

FINANCIAL REVIEW

Financial Performance

Profit attributable to shareholders for 2017 amounted to HK\$8,319 million (2016: HK\$6,417 million), an increase of 30% over last year. The increase of profit was primarily due to a one-off gain on disposal of properties recorded in 2017, the first full-year contribution from Husky Midstream partnership, contribution from newly acquired investment DUET Group and more favourable exchange rates on translation of foreign currency deposits to Hong Kong dollar. The profit increase was partially offset by a one-off deferred tax credit recognised in 2016 for a reduction of corporate tax rate in the United Kingdom.

Our investments in the United Kingdom contributed earnings of HK\$3,790 million (2016: HK\$4,443 million). The reduction of earnings was primarily due to a one-off deferred tax credit recognised in 2016 for 1% reduction in corporate tax rate in the United Kingdom and the average exchange rate of pound sterling on translation of results was lower than last year.

Our investments in Australia continue to generate reliable profit of HK\$1,388 million (2016: HK\$973 million) which was higher than last year mainly due to contribution from DUET Group, which was acquired in May 2017.

Our investments in mainland China recorded a profit of HK\$271 million (2016: HK\$308 million).

Our investments in Canada recorded higher earnings than last year mainly due to the first full year contribution from Husky Midstream partnership, which was acquired in July 2016.

Our investments in Portugal, the Netherlands, New Zealand and Thailand continued to contribute stable earnings to the Group.

Our investment in HK Electric Investments recorded earnings of HK\$1,115 million (2016: HK\$1,201 million).

Secure earnings and a strong financial position allowed us to continue with a stable dividend policy. 2017 full year dividends of HK\$16.3 per share included a total of special interim dividends of HK\$13.5 per share (2016: HK\$7.72 per share included a special interim dividend of HK\$5 per share).

Financial Positions, Liquidity and Financial Resources

The Group's financial position remained strong. Capital expenditure and investments were primarily funded by cash from operations, dividends and other

repatriation from investments. Interest in joint ventures and associates increased by 21% to HK\$81,004 million (2016: HK\$66,941 million). In 2017, the Group acquired DUET, an international owner and operator of energy utility assets. Total unsecured bank loans outstanding at the year end were HK\$7,223 million (2016: HK\$8,514 million). In addition, the Group had bank deposits and cash of HK\$25,407 million (2016: HK\$61,710 million). Due to its strong cash position, the Group did not maintain any undrawn committed bank facility at the year end (2016: HK\$Nil).

Treasury Policy, Financing Activities and Debt Structure

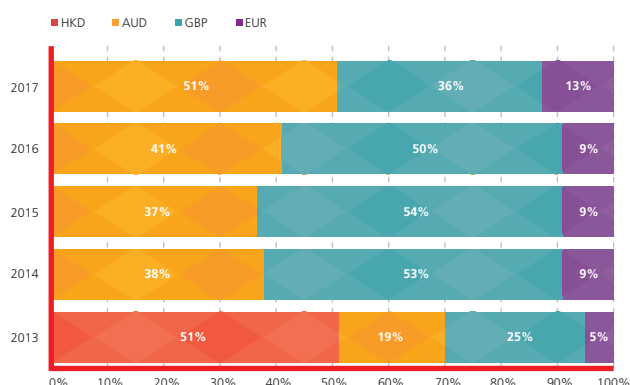
The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from dividends and other repatriation from investments, are generally placed on short term deposits denominated primarily in Hong Kong dollars and United States dollars. The Group aims to ensure that adequate financial resources are available for refinancing and business growth whilst maintaining a prudent capital structure.

The Group's financial profile remained strong during the year. Standard & Poor's on 10 February 2017 affirmed the "A-" long term credit rating of the Company which has remained unchanged since January 2014 and on 27 July 2017 revised up the outlook of the Company from "stable" to "positive".

As at 31 December 2017, the net cash position of the Group was HK\$18,184 million (2016: HK\$53,196 million).

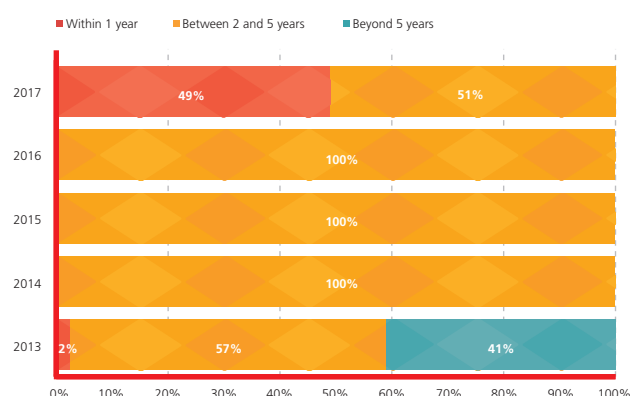
The profile of the Group's external borrowings as at 31 December 2017, after taking into account interest rate swaps, is set out in the tables below:

Debt Profile by Currency

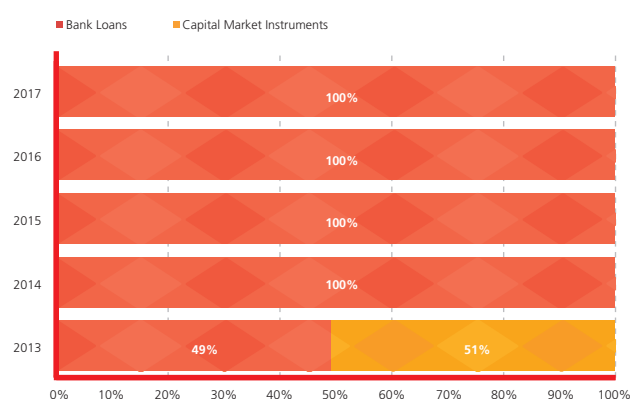


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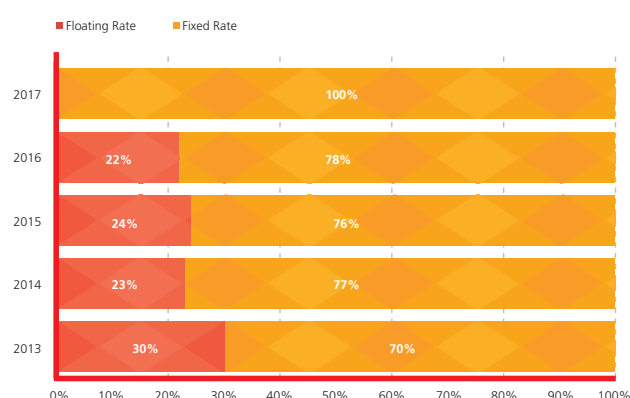
Debt Profile by Maturity



Debt Profile by Types of Borrowings



Debt Profile by Interest Rate Structure



The Group's policy is to maintain a portion of its debt at fixed interest rates. Interest rate risk is managed by either securing fixed rate borrowings or by using interest rate derivatives.

Currency and interest rate risks are actively managed in accordance with the 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 Group's principal foreign currency exposures arise from its investments outside Hong Kong. Foreign currency transaction exposure also arises from settlement to vendors which is not material and is managed mainly through purchases in the spot market or utilisation of foreign currency receipts of the Group. Currency exposure arising from investments outside Hong Kong is, where considered appropriate, mitigated by financing those investments in local currency borrowings, or by entering into forward foreign exchange contracts or cross currency swaps. The fair value of such borrowings at 31 December 2017 was HK\$7,248 million (2016: HK\$8,553 million). The fair value of forward foreign exchange contracts and cross currency swaps at 31 December 2017 was a liability of HK\$356 million (2016: asset of HK\$870 million). Foreign currency fluctuations will affect the translated value of the net assets of investments outside Hong Kong and the resultant translation difference is included in the Group's reserve account. Income received from the Group's investments outside Hong Kong which is not denominated in Hong Kong dollars is, unless otherwise placed as foreign currency deposits, converted into United States dollars on receipt.

The contractual notional amounts of derivative financial instruments outstanding at 31 December 2017 amounted to HK\$35,953 million (2016: HK\$24,358 million).

Charges on Assets

At 31 December 2017, the Group's interest in an associate of HK\$274 million (2016: HK\$321 million) had been pledged as part of the security to secure financing facilities granted to the associate.

Contingent Liabilities

As at 31 December 2017, the Group had given guarantees and indemnities totalling HK\$883 million (2016: HK\$821 million).

Employees

The Group continues its policy of pay-for-performance and the pay levels are monitored to ensure competitiveness is maintained. The Group's total remuneration costs for the year ended 31 December 2017, excluding directors' emoluments, amounted to HK\$22 million (2016: HK\$24 million). As at 31 December 2017, the Group employed 11 (2016: 12) permanent employees. No share option scheme is in operation.