our safeguarding principles is stipulated in the company's Safety Rules, which are reviewed regularly to incorporate developments in legislation, the power system, and working environment, in line with industry best practices. The Corporate Health and Safety Policy was revised to include strategic principles of ensuring the health of our employees during public health emergencies.

To comply with all statutory requirements, a comprehensive Safety Management System, a Health and Safety Policy, an Alcohol and Drugs Policy and a collection of corporate-wide health-and-safety-related guidelines are in place and are strictly enforced.

Since 2011, our Transmission and Distribution Division has run a "Work Safe Behaviour" programme with a different theme each year. In 2020, the programme focussed on ways to eliminate at-risk behaviours in LV cable jointing activities. During the year, more than 160 Work Safe Behaviour observations were conducted across the company and 10 improvements were implemented.

We conducted regular housekeeping inspections across all our sites to ensure compliance with 5S practices and office safety principles.

Specialised equipment like this light duty platform helps safeguard employees from occupational injury.

Innovation at the Heart of Health and Safety

We are ever mindful of industrial hazards and potential dangers in our operations and their impact on our employees, customers and the community. A healthy and safe working environment for our team is always one of our priorities. Our Health & Safety Board, chaired by the Managing Director, sets our strategies and oversees a year-round calendar of innovative schemes and programmes that run across the entire company to strive for injury-free operations.

We believe that by inviting feedback from our workforce and listening to them, we can strengthen our health and safety performance with new tools, ideas, and technology. With this in mind, our "Continuous Safety Improvement and Innovation Scheme" encourages employees to come forward with new ideas and projects. In 2020, a total of 20 submissions sharing innovative ideas were put forward and out of these six received awards. The scheme has proved popular and we look forward to more ideas and submissions in 2021.

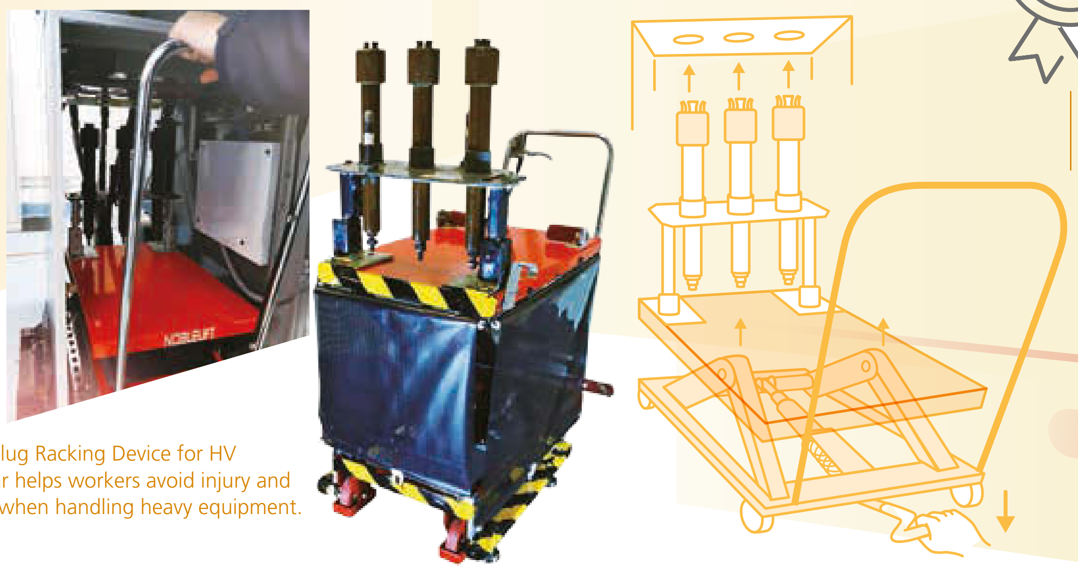
Tools and technology to keep our workforce safe

Here are just a few of the innovative ideas and tools that were rolled out across our operations, ensuring our workforce remains safe in difficult and dangerous environments.

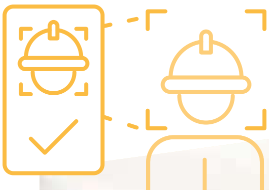
One of the submissions was a Test Plug Racking Device designed by our staff to enhance occupational safety of employees needing to lift heavy testing equipment in cramped spaces. The simple, easy-to-use apparatus made the difficult operations much safer and easier, helping employees avoid injuries or accidents.

Continuous Safety Improvement and Innovation Scheme

Sliver Award

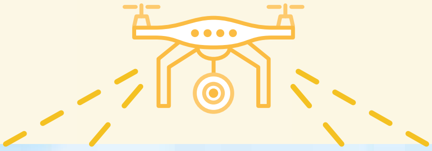


The Test Plug Racking Device for HV Switchgear helps workers avoid injury and accidents when handling heavy equipment.



Facial recognition technology is installed to control access to restricted sites and keep employees safe.

Continuous Safety Improvement and Innovation Scheme



Unmanned aerial vehicles help HK Electric workers examine the condition of silencers of the coal-fired and combined-cycle gas turbine units.

Our employees often have to work with bulky equipment or inside confined environments, such as tunnels, storage tanks, and manholes where there could be flammable gases or reduced oxygen levels and highly humid. In 2020, we introduced a facial recognition system to regulate access to these confined spaces. The system grants access only to authorised employees and workers, and online real-time tracking of who has entered and exited ensures all persons are accounted for and remain safe. To further reduce the risk to employees who work at great heights or in confined spaces, HK Electric began deploying unmanned aerial vehicles and remotely operated vehicles to carry out inspection and survey of critical equipment.

Our Virtual Reality Training Centre helps employees understand and feel confident in handling high-risk equipment.

We implemented an innovative real-time monitoring system for ground settlement, vibration, and tilting of structures at Lamma Power Station in July 2020. Capable of operating in any climate conditions, the solution automates data collection and makes it available online as well as via a mobile app, eliminating the need for survey teams to visit dangerous sites.

A Virtual Reality Training Centre was established in 2020 to improve the effectiveness of operational and safety training. Potential risks and emergency site conditions are simulated using imseCAVE VR technology for training purpose. Under the virtual but zero-risk environment, our engineers are able to practice hands-on operations and benefit from experiential learning.

CEO'S REPORT

Striking the perfect work-life balance

Satisfied and motivated employees are central to the achievement of our business goals and ambitions. We are a signatory to the Joyful@Healthy Workplace Charter launched by the Department of Health and the Occupational Safety and Health Council. We constantly monitor and review our wellbeing policies, taking a holistic approach to employee support.

The uncertainties and changed working practices of 2020 have led to elevated levels of stress across the community. In response, we have worked to identify ways of providing active support to our employees. As a continuous effort to enhance employees' wellbeing as well as maintain work-life balance, we also organised a series of online interest classes such as DIY face-mask cover, leathern rose and towel animals through online live broadcast for employees to join via their office desktop computers. To demonstrate care and support for our frontline colleagues who need to maintain face-to-face contact with the customers or the general public, participants of the interest classes volunteered to produce hand-made face-mask covers and presented them to the frontline colleagues.

Our Good Neighbours' Club was especially important in 2020 to help support those with psychological stress arising from social distancing requirements. More than 75 colleagues who are members of the Club were trained in employee counselling so that they could provide just-in-time emotional support to colleagues in need. Useful tools and resources on the topic were shared on the HK Electric intranet portal and an in-house mobile app, My HKE.

Runners Club 87 members

We continue to promote staff mental and physical well-being through a host of team initiatives.

SUSTAINABILITY REVIEW

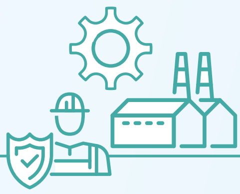
Conclusion

We are committed to implementing proactive measures to combat climate change and enhance our information disclosure process. We communicate emission figures and our efforts to reduce them through the annual sustainability report which was prepared in accordance with the Core option of the Global Reporting Initiatives Sustainability Reporting Standards and Electric Utilities Sector Disclosures as well as the Hong Kong Exchanges and Clearing Limited's ESG Reporting Guide, with external independent assurance.

Transforming Hong Kong into a smart green city is at the heart of our business and community-related activities. Through our various projects, initiatives, programmes, and wellbeing schemes, we believe in making positive contributions to our customers, our employees and the wider Hong Kong community.

2020 Employee Care

- **19.35** Lost Time Injury Severity Rate (per 200,000 employee-hours)
- **0.17** Lost Time Injury Frequency Rate (per 200,000 employee-hours)
- **11,840** training hours on health and safety
- **164** Work Safe Behaviour observations
- **2,365** safety inspections



Health and Safety

Employee Growth

- **14** training modules on business operations were delivered by senior staff and experts through the HK Electric Institute
- **33** young recruits received training and orientation under our Graduate Trainee and Trainee Technician programmes
- **21** high-potential staff members completed the 2-year Young Talent Development Programme
- **9** future leaders were trained under the Leadership Development Programme

33,524
training hours
in total

FINANCIAL REVIEW

Financial performance

The Trust Group's revenue and audited consolidated profit for the year ended 31 December 2020 were HK$10,389 million (2019: HK$10,739 million) and HK$2,732 million (2019: HK$2,327 million) respectively.

Distribution

The Trustee-Manager Board has declared the payment of a final distribution by the Trust of HK16.09 cents (2019: HK16.09 cents) per SSU. In order to enable the Trust to pay that distribution, the Company Board has declared the payment of a second interim dividend in lieu of a final dividend in respect of the Company's ordinary shares held by the Trustee-Manager, of HK16.09 cents (2019: HK16.09 cents) per ordinary share in respect of the same period. This, together with the interim distribution of HK15.94 cents (2019: HK15.94 cents) per SSU, brings the total distribution to HK32.03 cents (2019: HK32.03 cents) per SSU for the year ended 31 December 2020.

	2020 HK$ million	2019 HK$ million
Audited consolidated profit attributable to SSU holders	**2,732**	2,327
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	**4,693**	5,188
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	**149**	(208)
– changes in working capital	**(223)**	25
– adjustment for employee retirement benefit schemes	**7**	11
– taxes paid	**(488)**	(107)
	(555)	(279)
(iii) capital expenditure payment	**(4,850)**	(3,585)
(iv) net finance costs	**(1,121)**	(1,022)
Distributable income	**899**	2,629
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed	**1,931**	201
Distributable income after adjustment of the discretionary amount	**2,830**	2,830
Interim distribution	**1,408**	1,408
Final distribution	**1,422**	1,422
Distribution amount	**2,830**	2,830
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	**HK15.94 cents**	HK15.94 cents
– Final distribution per SSU	**HK16.09 cents**	HK16.09 cents
Total distributions per SSU	**HK32.03 cents**	HK32.03 cents

In determining the distribution amount, the Company Board has taken into account the Group's financial performance achieved during the year and its stable cashflow from operations, and consider it appropriate to adjust the distributable income for the year ended 31 December 2020, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

Notes:

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

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

(c) Interim distribution per SSU of HK15.94 cents (2019: HK15.94 cents) was calculated based on the interim distribution amount of HK$1,408 million (2019: HK$1,408 million) and 8,836,200,000 SSUs in issue as at 30 June 2020 (30 June 2019: 8,836,200,000 SSUs). Final distribution per SSU of HK16.09 cents (2019: HK16.09 cents) was calculated based on the final distribution amount of HK$1,422 million (2019: HK$1,422 million) and 8,836,200,000 SSUs in issue as at 31 December 2020 (31 December 2019: 8,836,200,000 SSUs).

Capital expenditure, liquidity and financial resources

Capital expenditure (excluding right-of-use assets but including the Trust Group's capital expenditure in the offshore LNG terminal developed by a joint venture) during the year amounted to HK$5,485 million (2019: HK$4,620 million), which was funded by cash from operations and external borrowings. Total external borrowings outstanding at 31 December 2020 were HK$44,890 million (2019: HK$43,045 million), comprising unsecured bank loans and debt securities in issue. In addition, the Trust Group at 31 December 2020 had undrawn committed bank facilities of HK$5,150 million (2019: HK$5,950 million) and bank deposits and cash of HK$52 million (2019: HK$299 million).

Treasury policy, financing activities, capital and debt structure

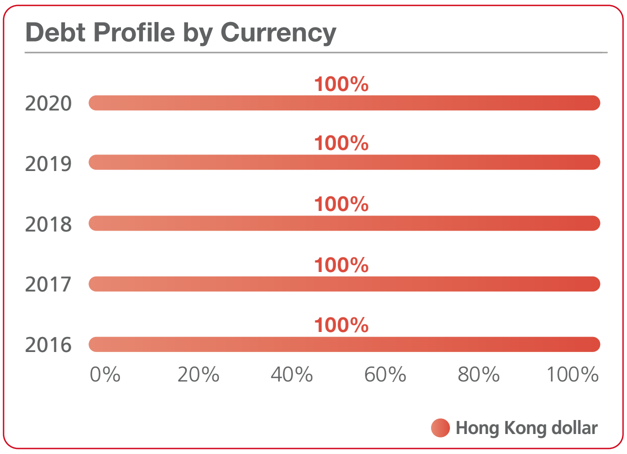
The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity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

During the year, the Trust Group issued a total of US$1,000 million 10 years notes in the public bond market as well as a total of HK$2,499 million notes with tenors ranging from 10 to 30 years in the Hong Kong dollar private placement market under its Medium Term Note Programme.

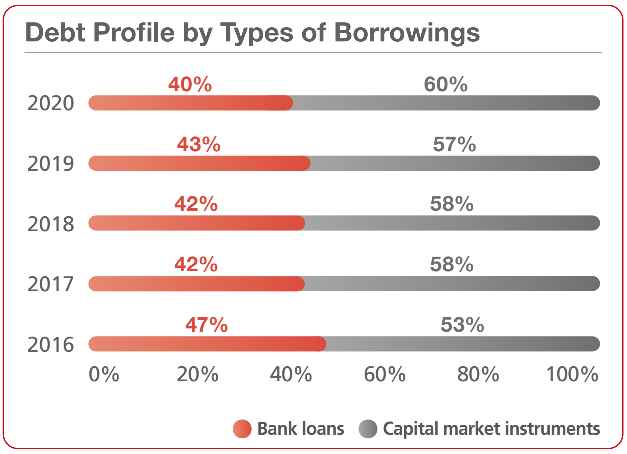
The proceeds of these issues were utilised for its general corporate purpose, the early redemption of US$250 million Formosa bonds in October 2020 as well as the redemption of US$750 million notes in December 2020.

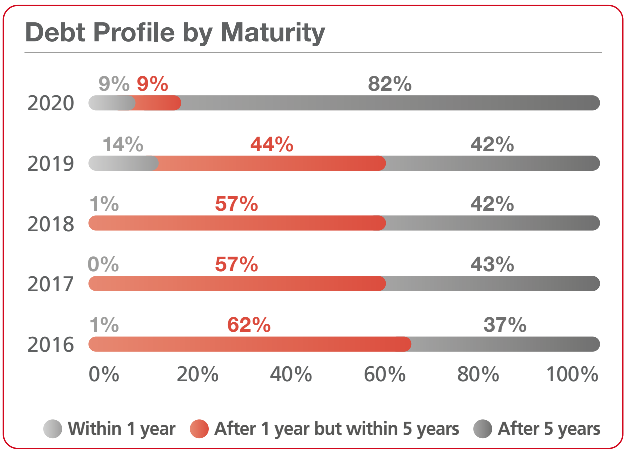
As at 31 December 2020, the net debt of the Trust Group was HK$44,838 million (2019: HK$42,746 million) with a net debt-to-net total capital ratio of 48% (2019: 47%). The Trust Group's financial profile remained strong during the year. On 26 February 2020, Standard & Poor's reaffirmed the "A-" long-term credit rating and "Stable" outlook for the Company which had remained unchanged since September 2015. On 17 June 2020, Standard & Poor's also reaffirmed the "A-" long-term credit rating of HK Electric with a stable outlook, unchanged since January 2014.

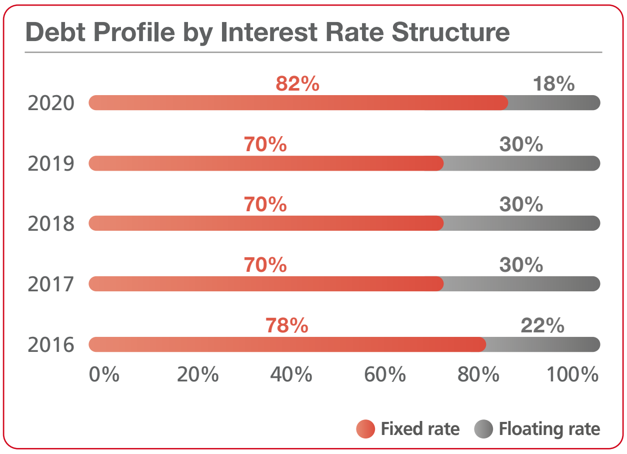
The profile of the Trust Group's external borrowings as at 31 December 2020, after taking into account forward foreign exchange contracts, cross currency and interest rate swaps, was as follows:



FINANCIAL REVIEW







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

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

The Trust Group's principal foreign currency transaction exposures arise from the import of fuel and capital equipment. Foreign currency transaction exposure is managed mainly through forward foreign exchange contracts. As at 31 December 2020, over 90% of the Trust Group's transaction exposure from the import of fuel and capital equipment was either denominated in United States dollars or hedged into Hong Kong or United States dollars. The Trust Group is also exposed to foreign currency fluctuation arising from the foreign currency borrowings. Such exposures are, where appropriate, mitigated by the use of either forward foreign exchange contracts or cross currency swaps.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2020 amounted to HK$39,885 million (2019: HK$43,355 million).

Charge on assets

At 31 December 2020, no assets of the Trust Group were pledged to secure its loans and banking facilities (2019: Nil).

Contingent liabilities

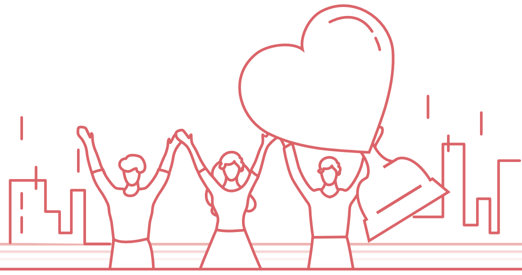
As at 31 December 2020, the Trust Group had no guarantee or indemnity to external parties (2019: Nil).

Employees

The Trust Group maintains a policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Trust Group's total remuneration costs for the year ended 31 December 2020, excluding directors' emoluments, amounted to HK$1,178 million (2019: HK$1,165 million). As at 31 December 2020, the Trust Group employed 1,713 (2019: 1,770) permanent employees. No share option scheme is in operation.

AWARDS GALLERY

20 Awards
Corporate / Community



- **Caring Company Scheme 2019/20**
  - 5 Years Plus Caring Company Logo
- **HSBC Living Business Award 2019**
  - Sustainable Supply Chain Leaders
- **The Community Chest of Hong Kong**
  - Corporate and Employee Contribution Programme 2019/20: Silver Award
  - Employee Contribution Programme 2019/20: 9th Top Fund-raiser
  - Love Teeth Day 2019/20: Outstanding Fund-raising Award
- **Randstad Employer Brand Award 2020**
  - Most Attractive Employers (Hong Kong): 2nd Runner-up
- **Happiness-at-work Promotional Scheme 2020**
  - "Happy Company 5 Years Plus" Label

- **ERB Manpower Developer Award Scheme**
  - Manpower Developer
- **2020 ARC Awards International**

  Sustainability Report 2019
  - Chairman's / President's Letter (Sustainability Report: Hong Kong): Silver Award
  - Cover Photo / Design (Sustainability Report: Hong Kong): Honours Award
  - Infographics (Sustainability Report: Hong Kong): Honours Award
  - Interior Design (Sustainability Report: Hong Kong): Honours Award
  - Specialised Annual Reports (Sustainability Report: Hong Kong): Honours Award
- **Good Employer Charter 2020**
  - Signatory of the Good Employer Charter 2020
- **Good MPF Employer 2019-20**
  - Good MPF Employer 6 Years
  - e-Contribution Award
  - MPF Support Award
- **Partner Employer Award 2020**

  Corporate Category
  - Excellent Corporation
- **2019 Volunteer Service Appreciation Certificate**

  Organisation Category
  - Gold Award
- **Fair Trade Award 2020**

  Corporate Category
  - Bronze Award

21 Awards
Customer Service

- **2020 International Customer Relationship Excellence Awards**

  Corporate Category
  - Public Service of the Year (Public Utility)

  Individual Category
  - Customer Service Team Leader of the Year (Public Utilities – Contact Center)
  - Customer Service Professional of the Year (Public Utilities – Contact Center)
  - Customer Service Professional of the Year (Public Utilities – Service Center)
  - Customer Service Professional of the Year (Public Utilities – Technical Center)
  - Customer Service Professional of the Year (Contact Center): 2 Merits
  - Customer Service Professional of the Year (Technical Center): 2 Merits

AWARDS GALLERY

- **HKRMA Quality Service Programme**
  Corporate Category
  – 2020 Excellent Service Retailer of the Year
  – 2020 Quality Service Retailer of the Year – Retail (Services)
- **HKRMA Quality Service Programme (Oct – Dec 2019)**
  – Quality Service Leader: Gold Award
  – Quality Service Leader – Retail (Services) Category
- **HKRMA 2020 Service Talent Awards**
  Individual Category
  – 2020 Excellent Service Star
  – Junior Frontline – Retail Services: Silver Award
- **Hong Kong Customer Contact Association Award 2020**
  Corporate Category
  – Mystery Caller Assessment Award – Commerce and Utilities: Best-in-Class
  – Mystery Caller Assessment Award – Commerce and Utilities: 2 Gold Awards
  – Inbound Contact Centre of Year – Public Service and Utilities: Silver Award
  Individual Category
  – Inbound Contact Centre Team Leader of the Year: Bronze Award
- **Best SME's Partner Award 2020**
  Corporate Category
  – Best SME's Partner Gold Award

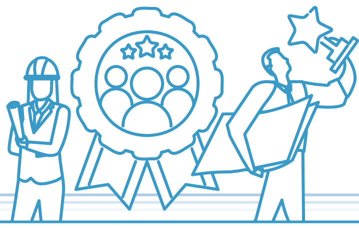
31 Awards
Quality / Health / Safety

- **Safety Quiz 2020**
  Enterprise Category
  – Cup Champion
  – Cup 1st Runner-up
  – Cup 2nd Runner-up
  – Plate Champion
  – Plate 1st Runner-up
- **E&M Carnival 2020 Online Quiz**
  – Co-organiser Group: Champion
  – Open Group: 2nd Runner-up
  – Open Group: 4 Merit Awards
- **The 12th Hong Kong Outstanding Occupational Safety & Health Employee Award**
  – Management – Organisation / Enterprise Category: Bronze Award
- **26th Considerate Contractors Site Award Scheme**
  – Site Supervisory Company Award
- **Construction Safety Promotional Campaign 2020**
  – Best Refurbishment and Maintenance Contractor in OSH: Nomination Award
- **Innovative Safety Initiative Award 2020**
  – Safety Management System, Training and Promotion: Silver Award
  – Safety Management System, Training and Promotion: Bronze Award
  – Safety Operational Device: Bronze Award
  – Health and Welfare: Merit Award
- **19th Hong Kong Occupational Safety and Health Award**
  – OSH Annual Report Award: Gold Award
  – Safety Management System Award (Other Industries) – Best Workplace Infection Control Measures Award: Gold Award
  – 5S Good Housekeeping Best Practices Award (Other Industries): Silver Award
  – OSH Promotion Award: Silver Award
  – Safety Management System Award (Other Industries): Silver Award
  – OSH Enhancement Program Award (Other Industries): Bronze Award
  – Safety Management System Award (Other Industries): Merit Award
  – Safety Management System Award (Other Industries) – Best Workplace Infection Control Measures Award: Merit Award
  – Safety Performance Award (Other Industries): Outstanding Award
  – Safety Performance Award (Other Industries): Excellence Level
- **Construction Occupational Safety & Health Video Competition 2019-2020**
  – Open Group: 2nd Runner-up
  – Open Group: Merit Award
- **2019 Prevention of False Alarms Awards**
  – Gold Award

17 Awards
Environmental

- **Energy Saving Championship Scheme**
  - Hanson Grand Retro-commissioning (Implementation) Award: Electric Tower
- **Hong Kong Green Organisation Certification**
  - Excellence Level Energywi$e Certificate (Generation)
  - 2 Excellence Level Wastewi$e Certificates (Generation, T&D)
  - Good Level Energywi$e Certificate (T&D)
- **Indoor Air Quality Certificate Scheme**
  - Excellent Class Certificate: Electric Centre (Customer Centre)
  - Excellent Class Certificate: Electric Tower
  - Excellent Class Certificate: Hongkong Electric Centre
  - Good Class Certificate: Electric Centre
  - Good Class Certificate: Lamma Power Station (New Control Building)
  - Good Class Certificate: Lamma Power Station (Administration & Control Building)
- **Green Office Awards Labelling Scheme and Eco-Healthy Workplace Award Labelling Scheme**
  - Green Office Label and Eco-Healthy Workplace Label
- **FoodWaste Lean and Green Label Scheme**
  - FoodWaste Lean Label (Lamma Power Station)
- **CarbonCare® Label Scheme 2020**
  - CarbonCare® Star Label
  - CarbonCare® Label: Level 3 (Hongkong Electric Centre)
- **BOCHK Corporate Environmental Leadership Awards 2019**
  - EcoChallenger
  - 5 Years+ EcoPioneer

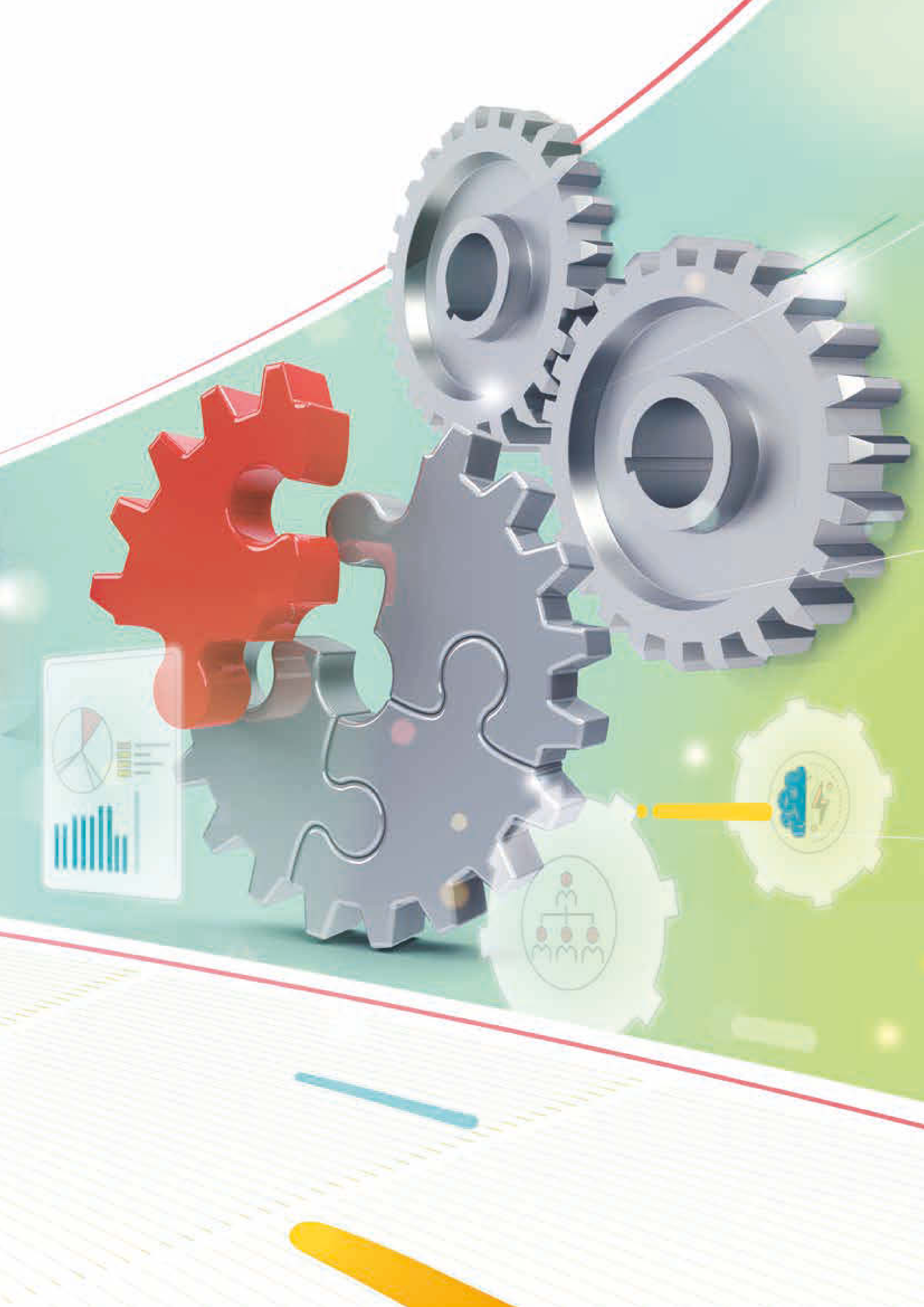
101 Awards
Staff



- **2019 Outstanding Apprentice Award**
  - Outstanding Apprentice Award
- **Qualifications Framework Award Scheme for Learning Experiences**
  - 2 Electrical and Mechanical Services Awardees
- **The HKIE Professional Volunteer Service Accreditation Programme 2018/2019**
  - 2 Grand Awards
  - 3 Gold Awards
  - 7 Silver Awards
- **HKIE Trainee of the Year Award 2020**
  - 3rd Prize
- **Volunteer Movement Volunteer Service Appreciation Certificate**
  - 2 Silver Awards
  - 9 Bronze Awards
- **2019 Volunteer Service Appreciation Certificate**
  - 2 Gold Certificates
  - 9 Silver Certificates
  - 63 Bronze Certificates

CORPORATE GOVERNANCE

Upholding high standards of governance and ethics



BOARDS OF DIRECTORS AND MANAGEMENT TEAM

BOARDS OF DIRECTORS

EXECUTIVE DIRECTORS

FOK Kin Ning, Canning
Chairman

Aged 69. Appointed to the Boards of the Trustee-Manager and the Company, and as the Chairman of the Boards since December 2013. He is also the Chairman of HK Electric, a wholly-owned subsidiary of the Company. Mr. Fok is the Chairman of Power Assets. Mr. Fok is an Executive Director and Group Co-Managing Director of CK Hutchison and the Deputy Chairman of CKI. Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited and Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust"), a Non-executive Director of TPG Telecom Limited ("TPG Telecom"), and a Director of Cenovus Energy Inc. ("Cenovus Energy"). All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. Mr. Fok acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He was the Co-Chairman and is currently a Director of Husky Energy Inc. ("Husky Energy") which was delisted on 5 January 2021 following its combination with Cenovus Energy. Mr. Fok holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

WAN Chi Tin
Chief Executive Officer

Aged 70. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013 and as Chief Executive Officer of the Company since December 2013. Mr. Wan is also Managing Director of HK Electric and a Director of all of the subsidiaries of the Company. He has worked for the Power Assets Group and the Group since 1978, holding various positions including Group Managing Director and Director of Engineering (Planning & Development) of Power Assets, a listed company, and Chief Executive Officer of Powercor Australia Limited and CitiPower Pty., associate companies of the Power Assets Group in Australia. Mr. Wan acts as an Executive Director and a Director of the substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely Power Assets and Quickview Limited respectively. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology, an Honorary Fellow of The Hong Kong Institution of Engineers and a Fellow of The Hong Kong Management Association. Mr. Wan is a member of the Audit Committee of The University of Hong Kong. He was previously Vice Chairman of the Engineers Registration Board of Hong Kong.

CHAN Loi Shun

Aged 58. Appointed to the Boards of the Trustee-Manager and the Company since their incorporation in September 2013. Mr. Chan is also a Director of all the subsidiaries of the Company including HK Electric. He is an Executive Director and Chief Financial Officer of CKI and an Executive Director of Power Assets. Mr. Chan joined Hutchison Whampoa Limited ("HWL") in January 1992 and has been with the CK Group since May 1994. All the companies mentioned above, except the Trustee-Manager, HK Electric and HWL, are listed companies. Mr. Chan acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO, namely CKI, Power Assets and Quickview Limited. Mr. Chan is a fellow of the HKICPA and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

CHEN Daobiao

Aged 52. Appointed to the Boards of the Trustee-Manager and the Company in May 2018. Mr. Chen is also a Director and the Co-General Manager (Transmission & Distribution) of HK Electric. He is the Vice President of State Grid International Development Co., Limited and a director of State Grid International Development Limited. State Grid International Development Co., Limited and State Grid International Development Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. He previously served as Senior Vice President of State Grid Shanghai

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

Electric Power Company, Deputy Director General of the Infrastructure Department of State Grid Corporation of China ("State Grid"), Senior Vice President of Economic Information Bureau of Global Energy Interconnection Development and Cooperation Organisation in the People's Republic of China, and Vice President of CPFL Energia, a listed company in Brazil. Mr. Chen holds a Bachelor Degree in Power System and Automation from Huazhong University of Science and Technology and a Master Degree in Business Administration from Royal Melbourne Institute of Technology.

CHENG Cho Ying, Francis

Aged 64. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Cheng is also a Director of HK Electric and serves as its Operations Director. Mr. Cheng has worked for the Group since 1979. He holds a Bachelor's degree in Chemistry and is a Fellow of the Royal Society of Chemistry in the United Kingdom. He is also a Fellow of The Hong Kong Institution of Engineers.

BOARDS OF DIRECTORS AND MANAGEMENT TEAM

NON-EXECUTIVE DIRECTORS

LI Tzar Kuoi, Victor
Deputy Chairman of the Company Board

Aged 56. Appointed to the Boards of the Trustee-Manager and the Company, and as Deputy Chairman of the Company Board in November 2014. Mr. Li is also a Director of HK Electric and a Non-executive Director of Power Assets. He is the Chairman and Group Co-Managing Director of CK Hutchison, and the Chairman and Managing Director, and the Chairman of the Executive Committee of CK Asset Holdings Limited ("CK Asset"). Mr. Li is the Chairman of CKI and CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences"). All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mr. Li is also the Deputy Chairman of Li Ka Shing Foundation Limited and Li Ka Shing (Global) Foundation, the Member Deputy Chairman of Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. He serves as a member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Hong Kong Special Administrative Region, and Vice Chairman of the Hong Kong General Chamber of Commerce (the "Chamber"). Mr. Li is the Honorary Consul of Barbados in Hong Kong. He acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. He was previously a Director and the Co-Chairman of Husky Energy which was delisted on 5 January 2021 following its combination with Cenovus Energy. Mr. Li holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and a degree of Doctor of Laws, honoris causa (LL.D.).

Fahad Hamad A H AL-MOHANNADI

Aged 65. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Al-Mohannadi was previously the Managing Director and the General Manager of Qatar Electricity & Water Co. which is listed on the Qatar Stock Exchange until his retirement on 31 December 2020. Mr. Al-Mohannadi holds a Bachelor's degree in Mechanical Engineering.

Ronald Joseph ARCULLI

Aged 82. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Arculli is a practising solicitor and was a Member of the Legislative Council of Hong Kong from 1988 to 2000, representing the Real Estate and Construction functional constituency between 1991 and 2000. He was a non-official member of the Executive Council of the Hong Kong Special Administrative Region from November 2005 to June 2012, and served as Convenor from October 2011 to June 2012. He has a distinguished record of public service and has served on numerous government committees and advisory bodies. Mr. Arculli is an Independent Non-executive Director of Hang Lung Properties Limited, and is a Non-executive Director of HKR International Limited, Sino Hotels (Holdings) Limited, Sino Land Company Limited and Tsim Sha Tsui Properties Limited. He was previously an Independent Non-executive Director of HKEX. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies.

DUAN Guangming

Aged 55. Appointed to the Boards of the Trustee-Manager and the Company in February 2019. Mr. Duan is also a Director of HK Electric. He is the Senior Vice President of State Grid International Development Co., Limited. Since 1994, he has worked for State Power Corporation of China, State Grid and its subsidiaries, and has previously served as Deputy Director General of Administration Office of State Grid, Director General of State Grid Representative Office in Hong Kong, Director General of State Grid Representative Office in India, and Director and General Manager of State Grid Overseas Investment Limited, responsible for international financing, overseas investments and overseas assets operation and management. State Grid and State Grid International Development Co., Limited are substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Duan holds a Master Degree in Heating, Gas Supply, Ventilating and Air Conditioning Engineering from Tongji University.

Deven Arvind KARNIK

Aged 53. Appointed to the Boards of the Trustee-Manager and the Company in June 2015. He is also a Director of HK Electric. Mr. Karnik is the Head of Infrastructure at Qatar Investment Authority ("QIA"). Prior to joining QIA in 2013, Mr. Karnik worked for about 7 years in Hong Kong where he was a Managing Director at Morgan Stanley and a Managing Director at Dresdner Kleinwort. Mr. Karnik holds a Bachelor of Commerce degree and is a member of the Institute of Chartered Accountants in England and Wales.

ZHU Guangchao

Aged 53. Appointed to the Boards of the Trustee-Manager and the Company in May 2017. Mr. Zhu is also a Director of HK Electric. He is the Vice Chief Engineer and Director General of International Cooperation Department of State Grid, a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO, Chairman of National Grid Corporation of the Philippines, and Vice Chairman of the Board of Directors of Redes Energéticas Nacionais, SGPS, S.A., a listed company and the national electric and gas grid corporation of Portugal. He previously served as Managing Director, President, Senior Vice President and Chief Executive Officer of State Grid International Development Co., Limited, Director General of International Cooperation Department of State Grid and Director of State Grid International Development Co., Limited, Deputy Director General of State Grid Representative Office in the Philippines, Chief Executive Adviser, Board Director and Deputy Chief of Project Team of National Grid Corporation of the Philippines, and Deputy Director General of Finance Department of State Grid. Mr. Zhu holds a Master Degree in Power System and Automation and a Master Degree in Business Administration.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FONG Chi Wai, Alex

Aged 64. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Dr. Fong is also a Director of HK Electric. He was CEO of the Chamber from 2006 to 2011. Prior to joining the Chamber, he served in the civil service for over 25 years, holding various senior positions in the Government of Hong Kong. He has a long record of public service providing both operational and policy-formulation expertise. Dr. Fong is an Independent Non-executive Director of Glory Mark Hi-Tech (Holdings) Limited, TOM Group Limited ("TOM Group") and HPHMPL which is the trustee-manager of HPH Trust. All the companies mentioned above, except the Trustee-Manager, HK Electric and HPHMPL, are listed companies, and HPH Trust is a listed business trust. He was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. Dr. Fong holds a Bachelor of Social Science degree in Business and Economics, a Master of Technology Management degree in Global Logistics Management, a Master of Science degree in Global Finance, a Doctor of Business Administration degree and a Doctor of Philosophy degree.

BOARDS OF DIRECTORS AND MANAGEMENT TEAM

KWAN Kai Cheong

Aged 71. Appointed to the Boards of the Trustee-Manager and the Company in January 2015. Mr. Kwan is also a Director of HK Electric. He is Managing Director of Morrison & Company Limited, a business consultancy firm. Mr. Kwan is also the chairman of the board of G.T. Land Holdings Limited, a commercial property company in the People's Republic of China. Mr. Kwan worked for Merrill Lynch & Co., Inc. for over 10 years during the period from 1982 to 1993, with his last position as President for its Asia Pacific region. He was formerly Joint Managing Director of Pacific Concord Holding Limited. Mr. Kwan is an Independent Non-executive Director of Greenland Hong Kong Holdings Limited, Henderson Sunlight Asset Management Limited (as manager of Sunlight Real Estate Investment Trust), Beijing Energy International Holding Co., Ltd. (formerly known as Panda Green Energy Group Limited), Win Hanverky Holdings Limited and CK Life Sciences and a Non-executive Director of China Properties Group Limited, all being listed companies (except Sunlight Real Estate Investment Trust being a listed real estate investment trust). He was previously an Independent Non-executive Director of Galaxy Resources Limited and Dynagreen Environmental Protection Group Co., Ltd., both being listed companies. Mr. Kwan holds a Bachelor of Accountancy (Honours) degree and is a fellow of the HKICPA, The Institute of Chartered Accountants in Australia and The Hong Kong Institute of Directors Limited. He completed the Stanford Executive Program in 1992.

LEE Lan Yee, Francis

Aged 80. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Lee is also a Director of HK Electric. Mr. Lee was previously an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He had served the Power Assets Group for over 40 years in various capacities and while being Director & General Manager (Engineering) from 1997 to 2008, Mr. Lee was responsible for all the engineering activities of the Power Assets Group, including the development and operation of power generation, transmission and distribution systems. He holds a Bachelor of Science degree and a Master of Science degree in Engineering. He is a Chartered Engineer and a Fellow of the Institute of Mechanical Engineers in Hong Kong and the United Kingdom.

George Colin MAGNUS

Aged 85. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. Mr. Magnus is also a Director of HK Electric. He was previously the Chairman of Power Assets from 1993 to 2005, a Non-executive Director from 2005 to 2012 and an Independent Non-executive Director until January 2014. He is a Non-executive Director of CK Hutchison. He is also a Non-executive Director of CKI having served previously as Deputy Chairman of the company. He was previously Deputy Chairman and then a Non-executive Director of Cheung Kong (Holdings) Limited and HWL. All of these companies mentioned above, except the Trustee-Manager, HK Electric, Cheung Kong (Holdings) Limited and HWL, are listed companies. Mr. Magnus acts as a Director of a number of substantial Holders of Share Stapled Units for the purpose of Part XV of the SFO. Mr. Magnus was previously a Director of Husky Energy which was delisted on 5 January 2021 following its combination with Cenovus Energy. He holds a Master's degree in Economics.

Donald Jeffrey ROBERTS

Aged 69. Appointed to the Boards of the Trustee-Manager and the Company in December 2013. He is also a Director of HK Electric. Mr. Roberts is an Independent Non-executive Director of CK Asset, Queen's Road Capital Investment Ltd. and CK Life Sciences, all being listed companies. He is also an Independent Non-executive Director of Welab Bank Limited and Welab Capital Limited. Mr. Roberts joined the HWL Group in 1988 and was the Group Deputy Chief Financial Officer of HWL from 2000 until his retirement in 2011. Mr. Roberts was a Member of the Listing Committee of the Main Board and GEM of the Stock Exchange from July 2015 to July 2020. He was previously a member of the Executive Committee of The Canadian Chamber of Commerce in Hong Kong and is currently Governor of the chamber. He previously served as a Governor of the Canadian International School of Hong Kong for the periods between 1998 to 2004, and between 2006 to 2012 and was also a member on its Finance & Administration Committee. Mr. Roberts served as a member, including as the Deputy Chairman, of the Professional Conduct Committee of the HKICPA for nine years. Mr. Roberts holds a Bachelor of Commerce degree. He is a Chartered Accountant with the Chartered Professional Accountants of Canada, Alberta and British Columbia, and also a Fellow of the HKICPA.

Ralph Raymond SHEA

Aged 87. Appointed to the Boards of the Trustee-Manager and the Company in October 2015. Mr. Shea is also a Director of HK Electric. He is an Independent Non-executive Director of Power Assets, a listed company and a substantial Holder of Share Stapled Units for the purpose of Part XV of the SFO. He is a solicitor of England and Wales and of Hong Kong.

ALTERNATE DIRECTORS

WOO Mo Fong, Susan (alias CHOW WOO Mo Fong, Susan)

Aged 67. Appointed Alternate Director to Mr. Fok Kin Ning, Canning, the Chairman of the Boards of the Trustee-Manager and the Company, in November 2014. She is also an Alternate Director of HK Electric. Mrs. Chow was an Executive Director of the Trustee-Manager and the Company from December 2013 to November 2014 and a Director of HK Electric from January 1996 to November 2014. Mrs. Chow is a Non-executive Director of CK Hutchison, a Director of HTAL, an Independent Non-executive Director of HKEX, and an Alternate Director of CKI. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. Mrs. Chow acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of a company controlled by certain substantial Holders of Share Stapled Units. Mrs. Chow is a qualified solicitor and holds a Bachelor's degree in Business Administration.

Frank John SIXT

Aged 69. Appointed Alternate Director to Mr. Victor T K Li, the Deputy Chairman of the Company Board and Non-executive Director of the Trustee-Manager and the Company, in June 2015. He is also an Alternate Director of HK Electric. Mr. Sixt is an Executive Director, Group Finance Director and Deputy Managing Director of CK Hutchison, the Non-executive Chairman of TOM Group, an Executive Director of CKI and a Non-executive Director of TPG Telecom. He is also a Director of HTAL and Cenovus Energy, and an Alternate Director of HTAL. All the companies mentioned above, except the Trustee-Manager and HK Electric, are listed companies. He has almost four decades of legal, global finance and risk management experience, and possesses deep expertise in overseeing financial reporting system, risk management and internal control systems as well as sustainability issues and related risks. Mr. Sixt acts as a Director of certain substantial Holders of Share Stapled Units within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial Holders of Share Stapled Units. Mr. Sixt is also a Director of Husky Energy which was delisted on 5 January 2021 following its combination with Cenovus Energy. He holds a Master's degree in Arts and a Bachelor's degree in Civil Law, and is a member of the Bar and of the Law Society of the Provinces of Québec and Ontario, Canada.

MANAGEMENT TEAM OF THE COMPANY

CHOI Wai Man

Aged 61, General Manager (Customer Services), has been with the Group since October 1981. He has over 39 years of experience in electricity supply and customer services. He holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration. He is a Chartered Engineer, and a Fellow of The Hong Kong Institution of Engineers and a member of The Institution of Engineering and Technology in the United Kingdom.

CHOW Fo Shing

Aged 51, General Manager (Generation), has been with the Group since September 1994. He has over 26 years of experience in electricity generation. He holds a Bachelor of Engineering degree in Mechanical Engineering and a Master of Science degree in Mechanical Engineering.

HO Yin Piu, Bill

Aged 50, General Manager (Corporate Development), joined the Group in January 2019. He has over 27 years of experience in managing the corporate development and business operations of power utilities in Mainland China and Hong Kong. He holds a Bachelor of Engineering degree, a Master's degree in Business Administration, and a Master of Practising Accounting degree. He is a Chartered Engineer, and a member of The Hong Kong Institution of Engineers and The Institution of Engineering and Technology in the United Kingdom.

IP Sung Tai

Aged 62. General Manager (Transmission & Distribution), has been with the Group since October 1981. He has over 39 years of experience in electricity supply. He holds a Master of Science degree in Electrical Engineering. He is a Chartered Engineer and Registered Professional Engineer, and a member of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology in the United Kingdom and the Institution of Engineers in Australia.

BOARDS OF DIRECTORS AND MANAGEMENT TEAM

KWAN Ying Leung

Aged 60. General Manager (Projects), has been with the Group since October 1983. He has over 30 years of experience in the management and execution of power generation projects. He holds a Bachelor of Science degree in Engineering. He is a Chartered Engineer, and a member of The Hong Kong Institution of Engineers and The Institution of Mechanical Engineers in the United Kingdom.

WAN Wai Kin, Mullar

Aged 62, General Manager (Information Technology), has been with the Group since July 1993. He has over 38 years of local and overseas experience in software engineering, consulting and information technology management. He holds a Master of Science degree in Information Management. He is a member of the Hong Kong Computer Society and a Fellow of The British Computer Society.

WONG Kim Man

Aged 60. Chief Financial Officer, has been with the Group since September 2010. He has over 35 years of experience in financial management and accounting. He holds a Bachelor's and a Master's degree in Business Administration. He is also a member of the HKICPA and the American Institute of Certified Public Accountants.

WONG Yuk Keung, Arthur

Aged 63. General Manager (Group Commercial), has been with the Group since January 1982. He was engaged in the construction of Lamma Power Station upon joining the Power Assets Group and subsequently worked in and was promoted to the head of the various departments in the Group Commercial Division. He holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering and a Master's degree in Business Administration.

WU Kwok Kwong, Dennis

Aged 56. General Manager (Human Resources), joined the Group in June 2014. He has over 25 years of experience in human resources management and administration gained from organisations in both private and public sectors in Hong Kong. He holds a Master of Science degree in Training and is a Professional Member of the Hong Kong Institute of Human Resource Management and a Member of the Institute of Hospitality (UK).

YEUNG Yuk Chun, Mimi

Aged 57. General Manager (Public Affairs), has been with the Group since July 2003. She has over 34 years of experience in journalism and corporate communications. She holds a Bachelor of Arts degree and a Master's degree in Public Administration.

TRUSTEE-MANAGER SECRETARY AND COMPANY SECRETARY

NG Wai Cheong, Alex

Aged 51. Group Legal Counsel and Company Secretary, has been with the Group since November 2008. He is also the Group Legal Counsel and Company Secretary of Power Assets. He has over 20 years of experience in legal, regulatory and compliance fields. Mr. Ng holds a Bachelor's degree in Science and a Bachelor's degree in Laws. He was admitted as a solicitor in Hong Kong and in England and Wales.

COMBINED REPORT OF THE DIRECTORS

The Boards have pleasure in submitting the annual report together with the audited consolidated financial statements of the Trust and of the Company for the year ended 31 December 2020 (the "consolidated financial statements of the Trust and of the Company").

The Trustee-Manager Board also presents the audited financial statements of the Trustee-Manager for the year ended 31 December 2020.

Principal activities

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

The principal activity of the Company is investment holding, whilst the principal activities of the Group are the generation and supply of electricity in Hong Kong Island and Lamma Island. Particulars of the Company's subsidiaries are set out in note 18 to the consolidated financial statements of the Trust and of the Company.

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

Business review

A review of the business of Trust Group (of which the Group forms part) during the year and an indication of likely future developments in the Trust Group's business are provided in the Chairman's Statement on pages 6 to 8, CEO's Report on pages 14 to 43, Financial Review on pages 44 to 46 and Performance Highlights on pages 2 and 3.

The principal risks and uncertainties facing the Trust Group and how the Trust Group manages these risks and uncertainties are described in Risk Management and Risk Factors on pages 81 to 85.

The Trust Group's relationships with its key stakeholders, environmental policies and performance is discussed in the CEO's Report on pages 14 to 43, whilst its compliance with the relevant laws and regulations that have a significant impact on the Trust Group are included in Risk Factors on pages 83 to 85 and Combined Corporate Governance Report on pages 62 to 80.

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

Results

The results for the year ended 31 December 2020 and the financial position as at that date of the Trust Group and the Group are set out in the consolidated financial statements of the Trust and of the Company on pages 94 to 173.

The results for the year ended 31 December 2020 and the financial position as at that date of the Trustee-Manager are set out in the financial statements of the Trustee-Manager on pages 176 to 183.

Distributions and dividends

Distributable income

Distributable income and distributable income per Share Stapled Unit are set out in note 14 to the consolidated financial statements of the Trust and of the Company.

Distribution per Share Stapled Unit

The Trustee-Manager Board has declared a final distribution by the Trust of HK16.09 cents (2019: HK16.09 cents) per Share Stapled Unit for the year ended 31 December 2020, payable on 13 April 2021 to Holders of Share Stapled Units whose names appear on the Share Stapled Units Register on 31 March 2021. This, together with the interim distribution of HK15.94 cents (2019: HK15.94 cents) per Share Stapled Unit, brings the total distribution to HK32.03 cents per Share Stapled Unit for the year ended 31 December 2020 (2019: HK32.03 cents).

In order to enable the Trust to pay the interim distribution and the final distribution, the Company Board declared the payments of a first interim dividend and a second interim dividend, in respect of each of the Company's ordinary shares held by the Trustee-Manager, of HK15.94 cents (2019: HK15.94 cents) and HK16.09 cents (2019: HK16.09 cents) respectively for the year ended 31 December 2020.

The Trustee-Manager Board does not recommend the payment of a dividend for the year ended 31 December 2020.

COMBINED REPORT OF THE DIRECTORS

Share capital and Share Stapled Units

Share capital

Details of the share capital of the Company are set out in note 30(b) to the consolidated financial statements of the Trust and of the Company. There was no movement during the year.

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

Share Stapled Units

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

Donations

Charitable and other donations made by the Trust Group during the year amounted to approximately HK$1 million (2019: approximately HK$1 million).

Five-year financial summary

A five-year summary of the results and of the assets and liabilities of the Trust Group and the Group is set out on page 184.

Major customers and suppliers

Sales to the five largest customers combined was less than 30% of the Trust Group's total revenue for the years ended 31 December 2020 and 2019.

Purchases from the largest supplier of revenue items for the year represented 39% (2019: 25%) of the Trust Group's total purchases of revenue items, and purchases from the five largest suppliers combined accounted for 79.9% (2019: 76.1%) of the Trust Group's total purchases of revenue items for the year ended 31 December 2020.

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

Directors

The Directors of the Trustee-Manager and the Company in office during the year ended 31 December 2020 and up to the date of this report were Mr. Fok Kin Ning, Canning, Mr. Li Tzar Kuoi, Victor, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Ronald Joseph Arculli, Mr. Chan Loi Shun, Mr. Chen Daobiao, Mr. Cheng Cho Ying, Francis, Mr. Duan Guangming, Dr. Fong Chi Wai, Alex, Mr. Deven Arvind Karnik, Mr. Kwan Kai Cheong, Mr. Lee Lan Yee, Francis, Mr. George Colin Magnus, Mr. Donald Jeffrey Roberts, Mr. Ralph Raymond Shea and Mr. Zhu Guangchao.

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

Permitted indemnity

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

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

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

Directors' material interest in significant transaction, arrangement and contract

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

Management contracts

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

Arrangement to purchase Share Stapled Units, shares or debentures

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

Equity-linked agreements

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

Purchase, sale or redemption of Share Stapled Units

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

None of the Trust, the Trustee-Manager, the Company nor any of their subsidiaries purchased, sold or redeemed any of issued Share Stapled Units during the year ended 31 December 2020.

Pre-emptive rights

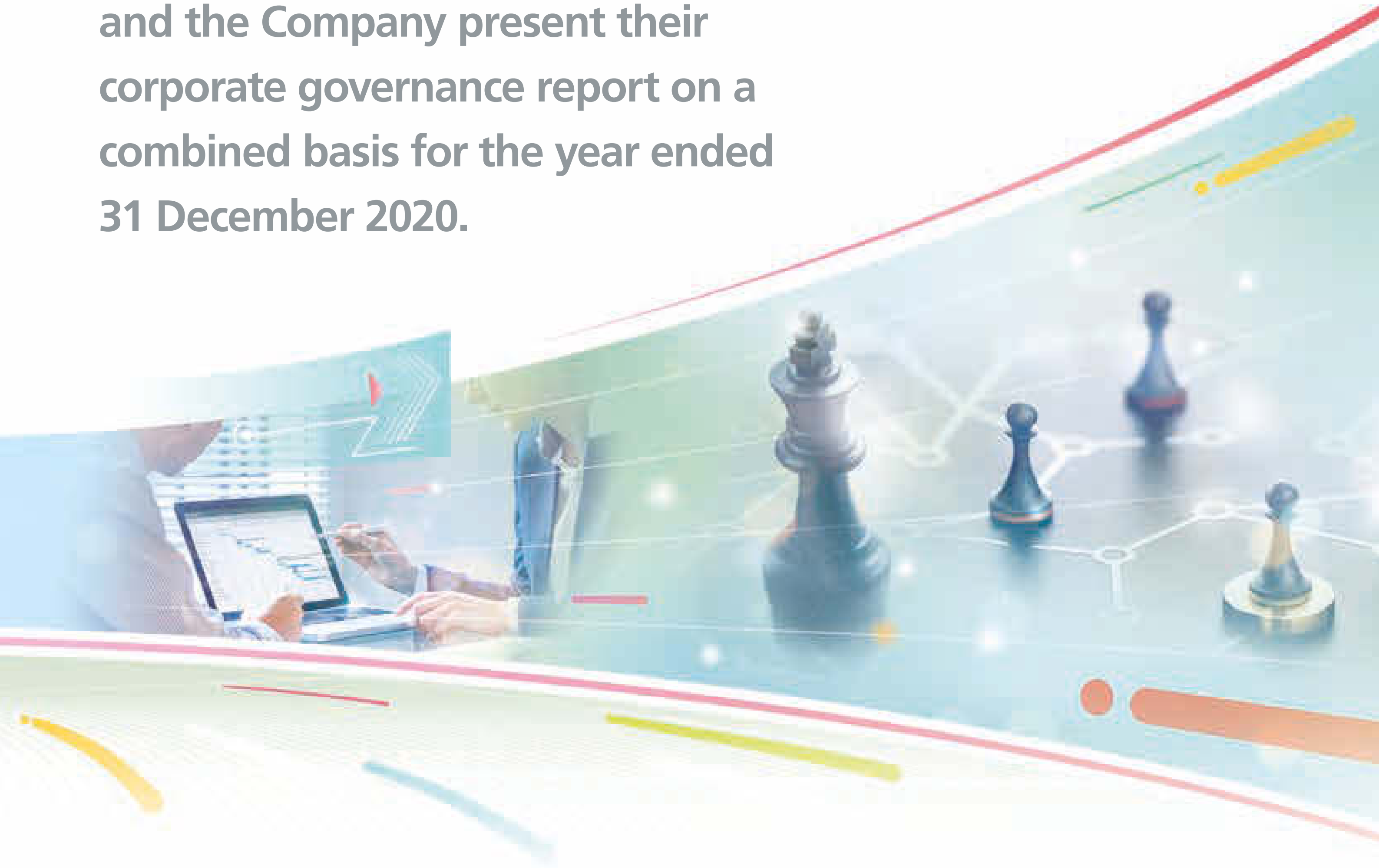
There is no provision for pre-emptive rights under the Company's amended and restated articles of association and the laws of the Cayman Islands which would oblige the Company to offer new Share Stapled Units on a pro-rata basis to existing Holders of Share Stapled Units.

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

Fok Kin Ning, Canning
Chairman
Hong Kong, 16 March 2021

COMBINED CORPORATE GOVERNANCE REPORT

The Boards of the Trustee-Manager and the Company present their corporate governance report on a combined basis for the year ended 31 December 2020.



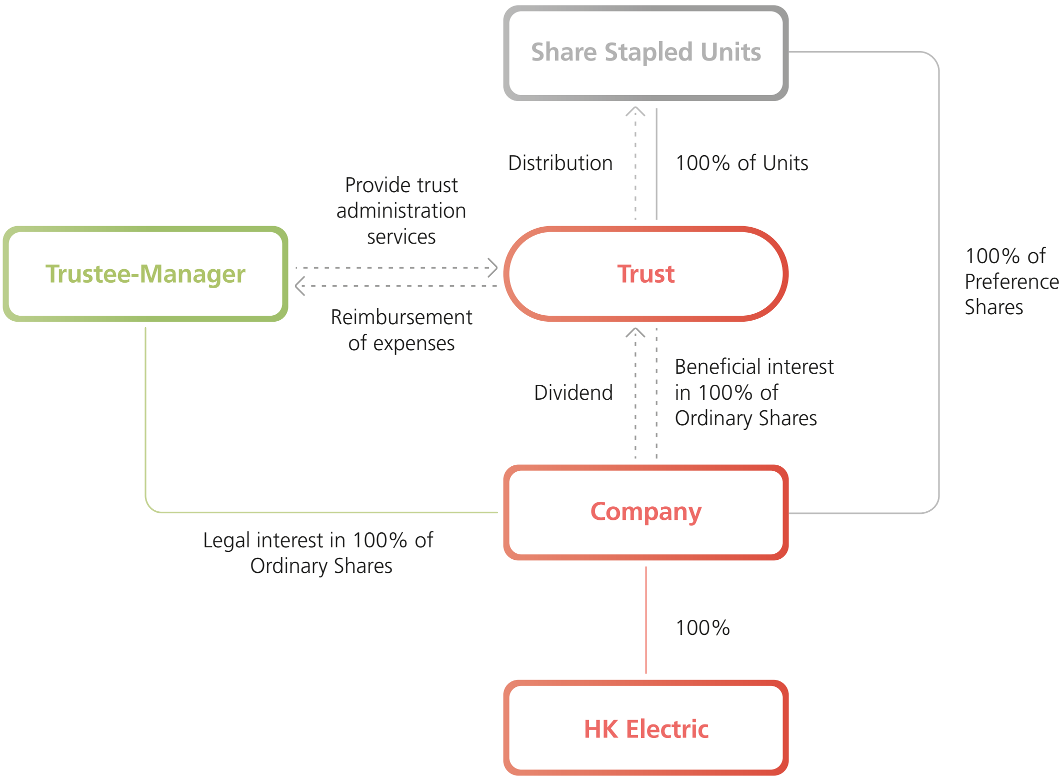
Corporate Governance

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

The Trust, managed by the Trustee-Manager, was constituted under the laws of Hong Kong on 1 January 2014 by the Trust Deed. The Trust and the Company are both listed on the Main Board of the Stock Exchange, and are subject to the provisions of the Listing Rules. Pursuant to the Trust Deed, the Trustee-Manager is responsible for compliance by the Trust with the Listing Rules applicable to the Trust and other relevant laws and regulations, the Company is responsible for compliance by the Company with the Listing Rules applicable to the Company and other relevant laws and regulations, and each of the Trustee-Manager and the Company will co-operate with each other to ensure that each party complies with the Listing Rules obligations and to co-ordinate disclosure to the Stock Exchange.

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2020, except as stated hereunder.

Structure of the Trust Group and the Share Stapled Units



Boards of Directors

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

The current Directors and their biographical information are set out in the "Boards of Directors and Management Team" section on pages 52 to 58 of the Annual Report. An updated list of Directors containing their biographical information is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of HKEX.

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

COMBINED CORPORATE GOVERNANCE REPORT

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

During 2020 the number of board and committee meetings and the attendance of each Director at these meetings and the combined 2020 annual general meeting are as follows:

	Company					Trustee-Manager			
Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Nomination Committee Meeting	Meetings between Chairman and Independent Non-executive Directors	Board Meetings	Audit Committee Meetings	Meetings between Chairman and Independent Non-executive Directors	Combined 2020 Annual General Meeting
Executive Directors									
Fok Kin Ning, Canning (Chairman)	4/4	–	1/1	1/1	2/2	4/4	–	2/2	√
Wan Chi Tin (Chief Executive Officer)	4/4	–	–	1/1	–	4/4	–	–	√
Chan Loi Shun	4/4	–	–	1/1	–	4/4	–	–	√
Cheng Cho Ying, Francis	4/4	–	–	1/1	–	4/4	–	–	√
Chen Daobiao	4/4	–	–	1/1	–	4/4	–	–	√
Non-executive Directors									
Victor T K Li (Deputy Chairman)	4/4	–	–	1/1	–	4/4	–	–	√
Fahad Hamad A H Al-Mohannadi	3/4	–	–	0/1	–	3/4	–	–	√
Ronald Joseph Arculli	4/4	2/3	–	1/1	–	4/4	2/3	–	√
Duan Guangming	4/4	–	–	1/1	–	4/4	–	–	√
Deven Arvind Karnik	4/4	–	–	1/1	–	4/4	–	–	√
Zhu Guangchao	2/4	–	–	1/1	–	2/4	–	–	x
Independent Non-executive Directors									
Fong Chi Wai, Alex	4/4	–	1/1	1/1	2/2	4/4	–	2/2	√
Kwan Kai Cheong	4/4	–	–	1/1	2/2	4/4	–	2/2	√
Lee Lan Yee, Francis	4/4	3/3	–	1/1	2/2	4/4	3/3	2/2	√
George Colin Magnus	4/4	–	–	1/1	2/2	4/4	–	2/2	√
Donald Jeffrey Roberts	4/4	3/3	1/1	1/1	2/2	4/4	3/3	2/2	√
Ralph Raymond Shea	4/4	–	–	1/1	2/2	4/4	–	2/2	√

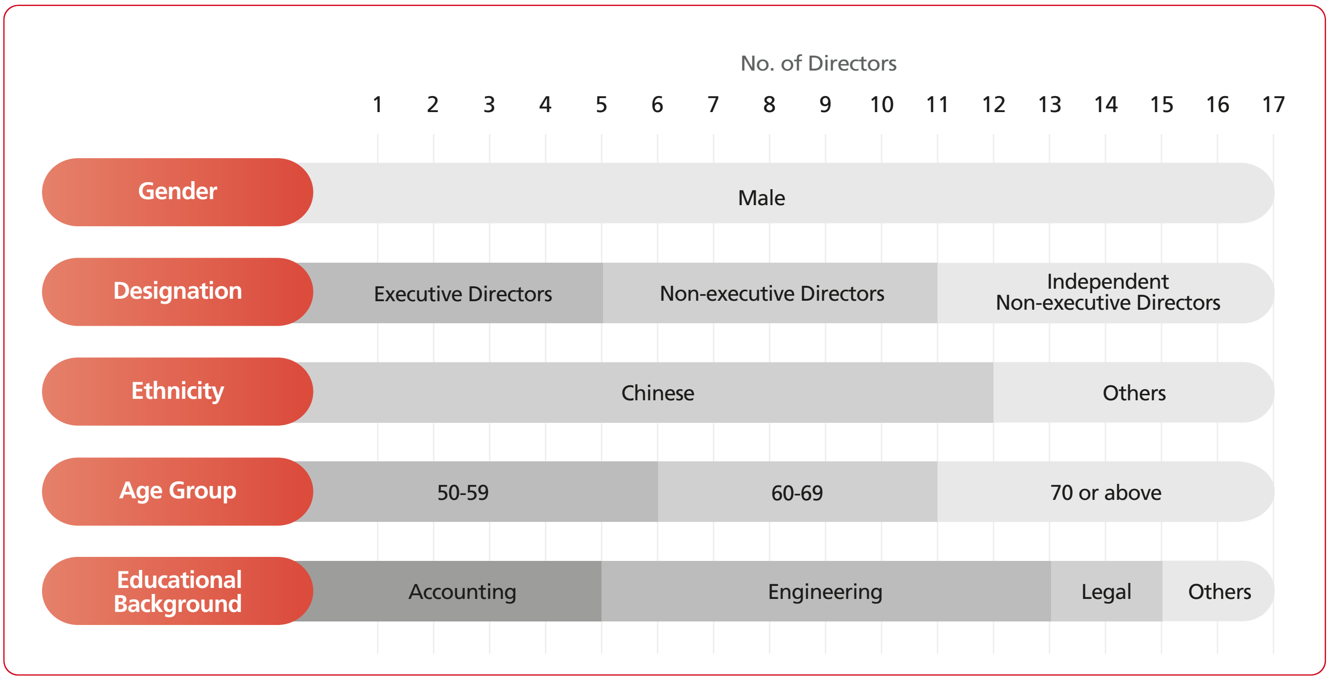
The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Trust Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

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

The full Boards are ultimately responsible for reviewing the structure, size, diversity profile and skills matrix of the Boards, appointment of new Directors and succession plan for Directors, and delegate their responsibility to the Nomination Committee of the Company. The Trustee-Manager and the Company adopted the Director Nomination Policy and the Board Diversity Policy which set out the approach and procedures for nomination and selection of Directors, and the approach to achieving diversity on the Boards respectively. These policies, as revised on 1 December 2020, are published on the Company's website.

Under the Board Diversity Policy, appointment to the Boards should be based on merit and attributes that the selected candidate will bring to the Boards with an aim to build an effective and complementary board with the skills, experience, expertise and diversity of perspectives appropriate for the Group's businesses. The Boards would also take into consideration the benefits of various aspects of diversity, including gender, age, ethnicity, cultural and education background, professional experience and qualifications and other factors that may be relevant from time to time.

The diversity profile of the Boards as at 31 December 2020 is as follows:



COMBINED CORPORATE GOVERNANCE REPORT

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

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

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

Directors retiring by rotation in accordance with clause 29.2(m) of the Trust Deed, article 16.21 of the Company's articles of association and code provision A.4.2 of the Corporate Governance Code and offering themselves for re-election at the forthcoming combined annual general meeting are Mr. Victor T K Li, Mr. Wan Chi Tin, Mr. Fahad Hamad A H Al-Mohannadi, Mr. Chan Loi Shun, Mr. Kwan Kai Cheong and Mr. Zhu Guangchao. Information relating to these Directors required to be disclosed under the Listing Rules is contained in the circular to Holders of Share Stapled Units dated 7 April 2021 (the "2021 Circular"). The Company has also expressed the view in the 2021 Circular that Mr. Kwan (an Independent Non-executive Director) who is eligible for re-election has met the independence factors set out in Rule 3.13 of the Listing Rules and is independent in accordance with the guidelines. None of these Directors has a service contract which is not determinable by the Trustee-Manager or the Company within one year without payment of compensation (other than statutory compensation).

Directors' Training

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

The Company also arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Trust Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions and completion of courses organised by professional bodies on the relevant topics also count towards continuous professional development training. The Directors have provided to the Trustee-Manager and the Company their records of continuous professional development training during 2020, and they have participated in training activities in the following manner:

1. Reading materials, e-trainings and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements
2. Reading materials on corporate governance, risk management and internal control
3. Reading materials, e-trainings and seminars on sustainability

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

Directors' Securities Transactions

The Boards have adopted the Model Code as their code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

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

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

The Trustee-Manager and the Company have established the Policy on Inside Information and Securities Dealing explaining the meaning of inside information and the illegality of insider dealing, and setting out the restrictions in securities dealing, preventive controls and reporting mechanism for all employees of the Group to comply with when they are in possession of confidential or unpublished inside information in relation to the Trustee-Manager and the Trust Group.

Directors' Responsibility for Financial Reporting and Disclosure

Annual and Interim Reports and Financial Statements

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

Accounting Policies

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

Accounting Records

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

Safeguarding Assets

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

Going Concern

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

Disclosure

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

COMBINED CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer of the Company are held by separate individuals, and are subject to retirement from their directorship by rotation and re-election once every three years at the annual general meeting. During 2020 the Chairman of the Boards was Mr. Fok Kin Ning, Canning and the Company's Chief Executive Officer was Mr. Wan Chi Tin. The Trustee-Manager does not appoint a Chief Executive Officer due to its specific and limited role to administer the Trust.

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

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

Independent Non-executive Directors

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

Mr. Kwan Kai Cheong, Mr. Donald Jeffrey Roberts and Mr. Ralph Raymond Shea, all Independent Non-executive Directors, have each provided an annual confirmation of his independence (which also covers his immediate family members) to the Trustee-Manager and the Company pursuant to Rule 3.13 of the Listing Rules. The Boards continue to consider Mr. Kwan, Mr. Roberts and Mr. Shea to be independent.

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

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

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Trustee-Manager and the Company in the SSUs, underlying SSUs and debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Trustee-Manager and the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept pursuant to section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Share Stapled Units

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

Notes:

(1) Such SSUs comprise:

(a) 2,700,000 SSUs held by a wholly-owned subsidiary of Li Ka Shing (Global) Foundation ("LKSGF"). By virtue of the terms of the constituent documents of LKSGF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSGF; and

(b) 5,170,000 SSUs held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Victor T K Li may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.

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

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

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Trustee-Manager and the Company had any interests or short positions in the SSUs, underlying SSUs or debentures of the Trust and the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Business

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

COMBINED CORPORATE GOVERNANCE REPORT

Nomination Committee of the Company

During the year the Company Board has changed the composition of the Nomination Committee of the Company to further enhance the efficiency of the nomination process of Directors. Prior to 1 December 2020, the committee is chaired by Mr. Fok Kin Ning, Canning (the Chairman of the Company Board) and, while its membership comprises all Directors of the Company, it is assisted by an ad hoc sub-committee (which is chaired by the Chairman of the Company Board and its membership, comprising a majority of Independent Non-executive Directors, is compliant with the requirements under the Listing Rules for a nomination committee) when discharging its responsibilities. With effect from 1 December 2020, the committee is chaired by Mr. Lee Lan Yee, Francis (an Independent Non-executive Director), and the other members are Mr. Victor T K Li (a Non-executive Director) and Mr. Ralph Raymond Shea (an Independent Non-executive Director).

The Nomination Committee reports directly to the Company Board. The principal responsibilities of the Nomination Committee are to review the structure, size, diversity profile and skills matrix of the Company Board, to facilitate the selection and nomination process, to assess the independence of Independent Non-executive Directors having regard to the criteria under the Listing Rules, and to make recommendations to the Company Board on the appointment or re-appointment of Directors and succession planning for Directors, as guided by the Director Nomination Policy and Board Diversity Policy. Committee members may seek independent professional advice where necessary to discharge their duties. The terms of reference of the Nomination Committee of the Company amended on 1 December 2020 are published on the Company's website and HKEX's website.

The Nomination Committee held a meeting in March 2020, during which it reviewed the structure, size and composition of the Company Board, and the independence of the Independent Non-executive Directors. The committee also considered and endorsed the ad hoc sub-committee's recommendation for the nomination of all the re-electing Directors for re-election at the 2020 annual general meeting, and recommended to the Company Board for the abovementioned nomination.

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

Remuneration Committee of the Company

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

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

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

The Remuneration Committee held a meeting in December 2020, during which it assessed the performance of the full time Executive Directors and management team of the Group and considered and determined the performance-based bonus payable to them in respect of the 2020 financial year and their remuneration for the next year. The committee also considered and approved their remuneration package for each of Mr. Wan Chi Tin as Chief Executive Officer, Mr. Chan Loi Shun as Executive Director, Mr. Cheng Cho Ying, Francis as Operations Director and Mr. Chen Daobiao as Co-General Manager (Transmission & Distribution). None of the Directors and members of the management team participated in the determination of their own remuneration. The committee, authorised by the Company Board, also reviewed and approved the 2021 wage and salary review proposal.

The emoluments paid to each Director of the Company for the 2020 financial year are shown in note 12 to the financial statements on page 121 of the Annual Report. The remuneration paid to members of the management team for the 2020 financial year is disclosed by bands also in note 12 on page 122 of the Annual Report.

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

Trustee-Manager Audit Committee and Company Audit Committee

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

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

Each of the Trustee-Manager Audit Committee and the Company Audit Committee held three meetings on a combined basis in 2020. During the meetings, members reviewed and considered matters including the financial statements and Annual Report for the year ended 31 December 2019, the audit fee and auditor engagement letter for the 2019 financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committees in relation to the audit of the 2019 financial statements, the Group's risk management reports as of December 2019 and June 2020, the assessment and declaration in respect of the effectiveness of the risk management and internal control systems of the Group for the year 2019 and for the half year to 30 June 2020, the effectiveness of the Company's internal audit function, the internal audit plan for 2020, the financial statements for the six months ended 30 June 2020, the corporate governance structure, the compliance of the Corporate Governance Code, the disclosure in the Corporate Governance Report 2019, the corporate governance disclosure in the Interim Report 2020, the disclosure in the Sustainability Report 2019, the continuous professional development activities undertaken by Directors and senior managers during 2019 and the six months ended 30 June 2020, KPMG's 2020 audit plan and all internal audit reports compiled during the year. In addition, the Company Audit Committee also reviewed and considered the Group's outstanding litigation and claims as at 31 December 2019 and 30 June 2020, and the statistics on bribery activities and illegal or unethical behaviour of the Group for the year 2019, for the half year to 30 June 2020 and for the nine months period to 30 September 2020.

COMBINED CORPORATE GOVERNANCE REPORT

Representatives from KPMG were invited to attend two of the meetings of the Trustee-Manager Audit Committee and the Company Audit Committee and they discussed the 2019 audited financial statements, the 2020 audit plan and various accounting issues with the members of the Audit Committees.

Subsequent to the financial year end, the Trustee-Manager Audit Committee and the Company Audit Committee met in March 2021 to review the consolidated financial statements of the Trust and of the Company and the financial statements of the Trustee-Manager for the year ended 31 December 2020, and the Annual Report 2020 including the accounting principles and practices adopted by the Group, in conjunction with the external auditor. The Audit Committees resolved to recommend for the Boards' approval of the financial statements and also the re-appointment of KPMG as the external auditor of the Trust, the Trustee-Manager and the Company for 2021.

Risk Management and Internal Control

Introduction

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

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

At the meetings held in March and July 2020, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the effectiveness of the risk management and internal control systems of the Trust, the Company and the Trustee-Manager for the year 2019 and for the half year ended 30 June 2020 respectively, and considered the systems are effective and adequate.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the corporate strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks at corporate and operating unit levels in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 81 to 85 of the Annual Report.

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

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

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

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

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

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

The Internal Audit Department, reporting to an Executive Director and the Trustee-Manager Audit Committee and the Company Audit Committee, provides independent assurance as to the existence and effectiveness of the risk management activities and internal controls in business operations. Staff members of the department are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, the Internal Audit Department prepares its yearly audit plan which is reviewed and approved by the Audit Committees. Its internal audit reports on the Group's operations are also reviewed and considered by the Trustee-Manager Audit Committee and the Company Audit Committee. The scope of work performed includes financial, operations and information technology review, recurring and ad hoc audit, fraud investigation, productivity efficiency review and laws and regulations compliance review. The Internal Audit Department follows up audit recommendations on implementation by operating units and the progress is reported to the Audit Committees regularly.

With the assistance of Internal Audit Department, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committees which enables them to assess control of the Company and the effectiveness of risk management, any significant failings or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Company's processes for financial reporting and Listing Rules compliance. They also

COMBINED CORPORATE GOVERNANCE REPORT

review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Division general managers and department heads conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their results to the Audit Committees and the Boards.

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

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

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

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

Code of Conduct

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

The Trustee-Manager and the Group prohibit any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Trustee-Manager's and the Group's business is prohibited. An anti-bribery control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws and the Code of Conduct. There is a whistle-blowing procedure, which is set out in the Code of Conduct, to allow employees and external parties such as customers, suppliers, debtors and creditors to report possible improprieties, and actual or alleged violations, including fraud and illegal acts. Investigations are carried out on all reported cases, the results of which are reported to the Company Audit Committee and the Chief Executive Officer, and disciplinary and remedial actions are taken as appropriate. During 2020, there were two reported cases not involving any breach of the Code of Conduct, bribery or corruption.

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

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

Sustainability Governance

The Trustee-Manager and the Group are committed to the long-term sustainability of businesses and the communities in which businesses are conducted. The Company Board has overall responsibility for the Group's sustainability strategy and reporting and adopts a proactive approach.

During the year, to further strengthen the Group's sustainability governance structure, the Company Board has established its Sustainability Committee on 1 December 2020 to oversee management and advise the Company Board on the development and implementation of the sustainability initiatives of the Group, including reviewing the related policies and practices, and assessing and making recommendations on matters concerning the Group's sustainability development and risks. The Sustainability Committee is chaired by Mr. Wan Chi Tin (the Chief Executive Officer), and the other members are Mr. Cheng Cho Ying, Francis (an Executive Director) and Dr. Fong Chi Wai, Alex (an Independent Non-executive Director).

The terms of reference of the Sustainability Committee of the Company are published on the Company's website and HKEX's website.

Sustainability reporting is one of the important platforms for stakeholder engagement. The Trust Group's Sustainability Report 2020 sets out its approach, commitments and strategy to sustainability, highlights its key achievements in 2020 with regard to its sustainability performance, outlines its plans and targets for the future, and addresses other concerns and comments raised by its stakeholders on its sustainability performance and reporting. The report was reviewed by the Sustainability Committee in a meeting held in March 2021 subsequent to the financial year end, and was unanimously recommended by committee members for the Boards' approval.

The Trust Group's Sustainability Report 2020, to be published at the same time of this Report in April 2021, is available on the Company's website and HKEX's website.

Company Secretary

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

The appointment and removal of the Company Secretary is subject to approval of the Boards. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng, the Company Secretary of the Trustee-Manager and the Company, is an employee of the Group and has day-to-day knowledge of the Group's affairs. He has received no less than 15 hours of relevant professional training during the year to refresh his skills and knowledge.

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External Auditor

Independence

KPMG, the external auditor and Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance, have confirmed that they have been, for the year ended 31 December 2020, independent of the Trustee-Manager, the Trust Group and the Group in accordance with the independence requirements of the HKICPA.

Rotation of Engagement Partner

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

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Reports on pages 88 to 93 and pages 174 and 175 of the Annual Report.

Remuneration

An analysis of the fees of KPMG is shown in note 10 to the consolidated financial statements of the Trust and the Company on page 119 of the Annual Report and note 4 to the financial statements of the Trustee-Manager on page 182 of the Annual Report.

Re-appointment

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

Distribution Policy

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

Holders of Share Stapled Units

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

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

The Trustee-Manager and the Company handle registration of Share Stapled Units and related matters for Holders of Share Stapled Units through Computershare Hong Kong Investor Services Limited, the share stapled units registrar, whose contact details are set out on page 189 of the Annual Report.

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

2020 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and Holders of Share Stapled Units. The 2020 annual general meeting was held at Harbour Grand Kowloon on 13 May 2020. With the outbreak and spreading of the COVID-19 pandemic, a live webcast of the 2020 annual general meeting proceedings was arranged for the registered Holders of Share Stapled Units not attending the meeting in person to access online.

The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to Holders of Share Stapled Units on 3 April 2020 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committees, the Remuneration Committee and the Nomination Committee respectively were available at the meeting to answer questions from the Holders of Share Stapled Units. Representatives from KPMG, the external auditor, were also available at the meeting to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to Holders of Share Stapled Units during the meeting. Computershare Hong Kong Investor Services Limited, the share stapled units registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by Holders of Share Stapled Units at the meeting and the percentage of votes cast in favour of each of them is set out below:

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Ordinary Resolutions

– Audited Financial Statements of the Trust and the Company and of the Trustee-Manager, the Combined Report of the Directors, and the Independent Auditor's Reports for the year ended 31 December 2019 (99.999999%);

– Election of Mr. Ronald Joseph Arculli (70.662799%), Mr. Cheng Cho Ying, Francis (96.367530%), Dr. Fong Chi Wai, Alex (99.593116%), Mr. Lee Lan Yee, Francis (96.609933%), Mr. George Colin Magnus (99.593116%) and Mr. Donald Jeffrey Roberts (96.013565%) as Directors;

– Re-appointment of KPMG as auditor of the Trust, the Trustee-Manager and the Company and authorisation of Directors of the Trustee-Manager and the Company to fix auditor's remuneration (98.972469%); and

– General mandate to Directors of the Trustee-Manager and the Company to issue and deal with additional Share Stapled Units (90.270455%).

Special Resolution

– Amendments to the Company's amended and restated articles of association and the Trust Deed (99.999598%)

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

Company's Website

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

Trust Deed and Memorandum and Articles of Association

At the 2020 annual general meeting of the Trust and the Company held on 13 May 2020, the Trust Deed and the Company's amended and restated articles of association were amended by passing a special resolution in order to allow the Trust and the Company to hold general meetings as hybrid meetings where Holders of Share Stapled Units may participate by means of electronic facilities in addition to physical attendance, and to provide for other flexibility in relation to the conduct of general meetings.

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

Interests and Short Positions of Holders of Share Stapled Units

As at 31 December 2020, Holders of Share Stapled Units (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange were as follows:

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

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

Notes:

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

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

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

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

Save as disclosed above, as at 31 December 2020, there was no other person (other than Directors or chief executives of the Trustee-Manager and the Company) who had interests or short positions in the SSUs or underlying SSUs of the Trust and the Company as recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Trustee-Manager, the Company and the Stock Exchange.

COMBINED CORPORATE GOVERNANCE REPORT

Public Float

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

Disclosure under the Trust Deed

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

(i) Any charges paid and payable out of the trust property of the Trust to the Trustee-Manager for the year ended 31 December 2020 are in accordance with the Trust Deed;

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

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

Conflict of Interests

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

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

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

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

The Company and Power Assets entered into a non-competition deed on 14 January 2014 (the "Non-Competition Deed") pursuant to which Power Assets agreed to the Company that save for the exceptions provided therein, Power Assets would not, and it would procure that none of its members would carry on, or be engaged in or interested in the business of generation, transmission, distribution and supply of electricity in Hong Kong. Power Assets has provided the Company with a written confirmation in respect of compliance by the Power Assets group with the terms of the Non-Competition Deed during the year ended 31 December 2020 and its consent to the inclusion of such confirmation in the Annual Report. A committee comprising all Independent Non-executive Directors has been formed with the responsibility to overseeing compliance by the Power Assets group with the Non-Competition Deed, and the committee has confirmed its view that Power Assets complied with the terms of the Deed during the year under review.

RISK MANAGEMENT

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

Risk management framework

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

Governance and oversight

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

Independent Assurance from Internal and External Auditors

"Top-down"

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

Identify and Manage Risks at Corporate Level

"Bottom-up"

Operating Units

Identify, Manage and Report Risks at Business Unit Level

Risk Management Framework Governance

COMPANY BOARD (Through Company Audit Committee)

Company Board/Company Audit Committee Oversight

- Has overall responsibility for the Group's risk management and internal control systems
- Determine and evaluate the nature and extent of the risks that the Group is willing to accept in pursuit of the Group's strategic and business objectives
- Discuss the risk management and internal control systems with management to ensure management has performed its duty to have effective systems

RISK MANAGEMENT COMMITTEE (Chaired by the Chief Executive Officer)

Risk Review, Communication and Confirmation to Company Board/Company Audit Committee

- Oversee the Group's risk profile and assess if key risks are appropriately mitigated
- Ensure that an ongoing review of the effectiveness of the risk management and internal control systems have been conducted and provide such confirmation to the Company Board, via the Company Audit Committee

MANAGEMENT

Risk & Control Monitoring

- Responsible for designing, implementing and monitoring the risk management and internal control systems
- Identify and monitor key corporate risks
- Provide confirmation to the Risk Management Committee on the effectiveness of the systems

OPERATING UNITS

Front-line Risk and Control Ownership

- Design, implement and monitor risks at business unit level, escalate promptly on relevant risk issues
- Provide assurance to the Risk Management Committee on the effectiveness of risk management and internal control activities at business unit level
- Seek continuous process improvement and reassessment

RISK MANAGEMENT

Risk management process

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

The risk identification process takes into account internal and external factors. These include economic, political, social, technological, environmental and new or updated Group strategy and regulations, as well as our stakeholders' expectations in these aspects. Risks are grouped into different categories to facilitate analysis. Each risk identified is analysed on the basis of likelihood and impact in accordance with the risk appetite set by the Company Board.

Action plans are in place to manage risks. The risk assessment process also includes a review of the control mechanisms for each risk and a rating of the effectiveness of each control.

The Group compiles a risk register which is updated and monitored on an ongoing basis, taking into account emerging risks which may have a material impact on the Group.

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

Fundamental to achieving our business goals is how we can effectively manage existing and emerging risks in different economic, social and political environments. A description of the Group's risk factors is shown on pages 83 to 85 of this Annual Report. The Group works to continually improve its risk management framework in order to keep pace with the changing business environment.

RISK FACTORS

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

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

Global and Hong Kong economic environment

The outbreak of COVID-19 has brought global economic activity to a near-standstill as countries impose measures such as lockdown, social distancing and quarantine to halt the spread of the virus. Escalating trade protectionism, heightened uncertainty over economic policy, rising geopolitical tensions and volatility in financial market movements have also brought uncertainties to the world economy and global financial market. Growth in the Hong Kong economy has been hindered by the virtual halt in tourist arrivals, contraction in business activities, and the US-China trade relationships which has had a dampening effect on Hong Kong's exports.

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

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

Health and safety

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

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

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

During the outbreak of COVID-19, the Group elevates the response level of its Influenza Pandemic Contingency Plan to emergency level and steps up the preventive and control measures in its operations with an aim to reduce the risk of infection to employees, contractors, visitors, customers and members of the public.

Environmental compliance

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

Failure to comply with these requirements could result in legal action against the Group under the APCO.

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

RISK FACTORS

Reliability of supply

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

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

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

The Group has a series of health and safety measures in place across its entire operation and implements contingency plans to ensure the potential impact of the COVID-19 pandemic on its services can be minimised.

Cyber security

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

The Group has taken a risk-based and integrated approach to combating cyber security risks. A robust Cyber Security Management Framework has been established with the implementation of an Information Security Management System which is based upon a defense-in-depth cyber security management strategy with deployment of multiple layers of security controls throughout the IT landscape and integration with different cyber security processes. This enables the Group to proactively identify, prevent, detect, respond to and recover from cybersecurity attacks. Resources and development efforts are focused on the three pillars of cybersecurity management, namely people, process and technology, to ensure the confidentiality, integrity and availability of corporate information assets and critical infrastructure.

Electricity market

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

The current SCA commenced on 1 January 2019, with a term of 15 years from 2019 to 2033. While the SCA is providing the necessary stability in the areas of financial and service regulation, the Government's strategies and policies on air quality, electricity sector decarbonisation for climate change mitigation, energy efficiency and conservation, and electricity market competition are among the factors affecting the Group's results and growth in the medium to long term.

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

Fuel supply

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

The Group has a fuel supply strategy and fuel quality control system in place to maintain reliable fuel supply and sufficient stock of appropriate quality to meet its generation requirements. To secure gas supplies at competitive prices, the joint-venture development of an offshore Liquefied Natural Gas (LNG) terminal is underway, which is scheduled for commercial operation in 2022.

Interest rates and currency markets

The Group is exposed to interest rate risk primarily on its interest-bearing liabilities. The US Federal Reserve has cut interest rates twice in March 2020, aiming to protect the economy from the impact of COVID-19, and Hong Kong has followed suit to lower its interest rates. The Group is exposed to currency risk that mainly arises from the import of fuel and capital equipment. Volatility in interest rates and currency markets may adversely affect the Group's financial conditions and results of operations.

The Group's treasury policy guides the measures it undertakes to manage these exposures. Details of the Group's current practices to manage interest rate and currency risks are in the Financial Review on pages 44 to 46.

Laws and regulations

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

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

Climate change

The impacts of climate change are global in scope, affecting many countries and regions. Climate change may increase the frequency and intensity of extreme weather events, such as super typhoons, floods and natural catastrophes. It could disrupt supply chains, interrupt business operations and cause financial and physical damages. To combat climate change and address the growing expectation from the public for a low-carbon economy, Hong Kong has aimed to achieve carbon neutrality by 2050 in the Chief Executive's 2020 Policy Address.

As a major utility in Hong Kong, the Group has pledged full support for the Government's carbon neutrality target and is committed to addressing climate change risks by pursuing various decarbonisation initiatives. These include, but are not limited to, decarbonising our generation portfolio through coal-to-gas power generation transition, exploring ways of recycling to reduce wastes and discharges from our operations, promoting energy efficiency and renewable energy through funding schemes and educational activities, promoting the adoption of electric vehicles and supporting environmental projects by green groups and community organisations.

FINANCIAL STATEMENTS

Solid performance during challenging times

KPMG

INDEPENDENT AUDITOR'S REPORT

TO THE HOLDERS OF SHARE STAPLED UNITS OF HK ELECTRIC INVESTMENTS AND HK ELECTRIC INVESTMENTS LIMITED

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

Opinion

We have audited the consolidated financial statements of HK Electric Investments (the "Trust"), HK Electric Investments Limited (the "Company") and its subsidiaries (together the "Trust Group") and of the Company and its subsidiaries (the "Group") set out on pages 94 to 173 (together referred to as the "consolidated financial statements of the Trust and of the Company"). As explained in note 2 to the consolidated financial statements of the Trust and of the Company, the consolidated financial statements of the Trust and of the Company together comprise the consolidated statement of financial position of the Trust Group and of the Group as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Trust Group and of the Group for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements of the Trust and of the Company give a true and fair view of the consolidated financial position of the Trust Group and of the Group as at 31 December 2020 and of the Trust Group's and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

Existence and accuracy of property, plant and equipment

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

The key audit matter	How the matter was addressed in our audit
A wholly owned subsidiary of the Company, The Hongkong Electric Company, Limited ("HK Electric"), is engaged in the generation, transmission and distribution of electricity in Hong Kong (the "Hong Kong electricity business"), which requires substantial capital investment in property, plant and equipment. The Scheme of Control Agreement entered into by HK Electric and the Government of the HKSAR provides for HK Electric to earn a permitted return calculated based on 8% of average net fixed assets. The Development Plan under the Scheme of Control Agreement governs HK Electric's capital expenditure on the Hong Kong electricity business over the Scheme of Control Agreement period. HK Electric's property, plant and equipment is specialised in nature and certain items are self-constructed. The cost of self-constructed property, plant and equipment comprises, inter alia, the costs of materials and direct labour, overheads capitalised and borrowing costs. The Directors have implemented internal controls over the capitalisation of costs in property, plant and equipment. We identified assessing the existence and accuracy of property, plant and equipment as a key audit matter because property, plant and equipment is the most significant asset of the Trust Group and the Group and is critical to the operations of Hong Kong electricity business and because, due to the terms and conditions of the Scheme of Control Agreement, property, plant and equipment is a key focus of management and the users of the consolidated financial statements of the Trust and of the Company.	Our audit procedures to assess the existence and accuracy of property, plant and equipment included the following: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the existence and accuracy of property, plant and equipment; • assessing the Trust Group's and the Group's capitalisation policy for expenditure relating to property, plant and equipment with reference to the requirements of the prevailing accounting standards; • selecting a sample items of property, plant and equipment acquired and capitalised during the year ended 31 December 2020 and inspecting relevant underlying documentation to assess whether these items met the criteria for capitalisation with reference to the requirements of the prevailing accounting standards and to evaluate the date on which costs were capitalised; • assessing whether the additions to property, plant and equipment for the year ended 31 December 2020 were consistent with the Development Plan agreed between HK Electric and the Government of the HKSAR which governs the level of capital expenditure over a period of time; • forming an expectation of the value of costs capitalised for the current year based on the prior year's capitalisation ratio and the level of capital work undertaken during the current year, comparing our expectation with the actual costs capitalised for the current year and discussing with management the nature of and reasons for any significant variances; and • physically inspecting a sample of additions to property, plant and equipment during the current year.

INDEPENDENT AUDITOR'S REPORT

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

Refer to note 17 to the consolidated financial statements of the Trust and of the Company and the accounting policies 3(e) and (h)(ii).

The key audit matter

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

Management assessed goodwill for potential impairment as at 30 November 2020 by comparing the carrying amount of the cash-generating unit to which goodwill has been allocated with the recoverable amount determined by assessing the value-in-use ("VIU") by preparing a discounted cash flow forecast. Preparing a discounted cash flow forecast involves the exercise of significant management judgement, in particular in forecasting revenue growth and operating profit and in determining an appropriate discount rate.

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

How the matter was addressed in our audit

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

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

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

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

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

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

Fuel Clause Recovery Account

Refer to note 24 to the consolidated financial statements of the Trust and of the Company and the accounting policy 3(r)(ii).

The key audit matter

Under the Scheme of Control Agreement, any difference between the standard cost of fuel, as agreed with the Government of the HKSAR, and the actual cost of fuel consumed is transferred to the Fuel Clause Recovery Account as Fuel Cost Account Adjustments.

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

The balance of the Fuel Clause Recovery Account at the end of the reporting period represents the difference between Fuel Clause Charges (or Rebates) and Fuel Cost Account Adjustments during the year, together with any balance brought forward from the prior year and interest thereon based on prevailing market interest rates.

According to the Fuel Clause Charge Adjustment Mechanism, the adjustment of Fuel Clause Charge is made on a monthly basis, which is based on the previous three-month average actual cost of fuels.

We identified the Fuel Clause Recovery Account as a key audit matter because it is a specific item in the Scheme of Control Agreement and the balance of the Fuel Clause Recovery Account is material as at 31 December 2020.

How the matter was addressed in our audit

Our audit procedures to assess the balance of the Fuel Clause Recovery Account included the following:

- engaging our internal Information Risk Management specialists to assess the design, implementation and operating effectiveness of the information technology automated controls that govern the interface between the Trust Group's and the Group's meter reading system which records units of electricity sold and the Trust Group's and the Group's accounting system;
- forming an expectation of the amount of Fuel Clause Charges to electricity customers based on the units of electricity sold during the reporting period and comparing our expectation with the actual Fuel Clause Charges recorded by the Trust Group and the Group;
- evaluating the actual cost of fuel for the year ended 31 December 2020 by inspecting supplier invoices, on a sample basis;
- evaluating the accrued charges for unbilled fuel costs at 31 December 2020 by inspecting, on a sample basis, the amounts settled subsequent to 31 December 2020 and relevant underlying documentation;
- understanding and evaluating the design and implementation of key internal controls relating to the Group's Fuel Clause Charge Adjustment Mechanism; and
- recalculating of the balance of the Fuel Clause Recovery Account as at 31 December 2020 taking into account the balance brought forward at the start of the financial year, Fuel Clause Charges, Fuel Costs Account Adjustments and interest.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KPMG

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

16 March 2021

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

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $ million	2019 $ million
Revenue	5	**10,389**	10,739
Direct costs		**(5,334)**	(5,485)
		5,055	5,254
Other revenue and other net income	7	**148**	37
Other operating costs	8	**(1,063)**	(1,078)
Operating profit		**4,140**	4,213
Finance costs	9	**(971)**	(1,004)
Profit before taxation	10	**3,169**	3,209
Income tax:	11		
Current		**(452)**	(547)
Deferred		**(116)**	(67)
		(568)	(614)
Profit after taxation		**2,601**	2,595
Scheme of Control transfers	13(b)	**131**	(268)
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company		**2,732**	2,327
Earnings per Share Stapled Unit/share of the Company			
Basic and diluted	15	**30.92 cents**	26.33 cents

The notes on pages 99 to 173 form part of these consolidated financial statements.

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

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the year are set out in note 14.

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

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	2020 **$ million**	2019 $ million
Profit for the year attributable to the holders of Share Stapled Units/ shares of the Company	**2,732**	2,327
Other comprehensive income for the year, after tax and reclassification adjustments		
Items that will not be reclassified to profit or loss		
Defined benefit retirement schemes:		
Remeasurement of net defined benefit asset/liability	**86**	252
Net deferred tax charged to other comprehensive income	**(14)**	(42)
	72	210
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**8**	16
Cost of hedging – changes in fair value	**(6)**	(27)
Net deferred tax credited to other comprehensive income	**–**	2
	2	(9)
	74	201
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(173)**	(21)
Reclassification adjustments for amounts transferred to profit or loss	**17**	(51)
Cost of hedging – changes in fair value	**(607)**	600
Cost of hedging – reclassified to profit or loss	**(63)**	(63)
Net deferred tax credited/(charged) to other comprehensive income	**81**	(80)
	(745)	385
Total comprehensive income for the year attributable to the holders of Share Stapled Units/shares of the Company	**2,061**	2,913

The notes on pages 99 to 173 form part of these consolidated financial statements.

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

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

At 31 December 2020
(Expressed in Hong Kong dollars)

	Note	2020 $ million	2019 $ million
Non-current assets			
Property, plant and equipment		**68,814**	66,601
Interests in leasehold land held for own use		**5,620**	5,815
	16	**74,434**	72,416
Goodwill	17	**33,623**	33,623
Interest in a joint venture	19	**278**	42
Derivative financial instruments	26	**616**	649
Employee retirement benefit scheme assets	27(a)	**887**	809
		109,838	107,539
Current assets			
Inventories	20	**726**	819
Trade and other receivables	21	**951**	1,060
Bank deposits and cash	22(a)	**52**	299
		1,729	2,178
Current liabilities			
Trade and other payables and contract liabilities	23	**(2,820)**	(2,980)
Fuel Clause Recovery Account	24	**(796)**	(647)
Current portion of bank loans and other interest-bearing borrowings	25	**(4,184)**	(6,010)
Bank overdrafts – unsecured		**–**	(33)
Current tax payable	29(a)	**(541)**	(577)
		(8,341)	(10,247)
Net current liabilities		**(6,612)**	(8,069)
Total assets less current liabilities		**103,226**	99,470
Non-current liabilities			
Bank loans and other interest-bearing borrowings	25	**(40,706)**	(37,002)
Derivative financial instruments	26	**(697)**	(14)
Customers' deposits		**(2,268)**	(2,241)
Deferred tax liabilities	29(b)	**(9,597)**	(9,540)
Employee retirement benefit scheme liabilities	27(a)	**(367)**	(368)
Other non-current liabilities	28	**(1,122)**	(955)
		(54,757)	(50,120)
Scheme of Control Fund and Reserve	13(c)	**(726)**	(878)
Net assets		**47,743**	48,472
Capital and reserves			
Share capital	30(b)	**8**	8
Reserves		**47,735**	48,464
Total equity		**47,743**	48,472

Approved and authorised for issue by the Boards on 16 March 2021.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 99 to 173 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Attributable to holders of Share Stapled Units/shares of 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 distribution/ dividend (note 14)	Total
Balance at 1 January 2019	8	47,472	(54)	(461)	1,778	48,743
Changes in equity for 2019:						
Profit for the year	–	–	–	2,327	–	2,327
Other comprehensive income	–	–	376	210	–	586
Total comprehensive income	–	–	376	2,537	–	2,913
Amounts transferred to the initial carrying amount of hedged items, net of tax	–	–	2	–	–	2
Final distribution/second interim dividend in respect of previous year approved and paid (see note 14(c))	–	–	–	–	(1,778)	(1,778)
Interim distribution/first interim dividend paid (see note 14(b))	–	–	–	(1,408)	–	(1,408)
Proposed final distribution/second interim dividend (see note 14(b))	–	–	–	(1,422)	1,422	–
Balance at 31 December 2019 and 1 January 2020	**8**	**47,472**	**324**	**(754)**	**1,422**	**48,472**
Changes in equity for 2020:						
Profit for the year	**–**	**–**	**–**	**2,732**	**–**	**2,732**
Other comprehensive income	**–**	**–**	**(743)**	**72**	**–**	**(671)**
Total comprehensive income	**–**	**–**	**(743)**	**2,804**	**–**	**2,061**
Amounts transferred to the initial carrying amount of hedged items, net of tax	**–**	**–**	**40**	**–**	**–**	**40**
Final distribution/second interim dividend in respect of previous year approved and paid (see note 14(c))	**–**	**–**	**–**	**–**	**(1,422)**	**(1,422)**
Interim distribution/first interim dividend paid (see note 14(b))	**–**	**–**	**–**	**(1,408)**	**–**	**(1,408)**
Proposed final distribution/second interim dividend (see note 14(b))	**–**	**–**	**–**	**(1,422)**	**1,422**	**–**
Balance at 31 December 2020	**8**	**47,472**	**(379)**	**(780)**	**1,422**	**47,743**

The notes on pages 99 to 173 form part of these consolidated financial statements.

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

CONSOLIDATED CASH FLOW STATEMENT OF THE TRUST AND OF THE COMPANY

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	**2020 $ million**	2019 $ million
Operating activities			
Cash generated from operations	22(b)	**7,351**	7,371
Interest paid		**(936)**	(829)
Interest received		**16**	6
Hong Kong Profits Tax paid		**(488)**	(107)
Net cash generated from operating activities		**5,943**	6,441
Investing activities			
Payment for the purchase of property, plant and equipment and capital stock		**(4,614)**	(3,543)
Capitalised interest paid		**(201)**	(199)
New loan to a joint venture		**(236)**	(42)
Proceeds from disposal of property, plant and equipment		**1**	–
Net cash used in investing activities		**(5,050)**	(3,784)
Financing activities			
Proceeds from bank loans	22(c)	**973**	2,048
Repayment of bank loans	22(c)	**(1,250)**	(1,500)
Issuance of medium term notes	22(c)	**10,249**	500
Redemption of medium term notes	22(c)	**(8,267)**	(330)
Payment of lease liabilities	22(c)	**(3)**	(2)
New customers' deposits	22(c)	**291**	315
Repayment of customers' deposits	22(c)	**(264)**	(269)
Distributions/dividends paid		**(2,830)**	(3,186)
Net cash used in financing activities		**(1,101)**	(2,424)
Net (decrease)/increase in cash and cash equivalents		**(208)**	233
Cash and cash equivalents at 1 January		**266**	34
Effect of foreign exchange rate changes		**(6)**	(1)
Cash and cash equivalents at 31 December	22(a)	**52**	266

The notes on pages 99 to 173 form part of these consolidated financial statements.
As explained in note 2, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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

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

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2020 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 2020 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 2020 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 a number of amendments to the *Conceptual Framework for Financial Reporting 2018* and 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 cash flows 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.

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)

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)).

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 leased for own use	Shorter of the unexpired term of lease and the properties' estimated useful life

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)

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

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.

(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.

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.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

The current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within 12 months after the reporting period.

(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.

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)

(i) Defined benefit retirement scheme obligations (continued)

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

(ii) Contributions to defined contribution retirement schemes

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

(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.

(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 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)).

(4) Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Groups will comply with the conditions attaching to them. Grants that compensate the Groups for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

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 number of amendments to the *Conceptual Framework for Financial Reporting 2018* and HKFRSs that are first effective for the current accounting period of the Groups. Of these, the following amendments to HKFRSs are relevant to the Trust's and the Company's consolidated financial statements:

– Amendments to HKAS 1 and HKAS 8, *Definition of Material*
– Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform – Phase 1*

The adoption of these amendments does not have a material impact on the Groups' results and financial positions for the current or prior periods. The Groups have not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period.

5. Revenue

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

	2020 $ million	2019 $ million
Sales of electricity	**10,363**	10,694
Less: concessionary discount on sales of electricity	**(4)**	(4)
	10,359	10,690
Electricity-related income	**30**	49
	10,389	10,739

6. Segment reporting

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

7. Other revenue and other net income

	2020 **$ million**	2019 $ million
Interest income on financial assets measured at amortised cost	**15**	7
Government grants (see note below)	**101**	–
Sundry income	**32**	30
	148	37

In 2020, the Groups successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund set up by the Government. The purpose of the funding is to provide financial support to enterprises to retain their employees. Under the terms of the grant, the Groups are required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

8. Other operating costs

	2020 **$ million**	2019 $ million
Administrative expenses, government rent and rates	**344**	343
Staff costs in relation to corporate and administrative supports	**231**	218
Provisions for asset decommissioning obligation	**170**	207
Portion of depreciation and amortisation of leasehold land included in other operating costs	**193**	182
Net loss on disposal and written off of property, plant and equipment	**125**	128
	1,063	1,078

9. Finance costs

	2020 $ million	2019 $ million
Interest on borrowings and other finance costs	**1,236**	1,283
Less: interest expense and other finance costs capitalised to assets under construction	**(250)**	(261)
interest expense transferred to fuel costs	**(15)**	(18)
Total interest expense arising from financial liabilities not at fair value through profit or loss and other finance costs	**971**	1,004

Interest expense has been capitalised at an average rate of approximately 2.9% (2019: 3.1%) per annum for assets under construction.

10. Profit before taxation

	2020 $ million	2019 $ million
Profit before taxation is arrived at after charging:		
Depreciation		
– owned property, plant and equipment	**2,817**	2,790
– properties leased for own use	**2**	2
Amortisation of leasehold land	**196**	196
Expenses of short-term leases with remaining lease term ending on or before the end of reporting period	**6**	7
Costs of inventories	**3,499**	3,884
Write down of inventories	**12**	16
Staff costs	**740**	734
Net loss on disposal and written off of property, plant and equipment	**125**	128
Auditor's remuneration		
– audit and audit related services	**6**	5
– non-audit services (see note below)	**–**	–

Auditor's remuneration for non-audit services amounted to $301,000 (2019: $314,000).

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	2020 $ million	2019 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**452**	547
Deferred tax (see note 29(b))		
Origination and reversal of temporary differences	**116**	67
	568	614

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 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 2019.

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

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

	2020 $ million	2019 $ million
Profit before taxation	**3,169**	3,209
Notional tax on profit before taxation, calculated at the Hong Kong Profits Tax rate (see note below)	**523**	529
Tax effect of non-deductible expenses	**73**	88
Tax effect of non-taxable income	**(21)**	(3)
Tax effect of recognition of previously unrecognised temporary differences	**(7)**	–
Actual tax expense	**568**	614

For the year ended 31 December 2020, the notional tax is calculated at 16.5% (2019: 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 2019.

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 (9) $ million	Retirement scheme contributions $ million	Bonuses $ million	2020 Total emoluments $ million	2019 Total emoluments $ million
Executive Directors						
Fok Kin Ning, Canning (2)						
Chairman	0.12	0.76	–	–	**0.88**	0.76
Wan Chi Tin (4)						
Chief Executive Officer	0.07	8.94	–	9.30	**18.31**	17.81
Chan Loi Shun	0.07	3.32	–	–	**3.39**	3.25
Chen Daobiao	0.07	2.89	0.02	0.56	**3.54**	3.45
Cheng Cho Ying, Francis (4)	0.07	4.22	0.02	1.84	**6.15**	6.02
Non-executive Directors						
Victor T K Li (3)						
Deputy Chairman to the Company Board	0.07	0.31	–	–	**0.38**	0.36
Fahad Hamad A H Al-Mohannadi	0.07	–	–	–	**0.07**	0.07
Ronald Joseph Arculli (1)	0.14	0.05	–	–	**0.19**	0.18
Duan Guangming (7)	0.07	–	–	–	**0.07**	0.06
Jiang Xiaojun (8)	–	–	–	–	**–**	0.01
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) (4)	0.09	0.01	–	–	**0.10**	0.10
Kwan Kai Cheong	0.07	0.02	–	–	**0.09**	0.08
Lee Lan Yee, Francis (1) (3)	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**	0.17
Ralph Raymond Shea (3)	0.07	0.03	–	–	**0.10**	0.10
Alternate Directors						
Woo Mo Fong, Susan						
(alias Chow Woo Mo Fong, Susan) (5)	–	0.06	–	–	**0.06**	0.07
Frank John Sixt (6)	–	0.02	–	–	**0.02**	0.02
Total for the year 2020	**1.49**	**20.68**	**0.04**	**11.70**	**33.91**	
Total for the year 2019	1.49	19.55	0.04	11.82		32.90

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

Notes:
(1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
(2) Member of the Remuneration Committee.
(3) Member of the Nomination Committee.
(4) Member of the Sustainability Committee.
(5) An Alternate Director to Mr. Fok Kin Ning, Canning.
(6) An Alternate Director to Mr. Victor T K Li.
(7) Appointed as Non-executive Director with effect from 26 February 2019.
(8) Resigned as Non-executive Director with effect from 26 February 2019.
(9) 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 (2019: two) whose total emoluments are shown above. The remuneration of the other three individuals (2019: three) who comprise the five highest paid individuals of the Groups is set out below:

	2020 $ million	2019 $ million
Basic salaries, allowances and other benefits	**9.34**	8.97
Retirement scheme contributions	**1.26**	1.20
Bonuses	**3.42**	3.60
	14.02	13.77

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

	2020 Number	2019 Number
Nil – $1,000,000	**2**	–
$1,000,001 – $1,500,000	**1**	–
$2,000,001 – $2,500,000	**2**	–
$2,500,001 – $3,000,000	**2**	3
$3,000,001 – $3,500,000	**4**	6
$3,500,001 – $4,000,000	**1**	–
$5,000,001 – $5,500,000	**2**	2

The remuneration of Directors and senior management is as follows:

	2020 $ million	2019 $ million
Short-term employee benefits	**71**	70
Post-employment benefits	**2**	2
	73	72

At 31 December 2020 and 2019, there was no amount due from Directors and senior management.

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.

Under current SoCA, a Smart Power Care Fund was established on 1 January 2019 with initial funding provided by the net closing balance as at 31 December 2018 of the Smart Power Fund, which was established pursuant to 2013 mid-term review of 2009-2018 SoCA, 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 (to)/from the consolidated statement of profit or loss represents:

	2020 **$ million**	2019 $ million
Tariff Stabilisation Fund	**(164)**	222
Rate Reduction Reserve	**8**	14
Smart Power Care Fund		
– Provisional sum injected in current year	**11**	–
– Provisional sum to be injected in the following year	**14**	32
	(131)	268

A provisional sum of $24,767,000, representing deduction of HK Electric's 2020 financial incentive (2019: $32,379,000), was transferred from the consolidated statement of profit or loss, of which $10,509,000 was injected into the Smart Power Care Fund in 2020 with the remaining $14,258,000 was included in the trade and other payables and contract liabilities as at 31 December 2020 for injection into the Smart Power Care Fund in the following year.

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13. Scheme of Control transfers (continued)

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

$ million	Tariff Stabilisation Fund	Rate Reduction Reserve	Smart Power Care Fund	Total
At 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 and 1 January 2020	**848**	**14**	**16**	**878**
Transfer from Rate Reduction Reserve to Tariff Stabilisation Fund (see note below)	**14**	**(14)**	**–**	**–**
Transfer (to)/from the consolidated statement of profit or loss	**(164)**	**8**	**–**	**(156)**
Injection for the year	**–**	**–**	**43**	**43**
Disbursement for the year	**–**	**–**	**(39)**	**(39)**
At 31 December 2020	**698**	**8**	**20**	**726**

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.

14. Distributions/dividends

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

	2020 $ million	2019 $ million
Audited consolidated profit attributable to the holders of Share Stapled Units	**2,732**	2,327
After:		
(i) eliminating the effects of the Adjustments (see note 1 below)	**4,693**	5,188
(ii) adding/(deducting)		
– movement in Fuel Clause Recovery Account	**149**	(208)
– changes in working capital	**(223)**	25
– adjustment for employee retirement benefit schemes	**7**	11
– taxes paid	**(488)**	(107)
	(555)	(279)
(iii) capital expenditure payment	**(4,850)**	(3,585)
(iv) net finance costs	**(1,121)**	(1,022)
Distributable income	**899**	2,629
(v) adding discretionary amount as determined by the Company Board pursuant to clause 14.1(c) of the Trust Deed (see note 4 below)	**1,931**	201
Distributable income after adjustment of the discretionary amount	**2,830**	2,830

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 2020, as calculated pursuant to the Trust Deed, by the above discretionary amount, pursuant to clause 14.1(c) of the Trust Deed.

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14. Distributions/dividends (continued)

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

	2020 $ million	2019 $ million
Interim distribution/first interim dividend declared and paid of 15.94 cents (2019: 15.94 cents) per Share Stapled Unit/share	**1,408**	1,408
Final distribution/second interim dividend proposed after the end of the reporting period of 16.09 cents (2019: 16.09 cents) per Share Stapled Unit/share	**1,422**	1,422
	2,830	2,830

For the year ended 31 December 2020, the Company Board declared the payment of a second interim dividend of 16.09 cents per ordinary share (2019: 16.09 cents per ordinary share), amounting to $1,422 million (2019: $1,422 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 2020, the Trustee-Manager Board declared a final distribution of 16.09 cents per Share Stapled Unit (2019: 16.09 cents per Share Stapled Unit), amounting to $1,422 million (2019: $1,422 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 2020 (2019: 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

	2020 $ million	2019 $ million
Final distribution/second interim dividend in respect of the previous financial year, approved and paid during the year, of 16.09 cents (2019: 20.12 cents) per Share Stapled Unit/share	**1,422**	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 $2,732 million (2019: $2,327 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2019: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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 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 and 1 January 2020	**16,811**	**4**	**54,434**	**956**	**9,759**	**81,964**	**6,959**	**88,923**
Additions	**–**	**2**	**94**	**31**	**5,130**	**5,257**	**1**	**5,258**
Transfer	**1,436**	**–**	**3,804**	**62**	**(5,302)**	**–**	**–**	**–**
Disposals	**(12)**	**(3)**	**(447)**	**(25)**	**–**	**(487)**	**–**	**(487)**
At 31 December 2020	**18,235**	**3**	**57,885**	**1,024**	**9,587**	**86,734**	**6,960**	**93,694**
Accumulated depreciation and amortisation								
At 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 and 1 January 2020	**3,012**	**2**	**11,893**	**456**	**–**	**15,363**	**1,144**	**16,507**
Written back on disposals	**(4)**	**(3)**	**(307)**	**(25)**	**–**	**(339)**	**–**	**(339)**
Charge for the year	**525**	**2**	**2,260**	**109**	**–**	**2,896**	**196**	**3,092**
At 31 December 2020	**3,533**	**1**	**13,846**	**540**	**–**	**17,920**	**1,340**	**19,260**
Net book value								
At 31 December 2020	**14,702**	**2**	**44,039**	**484**	**9,587**	**68,814**	**5,620**	**74,434**
At 31 December 2019	13,799	2	42,541	500	9,759	66,601	5,815	72,416

The above are mainly electricity-related property, plant and equipment in respect of which financing costs capitalised during the year amounted to $250 million (2019: $261 million).

Depreciation charges for the year included $77 million (2019: $73 million), relating to assets utilised in development activities, which have been capitalised.

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17. Goodwill

(a) Carrying amount of goodwill

	2020 $ million	2019 $ 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 (2019: 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 5.54% (2019: 5.50%). 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% (2019: 1.0%).

There was no indication of impairment arising from review on goodwill as at 30 November 2020.

If the discount rate rose to 6.74% (2019: 6.66%), 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 2020.

18. Investments in subsidiaries

Details of the subsidiaries at 31 December 2020 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$9,004 million Hong Kong dollar fixed rate notes US$1,750 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$400 million United States dollar callable zero coupon notes (see note 25)	100% (1)	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

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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:

	2020 $ million	2019 $ million
Current assets		
Bank deposits and cash	**–**	4
Other current assets	**231**	1
	231	5
Non-current assets	**699**	165
Current liabilities	**(3)**	(29)
Non-current liabilities		
Loans from shareholders	**(927)**	(141)
Net assets	**–**	–
Revenue	**1**	1
Profit for the year	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

	2020 $ million	2019 $ million
Groups' share of net assets	**–**	–
Loan to joint venture (see note below)	**278**	42
	278	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.

20. Inventories

	2020 $ million	2019 $ million
Coal, fuel oil and natural gas	**430**	522
Stores and materials (see note below)	**296**	297
	726	819

Included in stores and materials is capital stock of $158 million (2019: $153 million) which was purchased for future maintenance of capital assets.

21. Trade and other receivables

	2020 $ million	2019 $ million
Trade debtors, net of loss allowance (see notes (a) and (b) below)	**470**	513
Other receivables (see note below)	**358**	414
	828	927
Derivative financial instruments (see note 26)	**3**	86
Deposits and prepayments	**120**	47
	951	1,060

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 $312 million (2019: $341 million) to be received from electricity customers.

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(Expressed in Hong Kong dollars unless otherwise indicated)

21. Trade and other receivables (continued)

(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:

	2020 **$ million**	2019 $ million
Current and within 1 month	**451**	476
1 to 3 months	**19**	30
More than 3 months but less than 12 months	**–**	7
	470	513

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:

	2020			
	ECL rate %	**Gross carrying amount $ million**	**Lifetime ECLs $ million**	**Net carrying amount $ million**
Live accounts				
Provision on collective basis	**2**	**438**	**(10)**	**428**
Final accounts				
Provision on individual basis	**6**	**9**	**(1)**	**8**
Other trade debtors				
Provision on collective basis	**0**	**34**	**–**	**34**
		481	**(11)**	**470**

	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

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

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

	2020 $ million	2019 $ million
At 1 January	**12**	1
Impairment losses recognised during the year	**–**	12
Amounts written off during the year	**(1)**	(1)
At 31 December	**11**	12

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22. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2020 $ million	2019 $ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	–	263
Cash at bank and in hand	52	36
Bank overdrafts – unsecured	–	(33)
Cash and cash equivalents in the consolidated cash flow statement	52	266
Bank overdrafts – unsecured	–	33
Bank deposits and cash in the consolidated statement of financial position	52	299

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

	Note	2020 $ million	2019 $ million
Profit before taxation		3,169	3,209
Adjustments for:			
Interest income	7	(15)	(7)
Finance costs	9	971	1,004
Interest expense transferred to fuel costs	9	15	18
Depreciation	10	2,819	2,792
Amortisation of leasehold land	10	196	196
Net loss on disposal and written off of property, plant and equipment	10	125	128
Increase in provisions for asset decommissioning obligation	28(a)	170	207
Net financial instrument revaluation and exchange losses		4	–
Smart Power Care Fund disbursement	13(c)	(39)	(6)
Changes in working capital:			
Decrease in inventories		98	164
Decrease in trade and other receivables		70	57
Movements in Fuel Clause Recovery Account		149	(208)
Decrease in trade and other payables and contract liabilities		(385)	(194)
Increase/decrease in net employee retirement benefit assets/ liabilities		7	11
Payment for asset decommissioning obligation expenditure	28(a)	(3)	–
Cash generated from operations		7,351	7,371

(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 2020	18,333	24,679	2,241	3	(459)	–	44,797
Changes from financing cash flows:							
Proceeds from bank loans	973	–	–	–	–	–	973
Repayment of bank loans	(1,250)	–	–	–	–	–	(1,250)
Issuance of medium term notes	–	10,249	–	–	–	–	10,249
Redemption of medium term notes	–	(8,267)	–	–	–	–	(8,267)
Payment of lease liabilities	–	–	–	(3)	–	–	(3)
New customers' deposits	–	–	291	–	–	–	291
Repayment of customers' deposits	–	–	(264)	–	–	–	(264)
Total changes from financing cash flows	(277)	1,982	27	(3)	–	–	1,729
Exchange adjustments	–	15	–	–	–	–	15
Changes in fair value	–	(58)	–	–	67	685	694
Other changes:							
Increase in lease liabilities	–	–	–	2	–	–	2
Interest on borrowings and other finance costs	24	192	–	–	–	–	216
At 31 December 2020	18,080	26,810	2,268	2	(392)	685	47,453

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(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: (continued)

$ 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

23. Trade and other payables and contract liabilities

	2020 $ million	2019 $ million
Trade and other payables		
Creditors measured at amortised cost (see note (a) below)	**2,794**	2,921
Lease liabilities (see note 28(b))	**1**	2
Derivative financial instruments (see note 26)	**3**	39
	2,798	2,962
Contract liabilities (see note (b) below)	**22**	18
	2,820	2,980

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

(a) Creditors' ageing is analysed as follows:

	2020 $ million	2019 $ million
Due within 1 month or on demand	**1,189**	1,778
Due after 1 month but within 3 months	**616**	270
Due after 3 months but within 12 months	**989**	873
	2,794	2,921

(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:

	2020 $ million	2019 $ million
At 1 January	**18**	38
Increase in contract liabilities as a result of billing in advance for performance of electricity-related services	**10**	5
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	**(6)**	(25)
At 31 December	**22**	18

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24. Fuel Clause Recovery Account

HK Electric adjusts Fuel Clause Charge per unit for electricity sales on a monthly basis to reflect actual cost of fuels in a timely manner. No Special Fuel Rebate was offered to customers during the year (2019: Special Fuel Rebate of 2.3 cents per unit for electricity sales).

Movements in the Fuel Clause Recovery Account were as follows:

	2020 $ million	2019 $ million
At 1 January	**647**	855
Transferred to profit or loss	**(1,823)**	(2,051)
Fuel Clause Charges during the year	**1,972**	2,087
Special Fuel Rebates during the year	**–**	(244)
At 31 December	**796**	647

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

	2020 $ million	2019 $ million
Bank loans	**18,080**	18,333
Current portion	**(4,184)**	(113)
	13,896	18,220
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**8,946**	6,465
Zero coupon notes (see note (b) below)	**752**	727
	9,698	7,192
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**13,534**	11,697
Zero coupon notes (see note (b) below)	**3,578**	5,790
	17,112	17,487
Current portion	**–**	(5,897)
	17,112	11,590
Non-current portion	**40,706**	37,002

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.4% to 4% per annum (2019: 2.55% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 1.875% to 2.875% per annum (2019: 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 (2019: $1,056 million) and accrual yield of 3.5% per annum (2019: 3.5% per annum).

The United States dollar zero coupon notes embed with issuer call options allowing issuer to early redeem the notes. In 2020, the Groups exercised the issuer call options and redeemed US$250 million of these notes.

As at 31 December 2020, the United States dollar zero coupon notes have nominal amount of US$400 million (2019: US$650 million) and accrual yield of 4.375% per annum (2019: accrual yields ranging from 4.375% to 4.8% per annum). They 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 2020 and 2019, 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:

	2020 **$ million**	2019 $ million
After 1 year but within 2 years	**2,500**	15,222
After 2 years but within 5 years	**1,298**	3,596
After 5 years	**36,908**	18,184
	40,706	37,002

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26. Derivative financial instruments

	2020		2019	
	Assets $ million	**Liabilities $ million**	Assets $ million	Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**–**	**(57)**	24	–
– Interest rate swaps	**–**	**(628)**	230	–
– Forward foreign exchange contracts	**619**	**(4)**	407	(51)
Fair value hedges:				
– Cross currency swaps	**–**	**–**	70	–
– Forward foreign exchange contracts	**–**	**(11)**	4	(2)
	619	**(700)**	735	(53)
Analysed as:				
Current	**3**	**(3)**	86	(39)
Non-current	**616**	**(697)**	649	(14)
	619	**(700)**	735	(53)

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.

(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 2020 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

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27. Employee retirement benefits (continued)

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

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

	2020 **$ million**	2019 $ million
Present value of defined benefit obligations	**3,401**	3,459
Fair value of assets of the Schemes	**(3,921)**	(3,900)
	(520)	(441)
Represented by:		
Employee retirement benefit scheme assets	**(887)**	(809)
Employee retirement benefit scheme liabilities	**367**	368
	(520)	(441)

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 12 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:

	2020 **$ million**	2019 $ million
At 1 January	**3,459**	3,463
Current service cost	**59**	62
Interest cost	**61**	69
Employee contributions paid to the Schemes	**13**	14
Actuarial (gains)/losses due to:		
– liability experience	**(25)**	11
– change in financial assumptions	**214**	99
– change in demographic assumptions	**20**	9
Benefits paid	**(396)**	(268)
Transfer out	**(4)**	–
At 31 December	**3,401**	3,459

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

	2020 **$ million**	2019 $ million
At 1 January	**3,900**	3,663
Interest income on the Schemes' assets	**69**	72
Return on Schemes' assets, excluding interest income	**295**	371
Employer contributions paid to the Schemes	**44**	48
Employee contributions paid to the Schemes	**13**	14
Benefits paid	**(396)**	(268)
Transfer out	**(4)**	–
At 31 December	**3,921**	3,900

The Groups expect to contribute $48 million to the Schemes in 2021.

(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:

	2020 **$ million**	2019 $ million
Current service cost	**59**	62
Net interest income on net defined benefit asset/liability	**(8)**	(3)
	51	59

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

	2020 **$ million**	2019 $ million
Direct costs	**33**	40
Other operating costs	**18**	19
	51	59

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27. Employee retirement benefits (continued)

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

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

	2020 $ million	2019 $ million
At 1 January	**403**	151
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**86**	252
At 31 December	**489**	403

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

	2020 $ million	2019 $ million
Hong Kong equities	**382**	365
European equities	**214**	224
North American equities	**610**	576
Asia Pacific and other equities	**197**	173
Global bonds	**2,466**	2,468
Deposits, cash and others	**52**	94
	3,921	3,900

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:

	2020	2019
Discount rate		
– The Pension Scheme	**1.0%**	1.8%
– The Guaranteed Return Scheme	**0.4%**	1.8%
Long-term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.0%**	2.5%

(ix) Sensitivity analysis

(1) The Pension Scheme

	Increase/(decrease) in defined benefit obligations	
	2020 **$ million**	2019 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(59)**	(57)
– decrease by 0.25%	**62**	60
Pension increase rate		
– increase by 0.25%	**59**	57
– decrease by 0.25%	**(56)**	(54)
Mortality rate applied to specific age		
– set forward one year	**(77)**	(72)
– set backward one year	**78**	74

(2) The Guaranteed Return Scheme

	Increase/(decrease) in defined benefit obligations	
	2020 **$ million**	2019 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(26)**	(26)
– decrease by 0.25%	**26**	26
Interest to be credited		
– increase by 0.25%	**26**	26

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 2019.

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27. Employee retirement benefits (continued)

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

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

	2020	2019
The Pension Scheme	**13.2 Years**	13.2 Years
The Guaranteed Return Scheme	**6.5 Years**	6.2 Years

(b) Defined contribution retirement schemes

	2020 $ million	2019 $ million
Expenses recognised in profit or loss	**63**	58

Forfeited contributions of $1,148,000 (2019: $1,148,000) have been received during the year.

28. Other non-current liabilities

	2020 $ million	2019 $ million
Provisions (see note (a) below)	**1,121**	954
Lease liabilities (see note (b) below)	**1**	1
	1,122	955

(a) Provisions

	2020 $ million
Provisions for asset decommissioning obligation	
At 1 January	**954**
Additional provisions made	**170**
Provisions utilised	**(3)**
At 31 December	**1,121**

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:

	2020		2019	
	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	**1**	**1**	2	2
After 1 year but within 2 years	**1**	**1**	1	1
	2	**2**	3	3
Less: total future interest expenses		**–**		–
Present value of lease liabilities		**2**		3

29. Income tax in the consolidated statement of financial position

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

	2020 $ million	2019 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**452**	547
Balance of Profits Tax provision relating to prior year	**89**	30
	541	577

(b) Deferred tax liabilities

	2020 $ million	2019 $ million
Deferred tax liabilities	**9,597**	9,540

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 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 and 1 January 2020	**9,573**	**(107)**	**16**	**58**	**9,540**
Charged/(credited) to profit or loss	**136**	**(24)**	**6**	**(2)**	**116**
Charged/(credited) to other comprehensive income	**–**	**–**	**14**	**(81)**	**(67)**
Charged directly in equity	**–**	**–**	**–**	**8**	**8**
At 31 December 2020	**9,709**	**(131)**	**36**	**(17)**	**9,597**

(ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2020 and 2019.

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 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 and 1 January 2020	**8**	**47,472**	**8**	**2,437**	**1,422**	**51,347**
Changes in equity for 2020:						
Profit for the year	**–**	**–**	**–**	**3,161**	**–**	**3,161**
Other comprehensive income	**–**	**–**	**(335)**	**–**	**–**	**(335)**
Total comprehensive income	**–**	**–**	**(335)**	**3,161**	**–**	**2,826**
Second interim dividend in respect of previous year approved and paid (see note 14(c))	**–**	**–**	**–**	**–**	**(1,422)**	**(1,422)**
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 2020	**8**	**47,472**	**(327)**	**2,768**	**1,422**	**51,343**

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 (2019: 16.09 cents) per ordinary share, amounting to $1,422 million (2019: $1,422 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

	2020	
	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**

	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

(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 2019	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 and 1 January 2020 (see note 3 below)	**87**	**(12)**	**75**
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(869)**	**704**	**(165)**
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**44**	**(27)**	**17**
Net deferred tax credited/(charged) to other comprehensive income	**81**	**(112)**	**(31)**
	(744)	**565**	**(179)**
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**(25)**	**(25)**
Balance at 31 December 2020 (see note 3 below)	**(657)**	**528**	**(129)**

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 2019	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 and 1 January 2020 (see note 3 below)	**82**	**167**	**249**
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(120)**	**(487)**	**(607)**
– 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	**–**	**(6)**	**(6)**
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	**–**	**65**	**65**
Net deferred tax credited to other comprehensive income	**20**	**92**	**112**
Balance at 31 December 2020 (see note 3 below)	**(18)**	**(232)**	**(250)**

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 2020, the Groups' strategy, which was unchanged from 2019, 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 2020 and 2019 was as follows:

	2020 $ million	2019 $ million
Bank loans and other interest-bearing borrowings	**44,890**	43,012
Bank overdrafts – unsecured	**–**	33
Less: Bank deposits and cash	**(52)**	(299)
Net debt	**44,838**	42,746
Total equity	**47,743**	48,472
Net debt	**44,838**	42,746
Net total capital	**92,581**	91,218
Net debt-to-net total capital ratio	**48%**	47%

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 $293 million of trade and other receivables at 31 December 2020 (2019: $353 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.

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)

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.

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.

		2020			2019		
$ 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
Interest rate swaps	31(f)(i)	**–**	**–**	**–**	230	(28)	202
Forward foreign exchange contracts	31(f)(i)	**619**	**(459)**	**160**	411	(23)	388
Total		**619**	**(459)**	**160**	735	(52)	683
Financial liabilities							
Cross currency swaps	31(f)(i)	**57**	**(38)**	**19**	–	–	–
Interest rate swaps	31(f)(i)	**628**	**(407)**	**221**	–	–	–
Forward foreign exchange contracts	31(f)(i)	**15**	**(14)**	**1**	53	(52)	1
Total		**700**	**(459)**	**241**	53	(52)	1

(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 $5,150 million at 31 December 2020 (2019: $5,950 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.

	2020					
	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	4,930	3,224	3,385	48,245	59,784	45,035
Creditors and accrued charges	2,628	–	–	–	2,628	2,628
	7,558	3,224	3,385	48,245	62,412	47,663
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	121	128	386	171	806	637
Gross settled						
Cross currency swaps and related interest accruals						50
– outflow	202	201	605	235	1,243	
– inflow	(198)	(198)	(592)	(230)	(1,218)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(615)
– outflow	2,886	55	30	16,750	19,721	
– inflow	(2,902)	(55)	(28)	(17,523)	(20,508)	
Other forward foreign exchange contracts:						11
– outflow	202	156	38	–	396	
– inflow	(202)	(148)	(35)	–	(385)	

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)

	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)	

(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).

	2020 Weighted average interest rate %	**2020** $ million	2019 Weighted average interest rate %	2019 $ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	**–**	**–**	2.61	263
Bank loans and other borrowings	**2.67**	**(36,956)**	3.02	(30,224)
		(36,956)		(29,961)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**0.03**	**52**	0.03	36
Bank loans and other borrowings	**0.90**	**(7,934)**	3.19	(12,788)
Bank overdrafts – unsecured	**–**	**–**	5.00	(33)
Customers' deposits	*****	**(2,268)**	*	(2,241)
		(10,150)		(15,026)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2020, 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 $84 million (2019: $128 million). Other components of consolidated equity would have increased/decreased by approximately $570 million (2019: $522 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 2019.

(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.

	2020	
'million (expressed in original currencies)	**USD**	**JPY**
Trade and other payables and contract liabilities	**(74)**	**(3,260)**
Bank loans and other borrowings	**(2,209)**	**–**
Gross exposure arising from recognised assets and liabilities	**(2,283)**	**(3,260)**
Notional amounts of forward foreign exchange contracts designated as hedging instruments	**1,279**	**2,966**
Notional amounts of cross currency swaps designated as hedging instruments	**950**	**–**
Net exposure arising from recognised assets and liabilities	**(54)**	**(294)**

	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)

(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.

	2020		2019	
$ 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	**19**	**21**	9	87

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 2019.

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)

(e) Hedge accounting

The following tables summarise the hedging instruments, hedged items and hedged risks of the Groups for the year ended 31 December 2020 and 2019.

(i) Cash flow hedges

	2020									
				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 2021 to 2035	2.15%	19,768	-	-	(685)	-	(869)	869	-
(2) For hedging currency risk of committed and forecast transactions										
Forward foreign exchange contracts	Ranging from 2021 to 2032	See note below	10,383	224	3	(2)	(2)	285	(285)	-
(3) For hedging currency risk of foreign currency borrowings										
Forward foreign exchange contracts	Ranging from 2027 to 2032	See note below	9,338	392	-	-	-	419	(419)	-

	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	–

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)

(e) Hedge accounting (continued)

(ii) Fair value hedges

	2020									
				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
Forward foreign exchange contracts	Ranging from 2021 to 2023	See note below	396	-	-	(10)	(1)	(11)	11	-

	2020		
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
Financial liabilities	(384)	11	Trade and other payables and contract liabilities

Hedging instruments	Maturity date	Weighted average variable swap rates/ contract rates	Notional amount $ million	Carrying amount included in: 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	Changes in fair value used for calculating hedge ineffectiveness: Hedging instruments $ million	Hedged items $ million	Hedge ineffectiveness recognised in profit or loss $ million
	2019									
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)	–

Hedged items	2019 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

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:

	2020	2019
Weighted average contract rates		
USD:HKD	**7.4985**	7.4965
JPY:HKD	**0.0775**	0.0759
GBP:HKD	**10.0986**	–
EUR:HKD	**9.4779**	9.2545
JPY:USD	**104.0172**	102.2087

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)

(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	**2020 $ million**	2019 $ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	31(a)	**–**	94
– Interest rate swaps	31(a)	**–**	230
– Forward foreign exchange contracts	31(a)	**619**	411
		619	735
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	31(a)	**57**	–
– Interest rate swaps	31(a)	**628**	–
– Forward foreign exchange contracts	31(a)	**15**	53
Medium term notes subject to fair value hedges		**–**	4,341
		700	4,394

(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 2020 and 2019.

(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:

	2020 $ million	2019 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**7,140**	5,465
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**14,303**	18,412

(b) At 31 December 2020, the Groups' share of capital commitments of a joint venture was $343 million (2019: $29 million).

At 31 December 2020, the Groups' share of the lease and other commitments of a joint venture approximated to $1,170 million (2019: $1,170 million).

33. Contingent liabilities

At 31 December 2020, the Groups had no guarantee or indemnity to external parties (2019: Nil).

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

(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 (2019: $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 2020, the total outstanding balance receivable from Power Assets group was $4 million (2019: $3 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 2020 are disclosed in note 19.

(ii) Interest income received/receivable from HKLTL in respect of the Shareholder Loan Facility amounted to $6 million (2019: $243,000).

(iii) 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 2020, HKLTL reimbursed related costs of $6 million (2019: $7 million) 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	2020 $ million	2019 $ million
Non-current assets			
Investments in subsidiaries		**60,338**	60,041
Derivative financial instruments		**–**	8
		60,338	60,049
Current assets			
Trade and other receivables		**41**	4
Bank deposits and cash		**1**	2
		42	6
Current liabilities			
Trade and other payables		**(14)**	(25)
Current portion of bank loans		**(2,698)**	–
		(2,712)	(25)
Net current liabilities		**(2,670)**	(19)
Total assets less current liabilities		**57,668**	60,030
Non-current liabilities			
Bank loans		**(5,998)**	(8,683)
Derivative financial instruments		**(327)**	–
		(6,325)	(8,683)
Net assets		**51,343**	51,347
Capital and reserves	30(a)		
Share capital		**8**	8
Reserves		**51,335**	51,339
Total equity		**51,343**	51,347

Approved and authorised for issue by the Boards on 16 March 2021.

Wan Chi Tin
Director

Chan Loi Shun
Director

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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 2020 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 2020.

38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments to HKFRSs which are not yet effective for the year ended 31 December 2020 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 HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest Rate Benchmark Reform – Phase 2*	1 January 2021
• Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
• Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022
• Amendments to HKAS 1, *Classification of Liabilities as Current or Non-current*	1 January 2023
• Hong Kong Interpretation 5 (2020), *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*	1 January 2023

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

KPMG

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of HK Electric Investments Manager Limited (the "Company") set out on pages 176 to 183, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

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

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

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

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

KPMG

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

16 March 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Note	**2020** $	2019 $
Revenue		**–**	–
Administrative expenses		**–**	–
Profit before taxation	4	**–**	–
Income tax	5	**–**	–
Profit and total comprehensive income for the year		**–**	–

The notes on pages 180 to 183 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

At 31 December 2020
(Expressed in Hong Kong dollars)

	Note	**2020** **$**	2019 $
Current assets			
Amount due from immediate holding company	7	**1**	1
Net assets		**1**	1
Capital and reserves			
Share capital	8	**1**	1
Reserves		**–**	–
Total equity		**1**	1

Approved and authorised for issue by the Board of Directors on 16 March 2021.

Wan Chi Tin
Director

Chan Loi Shun
Director

The notes on pages 180 to 183 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	Share capital $	Reserves $	Total $
Balance at 1 January 2019	1	–	1
Changes in equity for 2019:			
Profit and total comprehensive income for the year	–	–	–
Balance at 31 December 2019 and 1 January 2020	**1**	**–**	**1**
Changes in equity for 2020:			
Profit and total comprehensive income for the year	**–**	**–**	**–**
Balance at 31 December 2020	**1**	**–**	**1**

The notes on pages 180 to 183 form part of these financial statements.

CASH FLOW STATEMENT OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

For the year ended 31 December 2020
(Expressed in Hong Kong dollars)

	2020	2019
	$	$
Operating activities		
Net cash generated from operating activities	**–**	–
Investing activities		
Net cash used in investing activities	**–**	–
Financing activities		
Net cash used in financing activities	**–**	–
Net change in cash and cash equivalents	**–**	–
Cash and cash equivalents at 1 January	**–**	–
Cash and cash equivalents at 31 December	**–**	–

The notes on pages 180 to 183 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

HK Electric Investments Manager Limited (the "Company") was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets, which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States. The address of the registered office and the principal place of business of the Company is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

The principal activity of the Company is administering HK Electric Investments (the "Trust"), in its capacity as trustee-manager of the Trust. The Trust was constituted as a trust on 1 January 2014 by a Hong Kong law governed Trust Deed entered into between the Company, as the trustee-manager of the Trust, and HK Electric Investments Limited.

The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

2. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued a number of amendments to the *Conceptual Framework for Financial Reporting 2018* and HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation and presentation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

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

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

The Trust Deed requires the Company (on behalf of the Trust) to distribute 100% of the dividends, distributions and other amounts received in respect of the ordinary shares from HK Electric Investments Limited, after deduction of all amounts permitted to be deducted or paid under the Trust Deed.

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 14 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 125, no distributions statement is therefore presented in these financial statements.

(c) Cash flow statement

The Company did not have any cash flows during the current and prior years nor did it have any cash or cash equivalents at any point throughout the current and prior years.

(d) Related parties

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

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

(2) has significant influence over the Company; or

(3) is a member of the key management personnel of the Company or the Company's parent.

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

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

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

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

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

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

(6) The entity is controlled or jointly controlled by a person identified in note 2(d)(i).

(7) A person identified in note 2(d)(i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

NOTES TO THE FINANCIAL STATEMENTS OF HK ELECTRIC INVESTMENTS MANAGER LIMITED

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Changes in accounting policies

The HKICPA has issued a number of amendments to the *Conceptual Framework for Financial Reporting 2018* and HKFRSs that are first effective for the current accounting period of the Company. The adoption of these amendments to HKFRSs has no material impact on the Company's financial statements.

The Company has not applied any new standard, amendment or interpretation that is not effective for the current accounting period.

4. Profit before taxation

Auditor's remuneration of $57,000 (2019: $56,000) and all other expenses of the Company which were incurred for the administering of the Trust of $367,274 (2019: $370,669) for the year have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior years.

5. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements for the current and prior years as the Company did not have any assessable profits.

6. Directors' emoluments

No fees or other emoluments were paid or payable by the Company to the Directors for the current and prior years.

7. Amount due from immediate holding company

Amount due from immediate holding company is unsecured, interest-free and repayable on demand.

8. Share capital

	2020		2019	
	Number of shares	**$**	Number of shares	$
Ordinary shares, issued and fully paid:				
At 1 January and 31 December	**1**	**1**	1	1

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

9. Capital management

The primary objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the sole member and benefits for other stakeholders. As the Company is part of a larger group, the Company's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The Company defines "capital" as including all components of equity. The Company actively and regularly reviews and manages its capital structure to support its future capital requirements and operations. The Company has a specific and limited role to administer the Trust. All its capital requirements are fully supported by the ultimate holding company.

The Company was not subject to externally imposed capital requirements during the current and prior years.

10. Immediate and ultimate controlling parties

At 31 December 2020, the Directors consider the immediate and ultimate holding companies of the Company to be Sure Grade Limited and Power Assets which are incorporated in the British Virgin Island and Hong Kong, respectively. Power Assets produces financial statements available for public use.

11. Financial risk management

The Company was not exposed to any significant credit, liquidity, interest rate and currency risks in the normal course of its business during the current and prior years.

12. Material related party transactions

Except for the transactions and balances disclosed elsewhere in the financial statements, the Company did not enter into material related party transactions.

13. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments to HKFRSs which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements.

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

FIVE-YEAR FINANCIAL SUMMARY OF THE GROUPS

(Expressed in Hong Kong dollars)

Consolidated Statement of Profit or Loss

$ million	**2020**	2019	2018	2017	2016
Revenue	**10,389**	10,739	11,612	11,693	11,420
Operating profit	**4,140**	4,213	5,086	5,280	5,172
Finance costs	**(971)**	(1,004)	(967)	(848)	(991)
Profit before taxation	**3,169**	3,209	4,119	4,432	4,181
Income tax	**(568)**	(614)	(759)	(794)	(757)
Profit after taxation	**2,601**	2,595	3,360	3,638	3,424
Scheme of Control transfers	**131**	(268)	(309)	(297)	175
Profit for the year attributable to the holders of Share Stapled Units/shares of the Company	**2,732**	2,327	3,051	3,341	3,599

Consolidated Statement of Financial Position

$ million	**2020**	2019	2018	2017	2016
Property, plant and equipment and interests in leasehold land	**74,434**	72,416	71,059	70,502	70,713
Goodwill	**33,623**	33,623	33,623	33,623	33,623
Other non-current assets	**1,781**	1,500	1,161	1,457	1,488
Net current liabilities	**(6,612)**	(8,069)	(1,828)	(1,900)	(4,983)
Total assets less current liabilities	**103,226**	99,470	104,015	103,682	100,841
Non-current liabilities	**(54,757)**	(50,120)	(54,624)	(53,625)	(50,897)
Scheme of Control Fund and Reserve	**(726)**	(878)	(648)	(335)	(39)
Net assets	**47,743**	48,472	48,743	49,722	49,905
Share Capital	**8**	8	8	8	8
Reserves	**47,735**	48,464	48,735	49,714	49,897
Total equity	**47,743**	48,472	48,743	49,722	49,905

THE HONGKONG ELECTRIC COMPANY, LIMITED TEN-YEAR SCHEME OF CONTROL STATEMENT

(a) Scheme of Control

The activities of HK Electric are subject to a Scheme of Control Agreement ("SoCA") agreed with the Government with a term of 15 years from 1 January 2019 to 31 December 2033.

The SoCA provides for HK Electric to earn a Permitted Return of 8% of average net fixed assets. The Permitted Return is determined after any excess capacity adjustment, in accordance with the Annex to the SoCA. No excess capacity adjustment was made in 2020 and 2019. Any excess or deficiency of the gross tariff revenue over the sum of total operating costs, Scheme of Control Net Return and Scheme of Control taxation charges is transferred to/(from) a Tariff Stabilisation Fund from/(to) the statement of profit or loss of HK Electric. When transfer from the Tariff Stabilisation Fund to the statement of profit or loss is required, the amount transferred shall not exceed the balance of the Tariff Stabilisation Fund. In calculating the Scheme of Control net revenue, interest relating to the acquisition of fixed assets (whether it has been charged to revenue or capitalised) up to 7% per annum, is added to, and a tax adjustment is made against, net revenue after taxation. In addition, each year a charge calculated by applying the average of one-month Hong Kong Interbank Offered Rate on the average balance of the Tariff Stabilisation Fund is transferred from the statement of profit or loss of HK Electric to a Rate Reduction Reserve.

(b) Ten-Year Scheme of Control Statement for the year ended 31 December

HK$ million	**2020**	2019	2018	2017	2016	2015	2014	2013	2012	2011
Sales of electricity	**10,363**	10,694	11,541	11,621	11,373	11,165	11,165	10,176	10,364	10,140
Transfer from Fuel Clause Recovery Account	**1,823**	2,051	2,696	1,904	1,206	1,861	2,994	3,510	3,867	3,755
Other Scheme of Control revenue	**162**	77	115	93	79	74	63	67	74	100
Gross tariff revenue	**12,348**	12,822	14,352	13,618	12,658	13,100	14,222	13,753	14,305	13,995
Fuel costs	**(3,453)**	(3,842)	(4,530)	(3,785)	(3,105)	(3,697)	(4,818)	(5,271)	(5,673)	(5,538)
Operating costs	**(1,697)**	(1,723)	(1,656)	(1,592)	(1,460)	(1,277)	(1,143)	(995)	(1,040)	(1,040)
Interest	**(778)**	(764)	(779)	(719)	(811)	(838)	(789)	(285)	(264)	(248)
Depreciation and amortisation	**(2,414)**	(2,342)	(2,355)	(2,210)	(2,127)	(2,054)	(1,988)	(1,982)	(1,919)	(1,836)
Net revenue before taxation	**4,006**	4,151	5,032	5,312	5,155	5,234	5,484	5,220	5,409	5,333
Scheme of Control taxation	**(695)**	(688)	(557)	(698)	(1,209)	(1,140)	(1,009)	(988)	(856)	(794)
Net revenue after taxation	**3,311**	3,463	4,475	4,614	3,946	4,094	4,475	4,232	4,553	4,539
Interest on borrowed capital	**1,018**	1,043	983	873	821	729	690	288	271	239
Interest on incremental customers' deposit	**–**	1	–	–	–	–	–	–	–	–
Scheme of Control net revenue	**4,329**	4,507	5,458	5,487	4,767	4,823	5,165	4,520	4,824	4,778
Transfer from/(to) Tariff Stabilisation Fund	**164**	(222)	(303)	(291)	181	84	(249)	389	72	46
Permitted return	**4,493**	4,285	5,155	5,196	4,948	4,907	4,916	4,909	4,896	4,824
Interest on borrowed capital	**(1,018)**	(1,043)	(983)	(873)	(821)	(729)	(690)	(288)	(271)	(239)
Interest on incremental customers' deposit	**–**	(1)	–	–	–	–	–	–	–	–
Transfer to Smart Power Care Fund/ Smart Power Fund	**(25)**	(32)	–	(5)	(5)	(5)	(10)	–	–	–
Transfer to Rate Reduction Reserve	**(8)**	(14)	(6)	(1)	(1)	(1)	–	(1)	(1)	(1)
Net return	**3,442**	3,195	4,166	4,317	4,121	4,172	4,216	4,620	4,624	4,584

THE HONGKONG ELECTRIC COMPANY, LIMITED TEN-YEAR STATEMENT OF FINANCIAL POSITION

At 31 December

HK$ million	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Non-current assets										
Property, plant and equipment and interests in leasehold land	**56,437**	53,791	51,753	50,494	49,971	49,482	49,198	49,137	49,345	48,848
Interest in a joint venture	**278**	42	–	–	–	–	–	–	–	–
Employee retirement benefit scheme assets	**887**	809	593	648	454	580	668	615	216	271
Derivative financial instruments	**616**	641	539	784	1,034	314	352	241	646	433
	58,218	55,283	52,885	51,926	51,459	50,376	50,218	49,993	50,207	49,552
Current assets										
Coal, fuel oil and natural gas	**430**	522	675	671	624	525	572	592	763	780
Stores and materials	**296**	297	314	340	361	357	361	356	351	335
Trade and other receivables	**931**	1,056	1,024	1,065	1,218	1,155	1,129	1,104	1,183	1,078
Fuel Clause Recovery Account	**–**	–	–	–	–	–	–	1	820	1,035
Bank deposits and cash	**51**	297	33	1,658	310	6,155	4,629	1,060	8	24
	1,708	2,172	2,046	3,734	2,513	8,192	6,691	3,113	3,125	3,252
Current liabilities										
Bank loans and other borrowings	**(1,486)**	(6,010)	(440)	–	(335)	(900)	(520)	(503)	(5,317)	(617)
Fuel Clause Recovery Account	**(796)**	(647)	(855)	(2,771)	(4,088)	(2,283)	(631)	–	–	–
Trade and other payables and contract liabilities	**(7,107)**	(6,940)	(6,607)	(6,626)	(6,263)	(5,519)	(4,740)	(2,081)	(2,305)	(2,565)
Bank overdrafts – unsecured	**–**	(33)	–	–	–	–	–	–	–	–
Current taxation	**(541)**	(577)	(137)	(214)	(351)	(360)	(219)	(340)	(330)	(218)
	(9,930)	(14,207)	(8,039)	(9,611)	(11,037)	(9,062)	(6,110)	(2,924)	(7,952)	(3,400)
Net current assets/(liabilities)	**(8,222)**	(12,035)	(5,993)	(5,877)	(8,524)	(870)	581	189	(4,827)	(148)
Total assets less current liabilities	**49,996**	43,248	46,892	46,049	42,935	49,506	50,799	50,182	45,380	49,404
Non-current liabilities										
Bank loans and other borrowings	**(34,708)**	(28,319)	(32,855)	(32,714)	(30,700)	(37,646)	(38,703)	(29,574)	(21,893)	(26,691)
Derivative financial instruments	**(370)**	(14)	(411)	(184)	(73)	(168)	(63)	–	–	(10)
Customers' deposits	**(2,268)**	(2,241)	(2,195)	(2,130)	(2,057)	(2,001)	(1,937)	(1,900)	(1,839)	(1,801)
Deferred tax liabilities	**(6,628)**	(6,467)	(6,168)	(5,848)	(5,595)	(5,698)	(5,927)	(5,955)	(5,912)	(5,883)
Employee retirement benefit scheme liabilities	**(367)**	(368)	(393)	(288)	(406)	(587)	(499)	(443)	(821)	(827)
Other non-current liabilities	**(1,122)**	(955)	(747)	(503)	–	–	–	–	–	–
	(45,463)	(38,364)	(42,769)	(41,667)	(38,831)	(46,100)	(47,129)	(37,872)	(30,465)	(35,212)
Tariff Stabilisation Fund (note 1)	**(698)**	(848)	(620)	(316)	(24)	(204)	(288)	(36)	(425)	(497)
Rate Reduction Reserve (note 2)	**(8)**	(14)	(6)	(1)	(1)	(1)	–	(3)	(2)	(1)
Smart Power Care Fund/ Smart Power Fund (note 3)	**(20)**	(16)	(22)	(18)	(14)	(10)	(5)	–	–	–
Net assets	**3,807**	4,006	3,475	4,047	4,065	3,191	3,377	12,271	14,488	13,694
Capital and reserves										
Share capital	**2,411**	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411	2,411
Reserves	**1,427**	1,259	1,125	1,326	1,057	921	1,002	1,000	–	4
Hedging reserves	**(31)**	336	(61)	310	597	(141)	(36)	15	3	(4)
Proposed dividend	**–**	–	–	–	–	–	–	–	3,229	2,438
	3,807	4,006	3,475	4,047	4,065	3,191	3,377	3,426	5,643	4,849
Loan capital	**–**	–	–	–	–	–	–	8,845	8,845	8,845
Total equity	**3,807**	4,006	3,475	4,047	4,065	3,191	3,377	12,271	14,488	13,694

Notes:

1. The Tariff Stabilisation Fund is not part of shareholders' funds.
2. Pursuant to Scheme of Control, the year-end balance of the reserve of a year has to be transferred to the Tariff Stabilisation Fund in the following year starting from end 2013.
3. Pursuant to 2013 mid-term review of 2009-2018 Scheme of Control Agreement ("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 of non-commercial buildings. Under current 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.

THE HONGKONG ELECTRIC COMPANY, LIMITED TEN-YEAR OPERATING STATISTICS

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Units sold (millions of kWh)										
Commercial	**7,178**	7,751	7,766	7,824	7,893	8,012	8,015	8,011	8,164	8,081
Residential	**2,667**	2,475	2,466	2,485	2,584	2,541	2,610	2,437	2,541	2,482
Industrial	**289**	293	305	306	315	326	330	325	331	334
Total (millions of kWh)	**10,134**	10,519	10,537	10,615	10,792	10,879	10,955	10,773	11,036	10,897
Annual (decrease)/increase (%)	**(3.7)**	(0.2)	(0.7)	(1.6)	(0.8)	(0.7)	1.7	(2.4)	1.3	(0.3)
Average Net Tariff per Tariff Review (HK cents per kWh)										
Basic Tariff	**102.0**	101.3	109.1	108.9	105.5	102.6	101.8	94.7	94.1	93.1
Special Rent & Rates Rebate	**(0.4)**	(2.3)	(4.0)	(4.0)	–	–	–	–	–	–
Net Basic Tariff	**101.6**	99.0	105.1	104.9	105.5	102.6	101.8	94.7	94.1	93.1
Fuel Clause Charge	**24.8**	23.4	23.4	23.4	27.9	32.3	33.1	40.2	37.0	30.2
Special Fuel Rebate	**–**	(2.3)	(16.0)	(17.9)	–	–	–	–	–	–
Net Tariff (HK cents per kWh)	**126.4**	120.1	112.5	110.4	133.4	134.9	134.9	134.9	131.1	123.3
Number of customers (000's)	**583**	581	579	577	575	572	570	569	567	567
Installed capacity (MW)										
Gas turbines and standby units	**555**	555	555	555	555	555	555	555	555	555
Coal-fired units	**2,000**	2,000	2,000	2,250	2,500	2,500	2,500	2,500	2,500	2,500
Gas-fired combined-cycle units (note 1)	**1,060**	680	680	680	680	680	680	680	680	680
Wind turbine and photovoltaic system (note 2)	**2**	2	2	2	2	2	2	2	2	1
Total (MW)	**3,617**	3,237	3,237	3,487	3,737	3,737	3,737	3,737	3,737	3,736
System maximum demand (MW)	**2,336**	2,395	2,376	2,513	2,428	2,427	2,460	2,453	2,494	2,498
Annual (decrease)/increase (%)	**(2.5)**	0.8	(5.5)	3.5	0.0	(1.3)	0.3	(1.6)	(0.2)	(0.5)
Annual load factor (%)	**55.0**	56.4	56.8	54.0	56.7	57.3	56.9	56.1	56.6	55.9
Thermal efficiency (%)	**37.6**	35.5	35.6	35.9	35.9	36.2	36.1	36.3	36.0	36.2
Plant availability (%)	**89.5**	90.9	90.7	87.1	85.6	85.5	88.4	85.7	84.6	84.4
Number of switching stations	**24**	24	24	24	24	24	24	24	25	25
Number of zone substations	**27**	27	27	27	27	27	27	27	27	27
Number of customer substations	**3,944**	3,920	3,912	3,889	3,848	3,818	3,793	3,776	3,755	3,741
Number of employees	**1,713**	1,770	1,763	1,776	1,790	1,801	1,814	1,826	1,820	1,848
Capital expenditure (HK$ million) (note 3)	**5,485**	4,620	3,695	2,929	2,799	2,516	2,252	1,973	2,613	2,887

Notes:

1. To achieve Hong Kong's fuel mix target of around 50% gas generation in 2020, HK Electric not only had to build a new gas-fired unit L10, but also defer the retirement of an old gas-fired unit GT57. Instead of the original schedule of 2020, GT57 will now be retired in 2022 when another new gas-fired unit L11 comes into operation. This is an interim measure to achieve government objective. The installed capacity in 2020 without GT57 would otherwise be 3,272 MW.
2. The 800-kW wind turbine was commissioned in 2005; the 550-kW thin film photovoltaic system was commissioned in 2010 and was expanded to 1-MW in March 2013.
3. These are capital expenditures solely for electricity-related property, plant and equipment. The capital expenditures exclude additions of right-of-use assets and include capital expenditures of the offshore LNG terminal developed by a joint venture.

CORPORATE INFORMATION

HK Electric Investments Manager Limited（港燈電力投資管理人有限公司）
(Incorporated in Hong Kong with limited liability, the trustee-manager of HK Electric Investments)

and

HK Electric Investments Limited（港燈電力投資有限公司）
(Incorporated in the Cayman Islands with limited liability)

Board of Directors

Executive Directors

FOK Kin Ning, Canning *(Chairman)*
(WOO Mo Fong, Susan (alias CHOW WOO Mo Fong, Susan) as his alternate)
WAN Chi Tin *(Chief Executive Officer)*
CHAN Loi Shun
CHEN Daobiao
CHENG Cho Ying, Francis

Non-executive Directors

LI Tzar Kuoi, Victor *(Deputy Chairman)*
(Frank John SIXT as his alternate)
Fahad Hamad A H AL-MOHANNADI
Ronald Joseph ARCULLI
DUAN Guangming
Deven Arvind KARNIK
ZHU Guangchao

Independent Non-executive Directors

FONG Chi Wai, Alex
KWAN Kai Cheong
LEE Lan Yee, Francis
George Colin MAGNUS
Donald Jeffrey ROBERTS
Ralph Raymond SHEA

Trustee-Manager Audit Committee

Donald Jeffrey ROBERTS *(Chairman)*
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Company Audit Committee

Donald Jeffrey ROBERTS *(Chairman)*
Ronald Joseph ARCULLI
LEE Lan Yee, Francis

Remuneration Committee

Donald Jeffrey ROBERTS *(Chairman)*
FOK Kin Ning, Canning
FONG Chi Wai, Alex

Nomination Committee

LEE Lan Yee, Francis *(Chairman)*
LI Tzar Kuoi, Victor
Ralph Raymond SHEA

Sustainability Committee

WAN Chi Tin *(Chairman)*
CHENG Cho Ying, Francis
FONG Chi Wai, Alex

Company Secretary

Alex NG

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Mizuho Bank, Ltd.
MUFG Bank, Ltd.

Auditor

KPMG

Company Website

www.hkei.hk

Trustee-Manager Registered Office

44 Kennedy Road, Hong Kong

Company Registered Office

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Company Head Office and Principal Place of Business in Hong Kong

44 Kennedy Road, Hong Kong
Telephone: (852) 2843 3111
Facsimile: (852) 2810 0506
Email: mail@hkei.hk

Share Stapled Units Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com/hk/contact

Principal Share Registrar

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman, KY1-1111,
Cayman Islands

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com/hk/contact

ADR (Level 1 Programme) Depositary

Deutsche Bank Trust Company Americas
60 Wall Street, New York, NY 10005
Website: www.adr.db.com
Email: adr@db.com

Investor Relations

For institutional investors, please contact:
CHAN Loi Shun *(Executive Director)* or
WONG Kim Man *(Chief Financial Officer)*

For other investors, please contact:
Alex NG *(Company Secretary)*

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Facsimile: (852) 2810 0506
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Address: 44 Kennedy Road, Hong Kong

FINANCIAL CALENDAR AND SHARE STAPLED UNIT INFORMATION

Financial Calendar

Interim Results Announcement	4 August 2020
Annual Results Announcement	16 March 2021
Ex-distribution Date	30 March 2021
Record Date for Final Distribution	31 March 2021
Annual Report Despatch Date	On or before 7 April 2021
Distribution per Share Stapled Unit	
Interim : HK15.94 cents	28 August 2020
Final : HK16.09 cents	13 April 2021
Closure of Registers	7 May 2021 to 12 May 2021
– Annual General Meeting	(both days inclusive)
Annual General Meeting	12 May 2021

Share Stapled Unit Information

Board Lot	500 Share Stapled Units
Market Capitalisation as at 31 December 2020	HK$67,420 million
Share Stapled Unit to American Depositary Share Ratio	10:1

Stock Codes

The Stock Exchange of Hong Kong Limited	2638
Bloomberg	2638 HK
Refinitiv	2638.HK
ADR Ticker Symbol	HKVTY
CUSIP Number	40422B101

GLOSSARY

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Annual General Meeting"	The annual general meeting of unitholders of the Trust and shareholders of the Company, as convened by the Trustee-Manager and the Company held on a combined basis as a single meeting characterised as the annual general meeting of Holders of Share Stapled Units
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"CK Hutchison"	CK Hutchison Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1)
"CKI"	CK Infrastructure Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 1038)
"Company"	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
"Company Audit Committee"	Audit committee of the Company
"Company Board"	Board of directors of the Company
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Government"	HKSAR Government
"Group"	The Company and its subsidiaries
"HK Electric"	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"HKASs"	Hong Kong Accounting Standards
"HKEI"	The Trust and the Company
"HKEX"	Hong Kong Exchanges and Clearing Limited
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI

GLOSSARY

Term(s)	Definition
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
"Registers"	The Share Stapled Units Register, the Units Register, the Principal and Hong Kong Branch Registers of Members and the Register of Beneficial Interests
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Stapled Unit(s)" or "SSU(s)"	Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
"Share Stapled Units Register"	The register of registered Holders of Share Stapled Units
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Trust"	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
"Trust Deed"	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company and as amended by the deed of amendment dated 13 May 2020
"Trust Group"	The Trust and the Group
"Trustee-Manager"	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
"Trustee-Manager Audit Committee"	Audit committee of the Trustee-Manager
"Trustee-Manager Board"	Board of directors of the Trustee-Manager

This Annual Report has been printed in both the English and Chinese languages. If Holders of Share Stapled Units who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.hkei.hk. If, for any reason, Holders of Share Stapled Units who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Annual Report, they may request that a printed copy of this Annual Report be sent to them free of charge by mail.

Holders of Share Stapled Units may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at 44 Kennedy Road, Hong Kong or to the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@hkei.hk.

港燈電力投資
HK Electric Investments