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

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

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

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

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

2. Basis of presentation

Pursuant to the Trust Deed, the Trust and the Company are each required to prepare their own sets of financial statements on a consolidated basis. The consolidated financial statements of the Trust for the year ended 31 December 2018 comprise the consolidated financial statements of the Trust, the Company and its subsidiaries (together the "Trust Group"). The consolidated financial statements of the Company for the year ended 31 December 2018 comprise the consolidated financial statements of the Company and its subsidiaries (together the "Group").

The Trust controls the Company and the sole activity of the Trust during the year ended 31 December 2018 was investing in the Company. Therefore, the consolidated results and financial position that would be presented in the consolidated financial statements of the Trust are identical to the consolidated results and financial position of the Company with the only differences being disclosures of share capital of the Company. The Directors of the Trustee-Manager and Directors of the Company believe that it is clearer to present the consolidated financial statements of the Trust and of the Company together. The consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together to the extent they are identical and are hereinafter referred as the "consolidated financial statements of the Trust and of the Company".

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

(c) Subsidiaries

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

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

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

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

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

(d) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

(f) Leased assets and operating lease charges

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

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

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

(g) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(1) Policy applicable from 1 January 2018

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

Measurement of ECLs

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

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

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

– variable rate financial assets: current effective interest rate.

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

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

Measurement of ECLs (continued)

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

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

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

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

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

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

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

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

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

Basis of calculation of interest income

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(i) Credit losses from financial instruments (continued)

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

Basis of calculation of interest income (continued)

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

– significant financial difficulties of the debtor;

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

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

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

Write-off policy

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

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

(2) Policy applicable prior to 1 January 2018

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

– significant financial difficulty of the debtor;

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

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

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

If any such evidence existed, any impairment loss was determined and recognised as follows:

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

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

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other non-current assets

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

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

– goodwill; and

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

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

– Calculation of recoverable amount

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

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

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

(h) Short-term employee benefits

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

(i) Retirement scheme obligations

(i) Defined benefit retirement scheme obligations

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

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

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

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

(ii) Contributions to defined contribution retirement schemes

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

(j) Inventories

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(k) Trade and other receivables

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

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

(l) Interest-bearing borrowings

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

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

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

(m) Trade and other payables

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

(n) Contract liabilities

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

(o) Derivative financial instruments

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

(p) Hedging

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(q) Revenue recognition

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

The earnings of the Groups' major subsidiary, HK Electric, are regulated by the HKSAR Government (the "Government") under a Scheme of Control Agreement ("SoCA") which provides for a permitted level of earnings based principally on a return on HK Electric's capital investment in electricity generation, transmission and distribution assets (the "Permitted Return"). The 2009-2018 SoCA also provides for performance based incentives and penalties which encourage emission reduction, customer service quality, energy efficiency and the use of renewable energy. The Net Return of HK Electric under the SoCA is determined by deducting from the Permitted Return interest and excess capacity adjustments, if any, and adjusting for the abovementioned incentives and penalties. HK Electric is required to submit detailed Development Plans for approval by the Government which project the key determinants of the Net Return to which HK Electric will be entitled over the Development Plan period.

In July 2018, the Government approved the 2019-2023 Development Plan covering the period from 1 January 2019 to 31 December 2023. Similar to the 2014-2018 Development Plan, no further Government approval is required during this period unless a need for significant Basic Tariff increases, over and above those set out in the Development Plan, is identified during the Annual Tariff Review conducted with the Government under the terms of the SoCA.

(ii) Fuel Clause Recovery Account

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

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

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

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

(iii) Income recognition

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

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

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

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

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

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

(r) Translation of foreign currencies

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(s) Cash and cash equivalents

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

(t) Income tax

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

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

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

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

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

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

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

(u) Borrowing costs

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

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

(v) Provisions and contingent liabilities

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

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

(w) Related parties

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

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

(2) has significant influence over the Groups; or

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

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

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

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

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

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

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

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(x) Segment reporting

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

4. Changes in accounting policies

(a) Overview

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Credit losses

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

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

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

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

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

(iii) Hedge accounting

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

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

Cost of hedging

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Changes in accounting policies (continued)

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

(iii) Hedge accounting (continued)

Cost of hedging (continued)

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

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

(iv) Transition

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

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

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

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

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

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

(c) HKFRS 15, Revenue from contracts with customers

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

4. Changes in accounting policies (continued)

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

(i) Timing of revenue recognition

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

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

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

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

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

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

(ii) Presentation of contract assets and liabilities

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

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

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

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

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

5. Revenue

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

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

6. Segment reporting

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

7. Other revenue and other net income

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

8. Finance costs

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

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

9. Profit before taxation

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

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

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

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

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

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

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

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

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

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

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

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11. Directors' emoluments and senior management remuneration

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

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

Notes:
(1) Member of the Trustee-Manager Audit Committee and the Company Audit Committee.
(2) Member of the Remuneration Committee.
(3) An Alternate Director to Mr. Fok Kin Ning, Canning.
(4) An Alternate Director to Mr. Victor T K Li.
(5) Retired from the position of Executive Director and appointed as Adviser to HK Electric with effect from 17 January 2017.
(6) Retired from the position of Non-executive Director with effect from 31 May 2017.
(7) Appointed as Non-executive Director with effect from 31 May 2017.
(8) Appointed as Executive Director with effect from 22 May 2018.
(9) Resigned as Executive Director with effect from 22 May 2018.
(10) Other benefits include electricity allowances to Directors for residential use. For Directors who are employees of the Groups, other benefits also include insurance and medical benefits entitled by the employees of the Groups.

The five highest paid individuals of the Groups included two directors (2017: two) whose total emoluments are shown above. The remuneration of the other three individuals (2017: three) who comprise the five highest paid individuals of the Groups is set out below:

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

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

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

The remuneration of Directors and senior management is as follows:

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

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

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12. Scheme of Control transfers

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

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

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

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

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

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

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

13. Distributions/dividends

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

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

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

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

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

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

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

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

For the year ended 31 December 2018, the Company Board declared the payment of a second interim dividend of 20.12 cents per ordinary share (2017: 20.12 cents per ordinary share), amounting to $1,778 million (2017: $1,778 million), in lieu of a final dividend after the end of the reporting period and therefore no final dividend was proposed by the Company Board.

For the year ended 31 December 2018, the Trustee-Manager Board declared a final distribution of 20.12 cents per Share Stapled Unit (2017: 20.12 cents per Share Stapled Unit), amounting to $1,778 million (2017: $1,778 million), after the end of the reporting period.

The final distribution/second interim dividend declared after the end of the reporting period is based on the number of Shares Stapled Units/ordinary shares of the Company of 8,836,200,000 as at 31 December 2018 (2017: 8,836,200,000). The final distribution/second interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

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

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

The calculation of basic and diluted earnings per Share Stapled Unit/share of the Company are based on the profit attributable to the holders of Share Stapled Units/ordinary shares of the Company of $3,051 million (2017: $3,341 million) and the weighted average of 8,836,200,000 Share Stapled Units/ordinary shares of the Company (2017: 8,836,200,000 Share Stapled Units/ordinary shares of the Company) in issue during the year.

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

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

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

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

16. Goodwill

(a) Carrying amount of goodwill

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

(b) Impairment test for goodwill

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

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

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

If the discount rate rose to 6.47% (2017: 6.54%), the recoverable amount of the CGU would be approximately equal to its carrying amount. Except this, any reasonably possible changes in the other key assumptions used in the value-in-use calculation would not affect management's view on impairment test result as at 30 November 2018.

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17. Investments in subsidiaries

Details of the subsidiaries at 31 December 2018 are as follows:

Name of subsidiary	**Issued share capital and debt securities**	**Percentage of equity held by the Company**	**Place of incorporation/ operation**	**Principal activity**
Century Rank Limited	US$1	100%	British Virgin Islands/ Hong Kong	Investment holding
Treasure Business Limited	US$1	100% [(1)]	British Virgin Islands/ Hong Kong	Investment holding
The Hongkong Electric Company, Limited	$2,411,600,000	100% [(1)]	Hong Kong	Electricity generation and supply
Hongkong Electric Finance Limited	US$1 HK$6,335 million Hong Kong dollar fixed rate notes US$1,500 million United States dollar fixed rate notes HK$1,056 million Hong Kong dollar zero coupon notes US$650 million United States dollar callable zero coupon notes (see note 23)	100% [(1)]	British Virgin Islands/ Hong Kong	Financing

(1) Indirectly held

18. Inventories

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

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

19. Trade and other receivables

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

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

Other receivables of the Groups include unbilled electricity charges of $336 million (2017: $335 million) to be received from electricity customers.

(a) Ageing analysis of trade debtors

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

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

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

(b) Expected credit losses of trade debtors

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

19. Trade and other receivables (continued)

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

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

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

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

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

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

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

(c) Comparative information under HKAS 39

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

20. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

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

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

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

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(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Reconciliation of liabilities arising from financing activities:

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

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

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

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

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21. Trade and other payables and contract liabilities

	31 December 2018 $ million	1 January 2018 $ million	31 December 2017 $ million
Trade and other payables			
Creditors measured at amortised cost (see note (a) below)	**2,403**	2,608	2,649
Derivative financial instruments (see note 24)	**6**	3	3
	2,409	2,611	2,652
Contract liabilities (see note (b) below)	**38**	41	–
	2,447	2,652	2,652

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

(a) Creditors' ageing is analysed as follows:

	2018 $ million	2017 $ million
Due within 1 month or on demand	**1,316**	1,321
Due after 1 month but within 3 months	**139**	202
Due after 3 months but within 12 months	**948**	1,126
	2,403	2,649

(b) Contract liabilities

(i) Upon the adoption of HKFRS 15, these amounts were reclassified from trade and other payables to contract liabilities. Trade and other payables and contract liabilities are aggregated into a single line item "Trade and other payables and contract liabilities" on the face of the consolidated statement of financial position.

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

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

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

22. Fuel Clause Recovery Account

The Fuel Clause Charge per unit for electricity sales was 23.4 cents from 1 January 2018 (2017: 23.4 cents). During the year, Special Fuel Rebate of 16 cents per unit for electricity sales (2017: 17.9 cents) was offered to customers. Movements in the Fuel Clause Recovery Account were as follows:

	2018 **$ million**	2017 $ million
At 1 January	**2,771**	4,088
Transferred to profit or loss	**(2,696)**	(1,904)
Fuel Clause Charges during the year	**2,466**	2,484
Special Fuel Rebates during the year	**(1,686)**	(1,897)
At 31 December	**855**	2,771

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

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23. Bank loans and other interest-bearing borrowings

	2018 $ million	2017 $ million
Bank loans	**17,755**	17,359
Current portion	**(110)**	–
	17,645	17,359
Hong Kong dollar medium term notes		
Fixed rate notes (see note (a) below)	**6,295**	6,291
Zero coupon notes (see note (b) below)	**702**	679
	6,997	6,970
Current portion	**(330)**	–
	6,667	6,970
United States dollar medium term notes		
Fixed rate notes (see note (a) below)	**11,673**	11,741
Zero coupon notes (see note (b) below)	**5,540**	5,301
	17,213	17,042
Non-current portion	**41,525**	41,371

(a) The Hong Kong dollar fixed rate notes bear interest at rates ranging from 2.55% to 4% per annum (2017: 2.55% to 4% per annum).

The United States dollar fixed rate notes bear interest at rates ranging from 2.875% to 4.25% per annum (2017: 2.875% to 4.25% per annum).

(b) The Hong Kong dollar zero coupon notes which were issued at discount have nominal amount of $1,056 million (2017: $1,056 million) and accrual yield of 3.5% per annum (2017: 3.5% per annum).

The United States dollar zero coupon notes have nominal amount of US$650 million (2017: US$650 million) and accrual yields ranging from 4.375% to 4.8% per annum (2017: 4.375% to 4.8% per annum). These notes embed with issuer call options allowing issuer to early redeem the notes. US$250 million of these notes are callable on 20 October 2020 and annually thereafter until the penultimate year to maturity. The remaining US$400 million are callable on 12 October 2022 and annually thereafter until the penultimate year to maturity.

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

(d) Some banking facilities of the Groups are subject to the fulfilment of covenants relating to certain of the Groups' statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Groups were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Groups regularly monitors its compliance with these covenants. Further details of the Groups' management of liquidity risk are set out in note 29(b). As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

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

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

	2018 **$ million**	2017 $ million
After 1 year but within 2 years	**5,881**	330
After 2 years but within 5 years	**17,944**	23,316
After 5 years	**17,700**	17,725
	41,525	41,371

24. Derivative financial instruments

	2018		2017	
	Assets **$ million**	**Liabilities** **$ million**	Assets $ million	Liabilities $ million
Derivative financial instruments used for hedging:				
Cash flow hedges:				
– Cross currency swaps	**–**	**(172)**	5	(155)
– Interest rate swaps	**497**	**–**	494	–
– Forward foreign exchange contracts	**10**	**(244)**	166	(32)
Fair value hedges:				
– Cross currency swaps	**63**	**–**	151	–
– Forward foreign exchange contracts	**–**	**(1)**	–	–
	570	**(417)**	816	(187)
Analysed as:				
Current	**2**	**(6)**	7	(3)
Non-current	**568**	**(411)**	809	(184)
	570	**(417)**	816	(187)

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25. Employee retirement benefits

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

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

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

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

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

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

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

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include discount rate, long term salary increase rate and future pension increase rate which are disclosed in note 25(a)(viii) together with appropriate provisions for mortality rates, turnover and adjustments to reflect the short-term market expectation of salary increases. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 31 December 2016. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

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

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2018 was determined in accordance with HKAS 19 (2011), *Employee benefits.*

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

	2018 $ million	2017 $ million
Present value of defined benefit obligations	**3,463**	3,707
Fair value of assets of the Schemes	**(3,663)**	(4,067)
	(200)	(360)
Represented by:		
Employee retirement benefit scheme assets	**(593)**	(648)
Employee retirement benefit scheme liabilities	**393**	288
	(200)	(360)

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

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

	2018 $ million	2017 $ million
At 1 January	**3,707**	3,798
Current service cost	**70**	72
Interest cost	**67**	73
Employee contributions paid to the Schemes	**15**	16
Actuarial losses/(gains) due to:		
– liability experience	**1**	(5)
– change in financial assumptions	**(75)**	50
– change in demographic assumptions	**41**	2
Benefits paid	**(363)**	(299)
At 31 December	**3,463**	3,707

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25. Employee retirement benefits (continued)

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

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

	2018 **$ million**	2017 $ million
At 1 January	**4,067**	3,846
Interest income on the Schemes' assets	**73**	73
Return on Schemes' assets, excluding interest income	**(181)**	374
Employer contributions paid to the Schemes	**52**	57
Employee contributions paid to the Schemes	**15**	16
Benefits paid	**(363)**	(299)
At 31 December	**3,663**	4,067

The Groups expect to contribute $56 million to the Schemes in 2019.

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

	2018 **$ million**	2017 $ million
Current service cost	**70**	72
Net interest income on net defined benefit asset/liability	**(6)**	–
	64	72

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

	2018 **$ million**	2017 $ million
Direct costs	**44**	49
Other operating costs	**20**	23
	64	72

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

	2018 **$ million**	2017 $ million
At 1 January	**299**	(28)
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	**(148)**	327
At 31 December	**151**	299

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

	2018 **$ million**	2017 $ million
Hong Kong equities	**346**	449
European equities	**188**	260
North American equities	**478**	539
Asia Pacific and other equities	**148**	218
Global bonds	**2,432**	2,547
Deposits, cash and others	**71**	54
	3,663	4,067

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

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

	2018	2017
Discount rate		
– The Pension Scheme	**2.2%**	2.0%
– The Guaranteed Return Scheme	**1.9%**	1.7%
Long term salary increase rate	**5.0%**	5.0%
Future pension increase rate	**2.5%**	2.5%

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

(Expressed in Hong Kong dollars unless otherwise indicated)

25. Employee retirement benefits (continued)

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

(ix) Sensitivity analysis

(1) The Pension Scheme

	Increase/(decrease) in defined benefit obligations	
	2018 **$ million**	2017 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(54)**	(56)
– decrease by 0.25%	**57**	59
Pension increase rate		
– increase by 0.25%	**54**	56
– decrease by 0.25%	**(52)**	(53)
Mortality rate applied to specific age		
– set forward one year	**(65)**	(67)
– set backward one year	**66**	68

(2) The Guaranteed Return Scheme

	Increase/(decrease) in defined benefit obligations	
	2018 **$ million**	2017 $ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	**(29)**	(33)
– decrease by 0.25%	**29**	34
Interest to be credited		
– increase by 0.25%	**29**	33

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position. The analysis has been performed on the same basis as for 2017.

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

	2018	2017
The Pension Scheme	**13.2 Years**	13.5 Years
The Guaranteed Return Scheme	**6.5 Years**	6.7 Years

(b) Defined contribution retirement schemes

	2018 **$ million**	2017 $ million
Expenses recognised in profit or loss	**52**	48

Forfeited contributions of $1,306,000 (2017: $1,349,000) have been received during the year.

26. Provisions

	2018 **$ million**
Provisions for asset decommissioning obligation	
At 1 January	**503**
Additional provisions made	**244**
At 31 December	**747**

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Income tax in the consolidated statement of financial position

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

	2018 **$ million**	2017 $ million
Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the year	**458**	660
Provisional Profits Tax paid	**(321)**	(446)
	137	214

(b) Deferred tax liabilities

	2018 **$ million**	2017 $ million
Deferred tax liabilities	**9,353**	9,149

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

$ million	**Depreciation allowances in excess of the related depreciation**	**Fuel Clause Recovery Account**	**Defined benefit retirement schemes**	**Others**	**Total**
At 1 January 2017	9,650	(675)	(70)	112	9,017
(Credited)/charged to profit or loss	(85)	218	4	(3)	134
Charged/(credited) to other comprehensive income	–	–	54	(56)	(2)
At 31 December 2017 and 1 January 2018	**9,565**	**(457)**	**(12)**	**53**	**9,149**
(Credited)/charged to profit or loss	**(19)**	**316**	**5**	**(1)**	**301**
Credited to other comprehensive income	**–**	**–**	**(24)**	**(73)**	**(97)**
At 31 December 2018	**9,546**	**(141)**	**(31)**	**(21)**	**9,353**

(ii) The Groups had no material unprovided deferred tax assets or liabilities as at 31 December 2018 and 2017.

28. Capital, reserves and dividends

(a) Movements in components of equity

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

The Company

$ million	Share capital (note 28(b))	Share premium (note 28(c))	Hedging reserve (note 28(d)(i))	Revenue reserve (note 28(d)(ii))	Proposed/ declared dividend (note 13)	Total
Balance at 1 January 2017	8	47,472	(2)	1,699	1,778	50,955
Changes in equity for 2017:						
Profit for the year	–	–	–	3,958	–	3,958
Other comprehensive income	–	–	27	–	–	27
Total comprehensive income	–	–	27	3,958	–	3,985
Second interim dividend in respect of previous year approved and paid (see note 13(c))	–	–	–	–	(1,778)	(1,778)
First interim dividend paid (see note 13(b))	–	–	–	(1,760)	–	(1,760)
Proposed second interim dividend (see note 13(b))	–	–	–	(1,778)	1,778	–
Balance at 31 December 2017 and 1 January 2018	**8**	**47,472**	**25**	**2,119**	**1,778**	**51,402**
Changes in equity for 2018:						
Profit for the year	**–**	**–**	**–**	**3,714**	**–**	**3,714**
Other comprehensive income	**–**	**–**	**4**	**–**	**–**	**4**
Total comprehensive income	**–**	**–**	**4**	**3,714**	**–**	**3,718**
Second interim dividend in respect of previous year approved and paid (see note 13(c))	**–**	**–**	**–**	**–**	**(1,778)**	**(1,778)**
First interim dividend paid (see note 13(b))	**–**	**–**	**–**	**(1,760)**	**–**	**(1,760)**
Proposed second interim dividend (see note 13(b))	**–**	**–**	**–**	**(1,778)**	**1,778**	**–**
Balance at 31 December 2018	**8**	**47,472**	**29**	**2,295**	**1,778**	**51,582**

All of the Company's share premium and revenue reserve is available for distribution. The Company Board declared the payment of a second interim dividend of 20.12 cents (2017: 20.12 cents) per ordinary share, amounting to $1,778 million (2017: $1,778 million), in lieu of a final dividend and therefore no final dividend was proposed by the Company Board.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(b) Share capital

The Company

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

	2017	
	Number of Shares	Nominal value $
Authorised:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Preference shares of $0.0005 each		
At 1 January and 31 December	20,000,000,000	10,000,000
Issued and fully paid:		
Ordinary shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100
Preference shares of $0.0005 each		
At 1 January and 31 December	8,836,200,000	4,418,100

(c) Share premium

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

(d) Nature and purpose of reserves

(i) Hedging reserve

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

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

(1) Cash flow hedge reserve

$ million	**Interest rate risk** (note 29(c)(i)(1))	**Currency risk** (note 29(d)(i)(1))	**Total**
Balance at 1 January 2017, as previously reported	530	43	573
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	(68)	(70)	(138)
Restated balance at 1 January 2017	462	(27)	435
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	(436)	54	(382)
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	40	(4)	36
Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	(3)	(3)
Net deferred tax credited/(debited) to other comprehensive income	70	(8)	62
	(326)	39	(287)
Restated balance at 31 December 2017 (see note 3 below)	**136**	**12**	**148**

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(i) Hedging reserve (continued)

(1) Cash flow hedge reserve (continued)

$ million	Interest rate risk (note 29(c)(i)(1))	Currency risk (note 29(d)(i)(1))	Total
Balance at 1 January 2018, as previously reported	245	69	314
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	(109)	(57)	(166)
Restated balance at 1 January 2018	**136**	**12**	**148**
Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(9)**	**(19)**	**(28)**
Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**8**	**(2)**	**6**
Net deferred tax credited to other comprehensive income	**1**	**3**	**4**
	–	**(18)**	**(18)**
Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**1**	**1**
At 31 December 2018 (see note 3 below)	**136**	**(5)**	**131**

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

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

Note 3 The entire balance relates to continuing hedges.

(2) Cost of hedging reserve

$ million	Foreign currency basis spread	Forward element	Total
Balance at 1 January 2017, as previously reported	–	–	–
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	68	70	138
Restated balance at 1 January 2017	68	70	138
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	51	34	85
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	(1)	(21)	(22)
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	–	(32)	(32)
– Amounts transferred to the initial carrying amount of hedged items (see note 2 below)	–	3	3
Net deferred tax credited/(debited) to other comprehensive income	(9)	3	(6)
Restated balance at 31 December 2017 (see note 3 below)	**109**	**57**	**166**

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

(Expressed in Hong Kong dollars unless otherwise indicated)

28. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(i) Hedging reserve (continued)

(2) Cost of hedging reserve (continued)

$ million	Foreign currency basis spread	Forward element	Total
Balance at 1 January 2018, as previously reported	–	–	–
Adjustment on initial application of HKFRS 9, net of tax (see note 4(b)(iii))	109	57	166
Restated balance at 1 January 2018	**109**	**57**	**166**
Hedging for time-period related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**(17)**	**(316)**	**(333)**
– Reclassification adjustments for amounts transferred to profit or loss (see note 1 below)	**–**	**(54)**	**(54)**
Hedging for transaction related hedged items			
– Effective portion of changes in fair value of hedging instruments recognised in other comprehensive income	**–**	**(30)**	**(30)**
– Amounts transferred to the initial carrying amount of hedged items, net of tax (see note 2 below)	**–**	**(3)**	**(3)**
Net deferred tax credited to other comprehensive income	**3**	**66**	**69**
At 31 December 2018 (see note 3 below)	**95**	**(280)**	**(185)**

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

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

Note 3 The entire balance relates to continuing hedges.

(ii) Revenue reserve

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

(e) Capital management

The Groups' primary objectives when managing capital are:

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

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

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

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

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

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

During 2018, the Groups' strategy, which was unchanged from 2017, was to control the Groups' level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Groups may adjust the amount of distributions paid to holders of Share Stapled Units in accordance with the Trust Deed, issue new Share Stapled Units, raise new debt financing or sell assets to reduce debt.

The net debt-to-net total capital ratio at 31 December 2018 and 2017 was as follows:

	2018 **$ million**	2017 $ million
Bank loans and other interest-bearing borrowings	**41,965**	41,371
Less: Bank deposits and cash	**(34)**	(1,659)
Net debt	**41,931**	39,712
Total equity	**48,743**	49,722
Net debt	**41,931**	39,712
Net total capital	**90,674**	89,434
Net debt-to-net total capital ratio	**46%**	44%

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

(Expressed in Hong Kong dollars unless otherwise indicated)

29. Financial risk management and fair values of financial instruments

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

(a) Credit risk

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

In respect of trade and other receivables relating to electricity customers, HK Electric obtains collateral in the form of security deposits or bank guarantees from customers in accordance with the Supply Rules. The collateral covered $386 million of trade and other receivables at 31 December 2018 (2017: $360 million). The credit policy is set out in note 19.

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

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

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

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

Offsetting financial assets and financial liabilities

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

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

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

		2018			2017		
$ million	Note	**Gross amounts of financial instruments in the consolidated statement of financial position**	**Related financial instruments that are not offset**	**Net amount**	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
Financial assets							
Cross currency swaps	29(e)(i)	**63**	**(32)**	**31**	156	(49)	107
Interest rate swaps	29(e)(i)	**497**	**(294)**	**203**	494	(64)	430
Forward foreign exchange contracts	29(e)(i)	**10**	**(2)**	**8**	166	(11)	155
Total		**570**	**(328)**	**242**	816	(124)	692
Financial liabilities							
Cross currency swaps	29(e)(i)	**172**	**(119)**	**53**	155	(112)	43
Forward foreign exchange contracts	29(e)(i)	**245**	**(209)**	**36**	32	(12)	20
Total		**417**	**(328)**	**89**	187	(124)	63

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(b) Liquidity risk

The Groups operate a central cash management system in order to achieve a better control of risk and minimise the costs of funds. The Groups' policy is to regularly monitor current and expected liquidity requirements and compliance with loan covenants, to ensure that the Groups maintain sufficient reserves of cash and adequate committed lines of funding to meet liquidity requirements in the short and longer term. The Groups had undrawn committed bank facilities of $5,495 million at 31 December 2018 (2017: $5,750 million).

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

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

$ million	2017					
	Contractual undiscounted cash outflows/(inflows)					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total	Carrying amount at 31 December
Non-derivative financial liabilities						
Bank loans and other borrowings and interest accruals	942	1,274	25,102	32,369	59,687	41,504
Creditors and accrued charges	2,472	–	–	–	2,472	2,472
	3,414	1,274	25,102	32,369	62,159	43,976
Derivative financial instruments						
Net settled						
Interest rate swaps and related interest accruals	22	22	81	127	252	(492)
Gross settled						
Cross currency swaps and related interest accruals						(5)
– outflow	326	326	667	595	1,914	
– inflow	(417)	(417)	(753)	(589)	(2,176)	
Forward foreign exchange contracts held as cash flow hedging instruments:						(134)
– outflow	6,184	9	1,354	8,565	16,112	
– inflow	(6,198)	(9)	(1,278)	(9,021)	(16,506)	
Other forward foreign exchange contracts:						–
– outflow	100	–	–	–	100	
– inflow	(101)	–	–	–	(101)	

(c) Interest rate risk

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

(i) Hedges of interest rate risk

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(i) Hedges of interest rate risk (continued)

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

The hedge ineffectiveness in these hedging relationships can arise from:

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

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

(1) Cash flow hedges

The following tables provide information on cross currency swaps and interest rate swaps which have been designated as cash flow hedges of the interest rate risk inherent in the Groups' variable rate borrowings at the end of the reporting period and show the effectiveness of the hedging relationships:

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**17,772**	16,772
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**497**	499
– Derivative financial instruments under non-current liabilities	**(172)**	(155)
Changes in fair value used for calculating hedge ineffectiveness	**(9)**	(436)

	2018	2017
Maturity date	**Ranging from 2020 to 2027**	Ranging from 2020 to 2027
Weighted average fixed swap rates	**2.17%**	2.25%

	2018 $ million	2017 $ million
Hedged items		
Changes in fair value used for calculating hedge ineffectiveness	**9**	436
Hedge ineffectiveness recognised in profit or loss	**–**	–

(2) Fair value hedges

The following tables provide information on cross currency swaps which have been designated as fair value hedges of the interest rate risk inherent in the Groups' fixed rate borrowings at the end of the reporting period and show the effectiveness of the hedging relationships:

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**4,272**	4,272
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**63**	151
Changes in fair value used for calculating hedge ineffectiveness	**(88)**	(69)

	2018	2017
Maturity date	**2020**	2020
Weighted average variable swap rates	**2.56%**	1.77%

	2018 $ million	2017 $ million
Hedged items		
Carrying amount (including accumulated fair value hedge adjustments) recognised in the consolidated statement of financial position		
– Bank loans and other interest-bearing borrowings under non-current liabilities	**(4,327)**	(4,408)
Accumulated fair value hedge adjustments	**(63)**	(151)
Changes in fair value used for calculating hedge ineffectiveness	**88**	69
Hedge ineffectiveness recognised in profit or loss	**–**	–

For foreign currency borrowings included in the hedging relationships above, the foreign currency risk exposure has also been managed through cross currency swaps.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(c) Interest rate risk (continued)

(ii) Interest rate profile

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

	2018		2017	
	Weighted average interest rate %	**$ million**	Weighted average interest rate %	$ million
Net fixed rate assets/(liabilities)				
Deposits with banks and other financial institutions	**–**	**–**	2.00	1,613
Bank loans and other borrowings	**3.03**	**(29,250)**	3.04	(28,953)
		(29,250)		(27,340)
Net variable rate assets/(liabilities)				
Cash at bank and in hand	**0.03**	**34**	0.03	46
Bank loans and other borrowings	**2.99**	**(12,715)**	1.89	(12,418)
Customers' deposits	**0.13**	**(2,195)**	–*	(2,130)
		(14,876)		(14,502)

* Less than 0.01%

(iii) Sensitivity analysis

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Groups' profit after taxation and revenue reserve by approximately $130 million (2017: $128 million). Other components of consolidated equity would have increased/decreased by approximately $562 million (2017: $610 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2017.

(d) Currency risk

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

(i) Hedges of currency risk

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

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

The hedge ineffectiveness in these hedging relationships can arise from:

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

– changes in the timing of the hedged transactions.

(1) Cash flow hedges

The following tables provide information on the forward foreign exchange contracts that have been designated as cash flow hedges of the Groups' committed and forecast transactions and foreign currency borrowings at the end of the reporting period and show the effectiveness of the hedging relationships:

Committed and forecast transactions

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**16,077**	11,081
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**6**	66
– Trade and other receivables	**2**	7
– Derivative financial instruments under non-current liabilities	**(176)**	(29)
– Trade and other payables and contract liabilities	**(5)**	(3)
Changes in fair value used for calculating hedge ineffectiveness	**(8)**	42

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(i) Hedges of currency risk (continued)

(1) Cash flow hedges (continued)

Committed and forecast transactions (continued)

	2018 $ million	2017 $ million
Hedged items		
Changes in fair value used for calculating hedge ineffectiveness	**8**	(42)
Hedge ineffectiveness recognised in profit or loss	**–**	–

Foreign currency borrowings

	2018 $ million	2017 $ million
Hedging instruments		
Notional amount	**5,301**	5,033
Carrying amount recognised in the consolidated statement of financial position		
– Derivative financial instruments under non-current assets	**2**	93
– Derivative financial instruments under non-current liabilities	**(63)**	–
Changes in fair value used for calculating hedge ineffectiveness	**(11)**	12

	2018 $ million	2017 $ million
Hedged items		
Carrying amount recognised in the consolidated statement of financial position		
– Bank loans and other interest-bearing borrowings under non-current liabilities	**5,540**	5,301
Changes in fair value used for calculating hedge ineffectiveness	**11**	(12)
Hedge ineffectiveness recognised in profit or loss	**–**	–

The Groups' borrowings are either hedged into Hong Kong dollars by ways of forward foreign exchange contracts and cross currency swaps (see note 29(c)(i)) or are denominated in Hong Kong dollars. Given this, the management does not expect that there would be any significant currency risk associated with the Groups' borrowings.

(2) Fair value hedges

The following tables provide information on forward foreign exchange contracts which have been designated as fair value hedges of the Groups' recognised assets and liabilities at the end of the reporting period and show the effectiveness of the hedging relationships:

	2018 **$ million**	2017 $ million
Hedging instruments		
Notional amount	**62**	100
Carrying amount recognised in the consolidated statement of financial position		
– Trade and other payables and contract liabilities	**(1)**	–
Changes in fair value used for calculating hedge ineffectiveness	**(1)**	–

	2018 **$ million**	2017 $ million
Hedged items		
Carrying amount (including accumulated fair value hedge adjustments) recognised in the consolidated statement of financial position		
– Trade and other payables and contract liabilities	**62**	100
Accumulated fair value hedge adjustments	**1**	–
Changes in fair value used for calculating hedge ineffectiveness	**1**	–
Hedge ineffectiveness recognised in profit or loss	**–**	–

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

	2018	2017
Maturity date	**Ranging from 2019 to 2032**	Ranging from 2018 to 2032
Weighted average contract rates		
USD: HKD	**7.5108**	7.5299
JPY: HKD	**0.0761**	0.0762
GBP: HKD	**10.8818**	10.2106
EUR: HKD	**9.3155**	–
JPY: USD	**108.1617**	111.3280

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(d) Currency risk (continued)

(ii) Exposure to currency risk

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

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

	2017	
'million (expressed in original currencies)	USD	JPY
Bank deposits and cash	149	1
Trade and other receivables	1	–
Trade and other payables and contract liabilities	(70)	(526)
Bank loans and other borrowings	(2,180)	–
Gross exposure arising from recognised assets and liabilities	(2,100)	(525)
Notional amounts of forward foreign exchange contracts designated as hedging instruments	591	114
Notional amounts of cross currency swaps designated as hedging instruments	1,500	–
Net exposure arising from recognised assets and liabilities	(9)	(411)

(iii) Sensitivity analysis

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

	2018		2017	
$ million	**Effect on profit after taxation and revenue reserve Increase/ (decrease)**	**Effect on other components of equity Increase/ (decrease)**	Effect on profit after taxation and revenue reserve Increase/ (decrease)	Effect on other components of equity Increase/ (decrease)
Japanese Yen	**–**	**86**	(2)	81

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

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Groups which expose the Groups to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. The analysis has been performed on the same basis as for 2017.

(e) Fair value measurement

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

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

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

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(e) Fair value measurement (continued)

(i) Recurring fair value measurements

		Level 2	
	Note	**2018 $ million**	2017 $ million
Financial assets			
Derivative financial instruments:			
– Cross currency swaps	29(a)	**63**	156
– Interest rate swaps	29(a)	**497**	494
– Forward foreign exchange contracts	29(a)	**10**	166
		570	816
Financial liabilities			
Derivative financial instruments:			
– Cross currency swaps	29(a)	**172**	155
– Forward foreign exchange contracts	29(a)	**245**	32
Medium term notes subject to fair value hedges		**4,327**	4,408
		4,744	4,595

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

Trade and other receivables, trade and other payables and contract liabilities, and also external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2018 and 2017.

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

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

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

30. Capital commitments

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

	2018 **$ million**	2017 $ million
Contracted for:		
Capital expenditure for property, plant and equipment	**4,155**	4,740
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	**20,717**	9,847

31. Contingent liabilities

At 31 December 2018, the Groups had no guarantee or indemnity to external parties (2017: Nil).

32. Material related party transactions

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

(a) Holder of Share Stapled Units

Support service charge recovered from Power Assets group

Other operating costs included support service charge recovered from Power Assets group amounting to $41 million (2017: $39 million) for provision of the support services and office facilities to Power Assets group. The support service charge was based on the total costs incurred in the provision or procurement of the provision of the services and facilities and allocated to Power Assets group on a fair and equitable basis, taking into account the time spent by the relevant personnel when providing such services.

At 31 December 2018, the total outstanding balance receivable from Power Assets group was $4 million (2017: $4 million).

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

The related party transactions in respect of note 32(a) above constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, the transaction is exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

33. Statement of financial position of the Company

	Note	**2018** **$ million**	2017 $ million
Non-current assets			
Investments in subsidiaries		**60,241**	60,045
Derivative financial instruments		**29**	25
		60,270	60,070
Current assets			
Trade and other receivables		**4**	2
Bank deposits and cash		**1**	1
		5	3
Current liabilities			
Trade and other payables		**(23)**	(14)
Net current liabilities		**(18)**	(11)
Total assets less current liabilities		**60,252**	60,059
Non-current liabilities			
Bank loans		**(8,670)**	(8,657)
Net assets		**51,582**	51,402
Capital and reserves	28(a)		
Share capital		**8**	8
Reserves		**51,574**	51,394
Total equity		**51,582**	51,402

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

Wan Chi Tin
Director

Chan Loi Shun
Director

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

The Share Stapled Units of the Trust Group are listed on the Main Board of the Stock Exchange and are widely held by the public. Power Assets, State Grid Corporation of China and Qatar Investment Authority hold approximately 33.37%, 21.00% and 19.90% of the issued Share Stapled Units respectively as at 31 December 2018 and are considered substantial holders of Share Stapled Units of the Trust Group.

35. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Groups' accounting policies have a significant impact on the Groups' financial position and operating results. Some of the accounting policies require the Groups to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 25 and 29 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Groups' accounting policies are described below.

(a) Depreciation and amortisation

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

(b) Impairment

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

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

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

See note 16 for key assumptions used in goodwill impairment test for the year ended 31 December 2018.

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

(Expressed in Hong Kong dollars unless otherwise indicated)

36. Comparative figures

The Groups have initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated except for certain hedging requirements. Further details of the changes in accounting policies are disclosed in note 4.

37. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
• HKFRS 16, *Leases*	1 January 2019
• HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
• Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
• Amendments to HKAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
• Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Groups are in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Groups' financial statements but the adoption of them is unlikely to have a significant impact on the Groups' results of operations and financial position. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Groups, and further impacts may be identified before the standard is initially applied in the Groups' interim financial report for the six months ending 30 June 2019. The Groups may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report. Further details are discussed below:

HKFRS 16, Leases

As disclosed in note 3(f), currently the Groups classify leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Groups enter into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Groups' accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Groups plan to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 if the effect is material and will not restate the comparative information. The Groups expect that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. In addition, the Groups plan to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.