港燈電力投資
HK Electric Investments
(根據香港法律按日期為二零一四年一月一日的信託契約組成，
其受託人為港燈電力投資管理人有限公司。)
(As constituted pursuant to a deed of trust on 1 January 2014 under the laws of Hong Kong, the trustee of which is HK Electric Investments Manager Limited.)
與 and
港燈電力投資有限公司
HK Electric Investments Limited
(於開曼群島註冊成立的有限公司 Incorporated in the Cayman Islands with limited liability)
(股份代號 Stock Code : 2638)

港燈電力投資
HK Electric Investments

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2018 ANNUAL RESULTS
CHAIRMAN'S STATEMENT

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

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

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

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

Financial results and distributions

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

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

Investing to create a green and smart city

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

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

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

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

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

Promoting conservation and renewable energy

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

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

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

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

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

Consistently strong operating performance

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

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

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

Outlook under the new SCA

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

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

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

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

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

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

FINANCIAL REVIEW

Financial performance

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

Distribution

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

	2018 HK$ million	2017 HK$ million
Consolidated profit attributable to SSU holders	**3,051**	3,341
After:		
(i) eliminating the effects of the Adjustments (see note (a) below)	**5,421**	5,178
(ii) (deducting)/adding		
– movement in Fuel Clause Recovery Account	**(1,916)**	(1,317)
– changes in working capital	**(267)**	191
– adjustment for employee retirement benefit schemes	**12**	15
– taxes paid	**(535)**	(797)
	(2,706)	(1,908)
(iii) capital expenditure payment	**(3,397)**	(2,503)
(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	**2,052**	272
Distributable income after adjustment of the discretionary amount	**3,538**	3,538

	2018	2017
	HK$ million	HK$ million
Interim distribution	**1,760**	1,760
Final distribution	**1,778**	1,778
Distribution amount	**3,538**	3,538
Distributions per SSU (see note (c) below)		
– Interim distribution per SSU	**HK19.92 cents**	HK19.92 cents
– Final distribution per SSU	**HK20.12 cents**	HK20.12 cents
Total distributions per SSU	**HK40.04 cents**	HK40.04 cents

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

Notes:

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

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

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

Capital expenditure, liquidity and financial resources

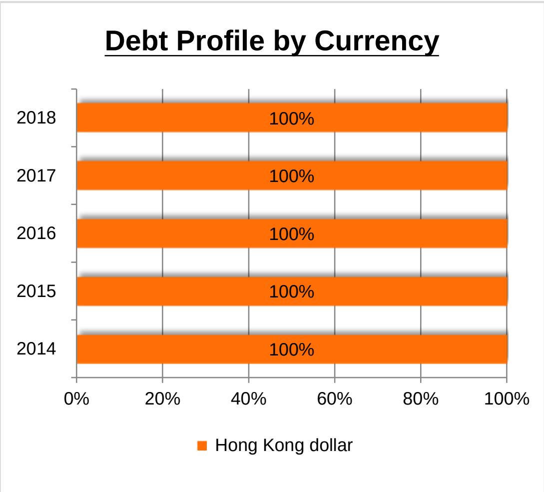
Capital expenditure during the year amounted to HK$3,809 million (2017: HK$2,929 million), which was funded by cash from operations and external borrowings. Total external borrowings outstanding at 31 December 2018 were HK$41,965 million (2017: HK$41,371 million), comprising unsecured bank loans and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

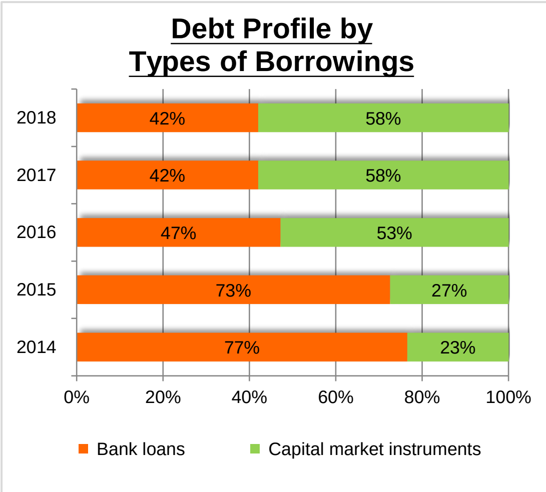
Treasury policy, financing activities, capital and debt structure

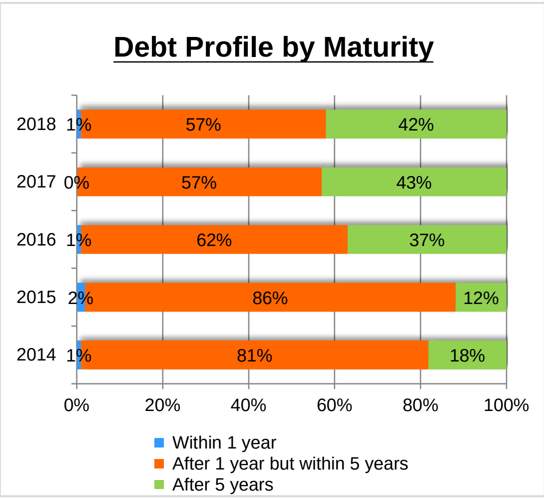
The Trust Group manages its financial risks in accordance with guidelines laid down in its treasury policy which is designed to manage the Trust Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from provision for capital expenditure to be incurred and from electricity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

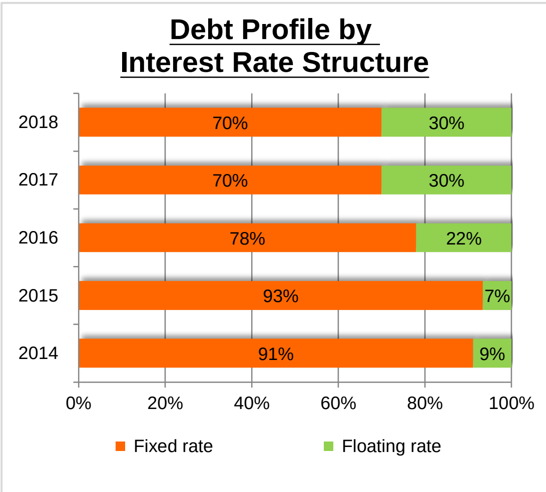
As at 31 December 2018, the net debt of the Trust Group was HK$41,931 million (2017: HK$39,712 million) with a net debt-to-net total capital ratio of 46% (2017: 44%). The Trust Group's financial profile remained strong during the year. On 28 February 2018, Standard & Poor's reaffirmed the "A-" long term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

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









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

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

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

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

Charge on assets

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

Contingent liabilities

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

Employees

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

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

For the year ended 31 December 2018

(Expressed in Hong Kong dollars)

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

As explained in note 3, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

Details of distributions/dividends payable to holders of Share Stapled Units/shares of the Company attributable to the profit for the year are set out in note 11.

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

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

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

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

As explained in note 3, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

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

At 31 December 2018

(Expressed in Hong Kong dollars)

	Note	**2018 $ million**	2017 $ million
Non-current assets			
Property, plant and equipment		**65,049**	64,412
Interests in leasehold land held for own use under finance leases		**6,010**	6,090
	13	**71,059**	70,502
Goodwill		**33,623**	33,623
Derivative financial instruments		**568**	809
Employee retirement benefit scheme assets		**593**	648
		105,843	105,582
Current assets			
Inventories		**989**	1,011
Trade and other receivables	14	**1,028**	1,067
Bank deposits and cash		**34**	1,659
		2,051	3,737
Current liabilities			
Trade and other payables and contract liabilities	15	**(2,447)**	(2,652)
Fuel Clause Recovery Account	16	**(855)**	(2,771)
Current portion of bank loans and other interest-bearing borrowings	17	**(440)**	-
Current tax payable		**(137)**	(214)
		(3,879)	(5,637)
Net current liabilities		**(1,828)**	(1,900)
Total assets less current liabilities		**104,015**	103,682
Non-current liabilities			
Bank loans and other interest-bearing borrowings	17	**(41,525)**	(41,371)
Derivative financial instruments		**(411)**	(184)
Customers' deposits		**(2,195)**	(2,130)
Deferred tax liabilities		**(9,353)**	(9,149)
Employee retirement benefit scheme liabilities		**(393)**	(288)
Provisions	18	**(747)**	(503)
		(54,624)	(53,625)
Scheme of Control Fund and Reserve	10(c)	**(648)**	(335)
Net assets		**48,743**	49,722
Capital and reserves			
Share capital		**8**	8
Reserves		**48,735**	49,714
Total equity		**48,743**	49,722

As explained in note 3, the consolidated financial statements of the Trust and the consolidated financial statements of the Company are presented together.

NOTES TO THE FINANCIAL STATEMENTS
OF THE TRUST AND OF THE COMPANY
(Expressed in Hong Kong dollars)

1. Review of annual results

The annual results have been reviewed by the Audit Committees.

The figures in respect of the preliminary announcement of the Trust Group's and the Group's results for the year ended 31 December 2018 have been compared by the Trust Group's and the Group's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Trust Group's and the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. 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.

3. 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".

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 "expected credit loss" ("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.

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.

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.

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		
	As previously reported under HKAS 39 $ million	Adjustments $ million	Restated under HKFRS 9 $ million
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.

(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.

(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.

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.

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. 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

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

	2018 $ million	2017 $ million
Current tax		
Provision for Hong Kong Profits Tax for the year	**458**	660
Deferred tax		
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.

10. Scheme of Control transfers

(a) The financial operations of HK Electric are governed by the Scheme of Control Agreement ("SoCA") agreed with the Government which provides for HK Electric to earn a Permitted Return. 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.

11. Distributions/dividends

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

	2018 $ million	2017 $ million
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

12. 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.

13. 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.

14. Trade and other receivables

	2018 **$ million**	2017 $ million
Trade debtors, net of loss allowance (see notes (a) below)	**563**	555
Other receivables (see note below)	**402**	449
	965	1,004
Derivative financial instruments	**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.

15. 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	**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.

16. 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.

17. 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) 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. As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

(d) 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

18. 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.

19. 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.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF HK ELECTRIC INVESTMENTS MANAGER LIMITED
For the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**2018** **$**	2017 $
Revenue		**-**	-
Administrative expenses		**-**	-
Profit before taxation	5	**-**	-
Income tax	6	**-**	-
Profit and total comprehensive income for the year		**-**	-

STATEMENT OF FINANCIAL POSITION
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED
At 31 December 2018
(Expressed in Hong Kong dollars)

	2018	2017
	$	$
Current assets		
Amount due from immediate holding company	**1**	1
Net assets	**1**	1
Capital and reserves		
Share capital	**1**	1
Reserves	**-**	-
Total equity	**1**	1

NOTES TO THE FINANCIAL STATEMENTS
OF HK ELECTRIC INVESTMENTS MANAGER LIMITED
(Expressed in Hong Kong dollars)

1. Review of annual results

The annual results have been reviewed by the Audit Committee.

The figures in respect of the preliminary announcement of the HK Electric Investments Manager Limited's (the "Company") results for the year ended 31 December 2018 have been compared by the Company's auditors, KPMG, Certified Public Accountants, to the amounts set out in the Company's draft financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by the auditors on this announcement.

2. General information

The Company was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 25 September 2013 and is an indirect wholly-owned subsidiary of Power Assets, which is incorporated in Hong Kong with its shares listed on the Stock Exchange and traded in the form of American Depositary Receipts on the OTC Markets Group Inc. in the United States. The address of the registered office and the principal place of business of the Company is Hongkong Electric Centre, 44 Kennedy Road, Hong Kong.

The principal activity of the Company is administering HK Electric Investments (the "Trust"), in its capacity as trustee-manager of the Trust. The Trust was constituted as a trust on 1 January 2014 by a Hong Kong law governed Trust Deed entered into between the Company, as the trustee-manager of the Trust, and HK Electric Investments Limited.

The costs and expenses of administering the Trust may be deducted from all property and rights of any kind whatsoever which are held on trust for the registered holders of units of the Trust but, commensurate with its specific and limited role, the Company will not receive any fee for administering the Trust.

3. Basis of presentation

In accordance with the Trust Deed, a distributions statement shall be included in the financial statements of the Company. As the details of the distribution has already been presented in note 11 to the consolidated financial statements of the Trust and of HK Electric Investments Limited on page 22, no distributions statement is therefore presented in these financial statements.

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results does not constitute the Company's statutory annual financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company’s financial statements together with the consolidated financial statements of the Trust and of HK Electric Investments Limited for the year ended 31 December 2017 have been delivered to the Registrar of Companies and the Company’s financial statements for the year ended 31 December 2018 will be delivered to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Company for the year ended 31 December 2017. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance. The financial statements for the year ended 31 December 2018 have yet to be reported on by the Company’s auditor.

4. Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Company. The adoption of these new HKFRSs and amendments to HKFRSs has no material impact on the Company’s financial statements.

The Company has not applied any amendment, new standard or interpretation that is not effective for the current accounting period.

5. Profit before taxation

Auditor’s remuneration of $56,000 (2017: $56,000) and all other expenses of the Company which were incurred for the administering of the Trust of $510,984 (2017: $501,769) for the year have been borne by HK Electric Investments Limited, which has waived its right of recovery thereof.

Except for the above, the Company did not incur any administrative expenses during the current and prior years.

6. Income tax

No provision for Hong Kong Profits Tax has been made in the financial statements for the current and prior years as the Company did not have any assessable profits.

OTHER INFORMATION

Final distribution and closure of Registers

The Trustee-Manager Board has declared a final distribution by the Trust for 2018 of HK20.12 cents per Share Stapled Unit. The final distribution will be payable on Monday, 15 April 2019 to Holders of Share Stapled Units whose names appear in the Share Stapled Units Register at the close of business on Wednesday, 3 April 2019, being the record date for determination of entitlement to the final distribution. To qualify for the final distribution, all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 3 April 2019.

For the purpose of ascertaining Holders of Share Stapled Units who are entitled to attend and vote at the Annual General Meeting to be held on Wednesday, 15 May 2019 (or any adjournment thereof), the Registers will be closed from Thursday, 9 May 2019 to Wednesday, 15 May 2019, both days inclusive, during which no transfer of Share Stapled Units will be registered. In order to qualify for the right to attend and vote at the meeting (or any adjournment thereof), all transfers accompanied by the relevant Share Stapled Unit certificates should be lodged with the Share Stapled Units Registrar, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 8 May 2019.

The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen′s Road East, Wanchai, Hong Kong.

Purchase, sale or redemption of Share Stapled Units

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

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

Corporate governance practices

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

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

The Trust and the Company have complied with the applicable code provisions in the Corporate Governance Code throughout the year ended 31 December 2018, except as noted hereunder.

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

During the year ended 31 December 2018, neither the Trustee-Manager nor the Company had a nomination committee as provided for in code provision A.5. The Trustee-Manager and the Company did not consider it necessary to have a nomination committee as the full Boards were responsible for reviewing the structure, size and composition of the Boards and the appointment of new Directors from time to time having regard to the Group′s board diversity policy. The Boards as a whole were also responsible for reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer. On 1 January 2019, the Company established its nomination committee which comprises all Directors of the Company with the Chairman of the Company Board as the chairman of the nomination committee. In discharging its responsibilities, the nomination committee of the Company is assisted by an ad hoc sub-committee which is chaired by the Chairman of the Company Board and its membership is compliant with the requirements under the Listing Rules for a nomination committee. The Trustee-Manager does not have a nomination committee as provided for in code provision A.5, since in accordance with the Trust Deed and the Trustee-Manager′s articles of association, the Trustee-Manager Board shall at all times comprise the same individuals who serve as Directors of the Company, and the requirement to establish a nomination committee is hence considered irrelevant to the Trustee-Manager.

The Trust Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the Corporate Governance Code, the Trustee-Manager Audit Committee and the Company Audit Committee have reviewed the procedures for reporting possible improprieties in financial reporting, internal control or other matters. In addition, the Trustee-Manager and the Company have established a policy relating to inside information and securities dealing for compliance by all employees of the Group.

Model Code for Securities Transactions by Directors

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

Trustee-Manager Audit Committee and Company Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Trustee-Manager and the Company established their respective audit committee on 29 January 2014 (the memberships of which are required to be the same pursuant to the Trust Deed), and have formulated their written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the Corporate Governance Code. The respective terms of reference of the Trustee-Manager Audit Committee and the Company Audit Committee were amended on 1 January 2019 to incorporate the amendment to the code provision C.3.2 in the Corporate Governance Code effective on the same date to extend the cooling off period for former partner of the listed issuer′s existing audit firm before he acts as a member of its audit committee.

Each of the Trustee-Manager Audit Committee and the Company Audit Committee is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director) and the other members are Mr. Ronald Joseph Arculli (a Non-executive Director) and Mr. Lee Lan Yee, Francis (an Independent Non-executive Director). The Trustee-Manager Audit Committee and the Company Audit Committee report directly to the Trustee-Manager Board and the Company Board respectively. The principal responsibilities of the Audit Committees are to assist the Boards in fulfilling their audit duties through the review and supervision of financial reporting, risk management and internal control systems, the review of financial information, and the consideration of issues relating to external auditor and their appointment.

Remuneration Committee of the Company

In compliance with the Corporate Governance Code, the Company established its remuneration committee on 29 January 2014 with a majority of the members thereof being Independent Non-executive Directors. The Remuneration Committee of the Company is chaired by Mr. Donald Jeffrey Roberts (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman) and Mr. Fong Chi Wai, Alex (an Independent Non-executive Director).

Annual General Meeting

The Annual General Meeting will be held at the Grand Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Wednesday, 15 May 2019 at 12:15 p.m. Notice of the Annual General Meeting will be published and despatched to Holders of Share Stapled Units in the manner as required by the Listing Rules in due course.

Boards composition

As at the date of this announcement, the Directors are:

Executive Directors	:	Mr. FOK Kin Ning, Canning (Chairman) (Mrs. CHOW WOO Mo Fong, Susan as his alternate), Mr. WAN Chi Tin (Chief Executive Officer), Mr. CHAN Loi Shun, Mr. CHEN Daobiao and Mr. CHENG Cho Ying, Francis
Non-executive Directors	:	Mr. LI Tzar Kuoi, Victor (Deputy Chairman) (Mr. Frank John SIXT as his alternate), Mr. Fahad Hamad A H AL-MOHANNADI, Mr. Ronald Joseph ARCULLI, Mr. DUAN Guangming, Mr. Deven Arvind KARNIK and Mr. ZHU Guangchao
Independent Non-executive Directors	:	Mr. FONG Chi Wai, Alex, Mr. KWAN Kai Cheong, Mr. LEE Lan Yee, Francis, Mr. George Colin MAGNUS, Mr. Donald Jeffrey ROBERTS and Mr. Ralph Raymond SHEA

GLOSSARY

In this annual results announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

Term(s)	Definition
"Annual General Meeting"	The annual general meeting of unitholders of the Trust and shareholders of the Company, as convened by the Trustee-Manager and the Company held on a combined basis as a single meeting characterised as the annual general meeting of Holders of Share Stapled Units
"Boards" or "Boards of Directors"	Trustee-Manager Board and Company Board
"Company"	HK Electric Investments Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability on 23 September 2013
"Company Audit Committee"	Audit committee of the Company
"Company Board"	Board of directors of the Company
"Corporate Governance Code"	Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Government"	HKSAR Government
"Group"	The Company and its subsidiaries
"HK Electric"	The Hongkong Electric Company, Limited, a company incorporated in Hong Kong with limited liability on 24 January 1889 and an indirect wholly-owned subsidiary of the Company
"HKASs"	Hong Kong Accounting Standards
"HKEI"	The Trust and the Company
"HKFRSs"	A collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations issued by the HKICPA

Term(s)	**Definition**
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Holder(s) of Share Stapled Units" or "SSU holder(s)"	Person(s) who holds Share Stapled Units issued by HKEI
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"Power Assets"	Power Assets Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 6)
"Registers"	The Share Stapled Units Register, the Units Register, the Principal and Hong Kong Branch Registers of Members and the Register of Beneficial Interests
"Share Stapled Unit(s)" or "SSU(s)"	Share Stapled Unit(s) jointly issued by the Trust and the Company, with each Share Stapled Unit being the combination of the following securities or interests in securities which, subject to the provisions in the Trust Deed, can only be dealt with together and may not be dealt with individually or one without the others: (a) a unit in the Trust; (b) the beneficial interest in a specifically identified ordinary share of the Company linked to the unit and held by the Trustee-Manager as legal owner (in its capacity as trustee-manager of the Trust); and (c) a specifically identified preference share of the Company stapled to the unit.
"Share Stapled Units Register"	The register of registered Holders of Share Stapled Units

Term(s)	Definition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Trust”	HK Electric Investments, as constituted pursuant to the Trust Deed under the Laws of Hong Kong
“Trust Deed”	The trust deed dated 1 January 2014 constituting the Trust, entered into between the Trustee-Manager and the Company
“Trust Group”	The Trust and the Group
“Trustee-Manager”	HK Electric Investments Manager Limited, a company incorporated in Hong Kong with limited liability on 25 September 2013 and an indirect wholly-owned subsidiary of Power Assets, in its capacity as trustee-manager of the Trust
“Trustee-Manager Audit Committee”	Audit committee of the Trustee-Manager
“Trustee-Manager Board”	Board of directors of the Trustee-Manager