

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1. General information

Power Assets Holdings Limited (“the Company”) is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is Rooms 1913-1914, 19th Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group is 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 Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as “the Group”) and the Group’s interests in joint ventures and associates.

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 29.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries made up to 31 December each year, together with the Group’s share of the results for the year and the net assets at the end of the reporting period of its joint ventures and associates.

(d) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 and 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 Group's 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 Group loses 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 (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in a joint venture or an associate (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

(e) Joint ventures and associates

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

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in a joint venture or an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and 2(l)). Any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment, the Group's share of the post-acquisition, post-tax results of the investees and impairment losses for the year, if any, are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in a joint venture or an associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture or the associate.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (Continued)

(e) Joint ventures and associates (Continued)

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

When the Group ceases to have joint control over a joint venture or significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in a former joint venture at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate. Any interest retained in a former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in a joint venture or an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in a joint venture or an associate is recognised immediately in profit or loss.

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 2(l)). In respect of joint ventures or associates, the carrying amount of goodwill is included in the carrying amount of the interest in the joint venture or associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(l)).

(g) Other investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, joint ventures and associates, are as follows:

Investments in equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are subsequently recognised in the statement of financial position at cost less impairment losses (see note 2(l)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) Derivative financial instruments

Derivative financial instruments are recognised initially 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 or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

(i) Hedging

(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 hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value 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.

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

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point 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 cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(iii) Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (Continued)

(j) Property, plant and equipment and leasehold land, depreciation and amortisation

- (i) Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation (see note 2(j)(vi)), amortisation (see note 2(j)(v)) and impairment losses (see note 2(l)).
- (ii) Where parts of a 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. Subsequent expenditure to replace a component of a property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset 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 Group 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.
- (iii) 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.
- (iv) Leasehold land held for own use under finance leases is stated in the consolidated statement of financial position at cost less accumulated amortisation (see note 2(j)(v)) and impairment losses (see note 2(l)).
- (v) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over the period of the unexpired lease term.
- (vi) Depreciation is calculated to write off the cost 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
Buildings	60
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles	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.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Leased assets and operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines 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 Group has 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.

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- 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;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in subsidiaries recognised at cost and joint ventures and associates recognised using the equity method (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).
- For unquoted equity securities and other financial assets carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(i) Impairment of investments in equity securities and other receivables (Continued)

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets carried at amortised cost share similar risk characteristics, such as similar past due status and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

Except for equity securities carried at cost, if in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall 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 assets

Internal and external sources of information are reviewed at each end of the 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
- goodwill.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is 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 Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 2(l)(i) and 2(l)(ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are 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. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(m) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(l)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable 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 2(i)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For interest-bearing 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 2(i)(i)).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (Continued)

(o) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on 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 Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Employee benefits

(i) Short term employee benefits

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

(ii) Defined benefit retirement scheme obligations

The Group's 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 Group's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Where the calculation of the Group's 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 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 Group determines 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.

(iii) 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.

(r) 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, in which case the relevant amounts of tax are recognised in other comprehensive income.

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.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

When consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in profit or loss.

(ii) Other provisions and contingent liabilities

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2. Significant accounting policies (Continued)

(t) Revenue recognition

Dividend income from unlisted investments is recognised when the shareholders' right to receive payment is established.

Interest income is recognised on a time apportioned basis using the effective interest method.

(u) 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 are recognised 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. 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 determined.

The results of operations outside Hong Kong are translated into Hong Kong dollars at the average exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of an operation outside Hong Kong, the cumulative amount of the exchange differences relating to that operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Borrowing costs

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

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

(w) Related parties

- (i) A person or a close member of that person's family is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group.
- (ii) An entity is related to the Group if any of the following conditions apply:
 - (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) 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).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (f) The entity is controlled or jointly controlled by a person identified in note 2(w)(i).
 - (g) A person identified in note 2(w)(i)(a) 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).
 - (h) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group.

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.

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker of the Group for the purposes of resource allocation and performance assessment. Accordingly, the Group's aggregated operating segments are based on their principal activities and geographical regions to present the reportable segments.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3. Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 17(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. Revenue

The principal activity of the Group is investment in energy and utility-related businesses. Group revenue represents interest income from loans granted to joint ventures and associates, dividends from other financial assets and engineering and consulting services fees.

	2017 \$ million	2016 \$ million
Interest income	1,380	1,236
Dividend income	39	44
Others	1	8
	1,420	1,288
Share of revenue of joint ventures	17,784	16,359

5. Other net income/(loss)

	2017 \$ million	2016 \$ million
Interest income from financial assets not at fair value through profit or loss	515	550
Gain on disposal of property, plant and equipment and leasehold land	922	–
Net exchange gain/(loss)	209	(787)
Sundry income	17	16
	1,663	(221)

6. Segment information

The Group has aggregated operating segments with similar characteristics to present the following reportable segments.

- Investment in HKEI: this segment invests in generation and supply of electricity business in Hong Kong.
- Investments: this segment invests in energy and utility-related businesses and is segregated further into four reportable segments (United Kingdom, Australia, Mainland China and Others) on a geographical basis.
- All other activities: this segment represents other activities carried out by the Group.

The basis of accounting for the Group's segment information is the same as that for the Group's financial statements. The financial information about the Group's segments is set out in Appendix 1 on pages 122 to 123.

7. Finance costs

	2017 \$ million	2016 \$ million
Interest on bank loans and other borrowings	295	248

8. Profit before taxation

	2017 \$ million	2016 \$ million
Profit before taxation is arrived at after charging:		
Amortisation of leasehold land	1	1
Depreciation	1	–
Staff costs	27	29
Auditors' remuneration		
– audit and audit related work		
– KPMG	3	3
– other auditors	1	1
– non-audit work		
– KPMG	–	1
– other auditors	5	2

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	2017 \$ million	2016 \$ million
Current tax – operations outside Hong Kong		
Provision for the year	104	57
Tax credit for the year	(11)	(50)
	93	7
Deferred tax (see note 22(b)(i))		
Origination and reversal of temporary differences	4	(19)
	97	(12)

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

Taxation for operations outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

	2017 \$ million	2016 \$ million
Profit before taxation	8,416	6,405
Less: Share of profits less losses of joint ventures	(4,421)	(4,705)
Share of profits less losses of associates	(1,733)	(1,696)
	2,262	4
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	397	23
Tax effect of non-deductible expenses	103	287
Tax effect of non-taxable income	(411)	(329)
Tax effect of temporary difference not recognised	–	(1)
Tax effect of unused tax losses not recognised	8	8
Actual tax expense/(credit)	97	(12)

10. 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	Salaries, allowances and other benefits ⁽¹¹⁾ \$ million	Retirement scheme contributions \$ million	Bonuses \$ million	2017 Total emoluments \$ million	2016 Total emoluments \$ million
Executive Directors						
Fok Kin Ning, Canning ⁽³⁾⁽⁴⁾ <i>Chairman</i>	0.12	–	–	–	0.12	0.12
Tsai Chao Chung, Charles ⁽⁵⁾ <i>Chief Executive Officer</i>	0.07	3.18	0.47	1.30	5.02	4.97
Chan Loi Shun ⁽⁶⁾⁽¹⁰⁾	0.07	4.70	–	–	4.77	4.63
Andrew John Hunter	0.07	0.07	–	–	0.14	0.15
Neil Douglas McGee	0.07	–	–	–	0.07	0.07
Wan Chi Tin ⁽⁷⁾	0.07	–	–	–	0.07	0.07
Non-executive Directors						
Li Tzar Kuoi, Victor ⁽⁸⁾	0.07	–	–	–	0.07	0.07
Frank John Sixt ⁽⁹⁾	–	–	–	–	–	0.07
Ip Yuk-keung, Albert ⁽¹⁾⁽²⁾	0.14	–	–	–	0.14	0.14
Ralph Raymond Shea ⁽¹⁾⁽²⁾⁽³⁾	0.16	–	–	–	0.16	0.16
Wong Chung Hin ⁽¹⁾⁽²⁾⁽³⁾	0.16	–	–	–	0.16	0.16
Wu Ting Yuk, Anthony ⁽¹⁾	0.07	–	–	–	0.07	0.07
Total for the year 2017	1.07	7.95	0.47	1.30	10.79	
Total for the year 2016	1.14	7.68	0.45	1.41		10.68

Notes:

- (1) Independent Non-executive Director
- (2) Member of the Audit Committee
- (3) Member of the Remuneration Committee
- (4) During the year, Mr. Fok Kin Ning, Canning received director's emoluments of \$120,000 from HK Electric Investments Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.
- (5) During the year, Mr. Tsai Chao Chung, Charles received director's emoluments of THB486,200 from Ratchaburi Power Company Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.
- (6) During the year, Mr. Chan Loi Shun received director's emoluments of THB486,200 from Ratchaburi Power Company Limited and \$2,789,200 from HK Electric Investments Limited, which are associates of the Group. The director's emoluments received were paid back to the Company.
- (7) During the year, Mr. Wan Chi Tin received director's emoluments of \$70,000 from HK Electric Investments Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.
- (8) During the year, Mr. Li Tzar Kuoi, Victor received director's emoluments of \$70,000 from HK Electric Investments Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.
- (9) Mr. Frank John Sixt resigned as a Non-executive Director of the Company with effect from 1 January 2017.
- (10) During the year, Mr. Chan Loi Shun received director's emoluments of \$4,766,800 from the Company. The director's emoluments received were paid back to CK Infrastructure Holdings Limited (formerly known as "Cheung Kong Infrastructure Holdings Limited"), a substantial shareholder of the Company.
- (11) For Directors who are employees of the Group, other benefits also include insurance and medical benefits entitled by the employees of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10. Directors' emoluments and senior management remuneration (Continued)

The five highest paid individuals of the Group included two directors (2016: two) whose total emoluments are shown above. The remuneration of the other three individuals (2016: three) who comprises the five highest paid individuals of the Group is set out below:

	2017 \$ million	2016 \$ million
Salary and other benefits	8.1	9.1
Retirement scheme contributions	0.5	0.6
	8.6	9.7

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

	2017 Number	2016 Number
\$0 – \$500,000	1	–
\$1,000,001 – \$1,500,000	–	1
\$1,500,001 – \$2,000,000	3	2
\$2,500,001 – \$3,000,000	–	1
\$3,000,001 – \$3,500,000	1	2
\$3,500,001 – \$4,000,000	1	–

The remuneration of directors and senior management is as follows:

	2017 \$ million	2016 \$ million
Short-term employee benefits	22	24
Post-employment benefits	1	1
	23	25

At 31 December 2017 and 2016, there was no amount due from directors and senior management.

11. Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of \$8,319 million (2016: \$6,417 million) and 2,134,261,654 ordinary shares (2016: 2,134,261,654 ordinary shares) in issue throughout the year.

There were no dilutive potential ordinary shares in existence during the years ended 31 December 2017 and 2016.

12. Property, plant and equipment and leasehold land

\$ million	Buildings	Plant, machinery and equipment	Sub-total	Interests in leasehold land held for own use under finance leases	Total
Cost:					
At 1 January 2016 and 31 December 2016 and 1 January 2017	26	5	31	30	61
Disposals	(25)	(1)	(26)	(17)	(43)
At 31 December 2017	1	4	5	13	18
Accumulated amortisation and depreciation:					
At 1 January 2016	16	3	19	12	31
Charge for the year	–	–	–	1	1
At 31 December 2016	16	3	19	13	32
At 1 January 2017	16	3	19	13	32
Written back on disposals	(17)	–	(17)	(13)	(30)
Charge for the year	1	–	1	1	2
At 31 December 2017	–	3	3	1	4
Net book value:					
At 31 December 2017	1	1	2	12	14
At 31 December 2016	10	2	12	17	29

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13. Interest in joint ventures

	2017 \$ million	2016 \$ million
Share of net assets of unlisted joint ventures	42,664	34,532
Loans to unlisted joint ventures (see note below)	13,613	8,084
Amounts due from unlisted joint ventures (see note below)	138	123
	56,415	42,739
Share of total assets of unlisted joint ventures	130,921	101,345

The loans to unlisted joint ventures are unsecured, interest bearing at rates ranging from 4.5% per annum to 11.0% per annum (2016: 6.6% per annum to 11.0% per annum) and are not due within one year.

Included in the loans to unlisted joint ventures are subordinated loans totalling \$9,589 million (2016: \$4,390 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the joint ventures and they are treated as part of the investment in the joint ventures.

The amounts due from unlisted joint ventures are unsecured, interest free and have no fixed repayment terms. They are neither past due nor impaired.

All the Group's joint ventures are unlisted corporate entities for which a quoted market price is not available.

Details of the Group's material joint ventures at the end of the reporting period are set out in Appendix 3 on pages 126 to 128.

(a) Summarised financial information of material joint ventures

Summarised financial information in respect of the Group's material joint ventures is set out below.

The summarised financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs adjusted by the Group for equity accounting purposes and before adjustments for the Group's effective share.

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		CK William**	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Current assets	3,441	3,150	3,959	3,808	1,637	696	512	296	775	316	4,365	-
Non-current assets	123,654	108,025	30,357	25,926	38,503	34,936	32,114	29,789	15,914	13,912	91,858	-
Current liabilities	(8,139)	(7,510)	(5,505)	(5,117)	(1,090)	(1,104)	(1,617)	(701)	(457)	(252)	(8,435)	-
Non-current liabilities	(70,370)	(63,837)	(19,803)	(17,254)	(34,564)	(30,898)	(16,943)	(16,069)	(4,201)	(3,415)	(66,588)	-

The above amounts of assets and liabilities include the following:

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		CK William**	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Cash and cash equivalents	783	776	57	43	831	227	183	22	170	133	2,022	-
Current financial liabilities (excluding trade and other payables and provisions)	(901)	(835)	(524)	(144)	-	-	(744)	(93)	-	-	(4,756)	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(55,160)	(50,336)	(15,864)	(14,193)	(30,033)	(26,148)	(15,960)	(15,551)	(4,120)	(3,353)	(60,874)	-

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		CK William**	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Revenue	17,531	18,136	4,214	4,443	4,238	4,417	3,624	3,256	1,765	809	7,277	-
Profit from continuing operations	6,846	7,321	1,197	1,460	570	1,356	980	867	665	227	676	-
Other comprehensive income for the year	(965)	(3,029)	399	(705)	(24)	(1,832)	(11)	79	27	37	135	-
Total comprehensive income for the year	5,881	4,292	1,596	755	546	(476)	969	946	692	264	811	-
Dividends received from the joint ventures during the year	550	899	312	299	93	93	292	266	250	-	-	-

The above profit or loss for the year includes the following:

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		CK William**	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Depreciation and amortisation	(2,346)	(2,225)	(721)	(459)	(820)	(727)	(572)	(492)	(403)	(184)	(1,800)	-
Interest income	293	326	1	-	3	12	2	2	8	-	11	-
Interest expense	(2,494)	(2,649)	(634)	(757)	(1,149)	(812)	(714)	(671)	(183)	(85)	(1,260)	-
Income tax (expense)/credit	(1,646)	(1,205)	(177)	(245)	116	26	(472)	(440)	4	(1)	(231)	-

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13. Interest in joint ventures (Continued)

(a) Summarised financial information of material joint ventures (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the joint ventures recognised in the consolidated financial statements:

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		CK William**	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Net assets of the joint ventures	48,586	39,828	9,008	7,363	4,486	3,630	14,066	13,315	12,031	10,561	21,200	-
Group's effective interest	40.0%	40.0%	41.29%	41.29%	30.0%	30.0%	27.51%	27.51%	48.75%	48.75%	20.0%	-
Group's share of net assets of the joint ventures	19,434	15,931	3,719	3,040	1,346	1,089	3,870	3,663	5,865	5,148	4,240	-
Consolidation adjustments	67	60	-	-	-	-	-	-	(243)	(8)	199	-
Carrying amount of the Group's interest in joint ventures	19,501	15,991	3,719	3,040	1,346	1,089	3,870	3,663	5,622	5,140	4,439	-

* CK William UK Holdings Limited ("CK William") privatised DUET Group in 2017.

The purchase price allocation is provisional and may be subject to further fair value adjustments.

(b) Aggregate information of joint ventures that are not individually material

	2017 \$ million	2016 \$ million Restated
The Group's share of net assets	4,167	5,609
The Group's share of profit from continuing operations	288	417
The Group's share of other comprehensive income	79	75
The Group's share of total comprehensive income	367	492

14. Interest in associates

	2017 \$ million	2016 \$ million
Share of net assets		
– Listed associate	16,820	16,881
– Unlisted associates	3,671	3,358
	20,491	20,239
Loans to unlisted associates (see note below)	3,994	3,889
Amounts due from associates (see note below)	104	74
	24,589	24,202

The market value (level 1 fair value measurement (see note 24(f))) of above listed associate, HKEI, at 31 December 2017 is \$21,085 million (2016: \$18,873 million). All the Group's other associates are unlisted corporate entities for which a quoted market price is not available.

The loans to unlisted associates are unsecured, interest bearing at rates ranging from 10.9% per annum to 13.8% per annum (2016: 10.9% per annum to 13.8% per annum) and are not due within one year.

The loans to unlisted associates are subordinated loans. The rights in respect of these loans are subordinated to the rights of any other lenders to the associates and they are treated as part of the investment in the associates.

The amounts due from associates are unsecured, interest free and have no fixed repayment terms. They are neither past due nor impaired.

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

Details of each of the Group's material associates at the end of the reporting period are set out in Appendix 4 on page 129.

(a) Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts shown in each associate's financial statements prepared in accordance with HKFRSs adjusted by the Group for equity accounting purposes and before adjustments for Group's effective share.

	HKEI		SA Power Networks		Victoria Power Networks	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Current assets	3,737	2,526	2,529	2,155	2,114	1,465
Non-current assets	105,582	105,824	39,637	36,324	49,819	46,608
Current liabilities	(5,637)	(7,509)	(4,397)	(4,955)	(10,209)	(9,976)
Non-current liabilities	(53,960)	(50,936)	(34,182)	(30,238)	(33,931)	(31,295)

	HKEI		SA Power Networks		Victoria Power Networks	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Revenue	11,693	11,420	6,678	6,170	8,136	7,459
Profit from continuing operations	3,341	3,599	938	523	1,157	1,010
Other comprehensive income for the year	14	832	(244)	(50)	(147)	104
Total comprehensive income for the year	3,355	4,431	694	473	1,010	1,114
Dividends received from the associates during the year	1,181	1,181	109	163	–	–

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14. Interest in associates (Continued)

(a) Summarised financial information of material associates (Continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associates recognised in the consolidated financial statements:

	HKEI		SA Power Networks		Victoria Power Networks	
	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million	2017 \$ million	2016 \$ million
Net assets of the associates	49,722	49,905	3,587	3,286	7,793	6,802
Group's effective interest	33.37%	33.37%	27.93%	27.93%	27.93%	27.93%
Group's share of net assets of the associates	16,594	16,655	1,002	918	2,176	1,899
Consolidation adjustment	226	226	–	–	–	–
Carrying amount of the Group's interest in the associates	16,820	16,881	1,002	918	2,176	1,899

(b) Aggregate information of associates that are not individually material

	2017 \$ million	2016 \$ million
The Group's share of net assets	493	541
The Group's share of profit from continuing operations	33	67
The Group's share of other comprehensive income	2	–
The Group's share of total comprehensive income	35	67

15. Other non-current financial assets

	2017 \$ million	2016 \$ million
Unlisted available-for-sale equity securities, at cost	67	67

16. Trade and other receivables

	2017 \$ million	2016 \$ million
Interest and other receivables	60	79
Derivative financial instruments (see note 20)	106	80
Deposits and prepayments	1	2
	167	161

Trade with customers is carried out on credit and invoices are normally due within 1 month after issued. All of the trade and other receivables are expected to be recovered within one year.

17. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

	2017 \$ million	2016 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	24,122	14,855
Cash at bank and on hand	435	357
Cash and cash equivalents in the consolidated cash flow statement	24,557	15,212
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	850	46,498
Bank deposits and cash in the consolidated statement of financial position	25,407	61,710

(b) Reconciliation of profit before taxation to cash used in operations activities:

	Note	2017 \$ million	2016 \$ million
Profit before taxation		8,416	6,405
Adjustments for:			
Share of profits less losses of joint ventures		(4,421)	(4,705)
Share of profits less losses of associates		(1,733)	(1,696)
Interest income	4,5	(1,895)	(1,786)
Dividend income from unlisted available-for-sale equity securities	4	(39)	(44)
Finance costs	7	295	248
Amortisation of leasehold land	8	1	1
Depreciation	8	1	–
Unrealised exchange (gain)/loss		(25)	37
Financial instrument revaluation gain		–	(44)
Gain on disposal of property, plant and equipment and leasehold land	5	(922)	–
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(25)	181
(Decrease)/increase in trade and other payables		(147)	577
Decrease in amounts due from joint ventures		27	12
Increase in net employee retirement benefit liabilities		4	1
Cash used in operations activities		(463)	(813)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

17. 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 group's 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 group's consolidated cash flow statement as cash flows from financing activities.

\$ million	Bank loans and other borrowings	Interest rate swaps held to hedge borrowings – assets	Interest rate swaps held to hedge borrowings – liabilities	Total
At 1 January 2017	8,514	(45)	41	8,510
Changes from financing cash flows:				
Repayment of bank loans	(2,028)	–	–	(2,028)
Total changes from financing cash flows	(2,028)	–	–	(2,028)
Exchange adjustments	722	–	–	722
Changes in fair values	–	45	(16)	29
	722	45	(16)	751
Other changes:				
Capitalised borrowing costs	15	–	–	15
Total other changes	15	–	–	15
At 31 December 2017	7,223	–	25	7,248

18. Trade and other payables

	2017 \$ million	2016 \$ million
Creditors measured at amortised cost (see note below)	3,183	2,595
Derivative financial instruments (see note 20)	14	–
	3,197	2,595

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

Creditors' ageing is analysed as follows:

	2017 \$ million	2016 \$ million
Due within 1 month or on demand	72	64
Due after 1 month but within 3 months	–	1
Due after 3 months but within 12 months	3,111	2,530
	3,183	2,595

19. Non-current bank loans and other interest-bearing borrowings

	2017 \$ million	2016 \$ million
Bank loans	7,223	8,514
Current portion	(3,544)	–
	3,679	8,514

Some banking facilities of the Group are subject to the fulfilment of covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand and any undrawn amount will be cancelled. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 24(b). As at 31 December 2017 and 2016, none of the covenants relating to drawn down facilities had been breached.

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 borrowings are repayable as follows:

	2017 \$ million	2016 \$ million
After 1 year but within 2 years	–	5,069
After 2 years but within 5 years	3,679	3,445
	3,679	8,514

20. Derivative financial instruments

	2017		2016	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
Derivative financial instruments used for hedging:				
Cash flow hedges				
Interest rate swaps	–	(25)	45	(41)
Net investment hedges				
Cross currency swaps	–	(533)	–	–
Forward foreign exchange contracts	422	(245)	881	(11)
	422	(803)	926	(52)
Analysed as:				
Current	106	(14)	80	–
Non-current	316	(789)	846	(52)
	422	(803)	926	(52)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Employee retirement benefits

The Group offers 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 choices to invest in various investment funds. 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 21(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 Group's assets in separate trustee administered funds.

The Group also participates in a master trust Mandatory Provident Fund Scheme ("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.

(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 and future pension increase rate which are disclosed in note 21(a)(viii) together with appropriate provisions for mortality rates. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1 January 2017. 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 retirement schemes expose the Group to investment risk and interest rate risk while the Pension Scheme also exposes the Group to risks of longevity and inflation.

The retirement scheme expense/income recognised in profit or loss for the year ended 31 December 2017 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

- (i) The amounts recognised in the statements of financial position are as follows:

	2017 \$ million	2016 \$ million
Present value of defined benefit obligations	(393)	(407)
Fair value of assets of the Schemes	277	266
	(116)	(141)
Represented by:		
Employee retirement benefit assets	5	4
Employee retirement benefit liabilities	(121)	(145)
	(116)	(141)

The assets of the Schemes did not include ordinary shares issued by the Company for the years ended 31 December 2017 and 2016.

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 changes in actuarial assumptions and market conditions.

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

	2017 \$ million	2016 \$ million
At 1 January	407	411
Current service cost	1	–
Interest cost	8	8
Actuarial (gain)/loss due to:		
– Changes in liability experience	(1)	(1)
– Changes in financial assumptions	5	(1)
– Changes in demographic assumptions	1	10
Benefits paid	(28)	(20)
At 31 December	393	407

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21. 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:

	2017 \$ million	2016 \$ million
At 1 January	266	274
Interest income on the Schemes’ assets	5	6
Return on Schemes’ assets, excluding interest income	34	5
Employer contributions paid to the Schemes	–	1
Benefits paid	(28)	(20)
At 31 December	277	266

The Group expects to contribute below \$1 million to its defined benefit retirement schemes in 2018.

(iv) The expenses recognised in the consolidated statement of profit or loss are as follows:

	2017 \$ million	2016 \$ million
Current service cost	1	–
Net interest on net defined benefit asset/liability	3	2
	4	2

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

	2017 \$ million	2016 \$ million
Other operating costs	4	2

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

	2017 \$ million	2016 \$ million
At 1 January	178	175
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	(29)	3
At 31 December	149	178

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

	2017 \$ million	2016 \$ million
Hong Kong equities	41	36
European equities	22	18
North American equities	47	47
Asia Pacific and others equities	21	18
Global bonds	145	145
Deposits, cash and others	1	2
	277	266

Strategic investment decisions are taken with respect to the risk and return profiles. There has been no change in the process used by the Group to manage its risks from prior periods.

(viii) The principal actuarial assumptions used as at 31 December (expressed as a weighted average) are as follows:

	2017	2016
Discount rate		
– The Pension Scheme	2.0%	2.1%
– The Guaranteed Return Scheme	1.7%	1.8%
Long term salary increase rate	Not applicable	Not applicable
Future pension increase rate	2.5%	2.5%

(ix) Sensitivity analysis

(a) The Pension Scheme

	2017 \$ million	2016 \$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	(8)	(9)
– decrease by 0.25%	9	9
Pension increase rate		
– increase by 0.25%	8	9
– decrease by 0.25%	(8)	(8)
Mortality rate applied to specific age		
– set forward one year	(13)	(13)
– set backward one year	14	13

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

21. Employee retirement benefits (Continued)

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

(ix) Sensitivity analysis (Continued)

(b) The Guaranteed Return Scheme

	2017 \$ million	2016 \$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	(1)	(2)
– decrease by 0.25%	1	2
Interest to be credited		
– increase by 0.25%	1	2

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.

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

	2017 No. of years	2016 No. of years
The Pension Scheme	11.0	11.4
The Guaranteed Return Scheme	6.5	6.8

(b) Defined contribution retirement scheme

	2017 \$ million	2016 \$ million
Expenses recognised in profit or loss	2	1

No forfeited contributions have been received during the year (2016: \$Nil).

22. Income tax in the consolidated statement of financial position

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

	2017 \$ million	2016 \$ million
Tax provision for the year	104	57
Provisional tax paid	(60)	(8)
Tax provision/(credit) relating to prior years	47	(3)
Current tax payable	91	46

(b) Deferred tax assets and liabilities

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

\$ million	Cash flow hedges	Future benefits of tax losses	Total
At 1 January 2016	27	–	27
Credited to profit or loss	–	(19)	(19)
Credited to other comprehensive income	(13)	–	(13)
At 31 December 2016	14	(19)	(5)
At 1 January 2017	14	(19)	(5)
Charged to profit or loss	–	4	4
Credited to other comprehensive income	(19)	(1)	(20)
At 31 December 2017	(5)	(16)	(21)

- (ii) Reconciliation to the consolidated statement of financial position:

	2017 \$ million	2016 \$ million
Net deferred tax assets recognised in the consolidated statement of financial position	(21)	(19)
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	14
	(21)	(5)

The Group had no material unrecognised deferred tax assets or liabilities as at 31 December 2017 and 2016.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23. Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

(b) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year:

	2017 \$ million	2016 \$ million
Interim dividend declared and paid of \$0.77 per ordinary share (2016: \$0.70 per ordinary share)	1,643	1,494
Special interim dividend declared and paid of \$7.50 per ordinary share (2016: \$5.00 per ordinary share declared and paid after the end of the reporting period)	16,007	10,671
Special interim dividend declared after the end of the reporting period of \$6.00 per ordinary share	12,806	–
Final dividend proposed after the end of the reporting period of \$2.03 per ordinary share (2016: \$2.02 per ordinary share)	4,333	4,311
	34,789	16,476

The final dividend and special interim dividend declared and paid, declared or proposed after the end of the reporting period are based on 2,134,261,654 ordinary shares (2016: 2,134,261,654 ordinary shares), being the total number of issued shares at the year end. The final dividend and special interim dividend declared and paid, declared or proposed after the end of the reporting period have not been recognised as liabilities at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year paid during the year:

	2017 \$ million	2016 \$ million
Special interim dividend in respect of the previous financial year, declared and paid during the year, of \$5.00 per ordinary share (2016: \$Nil)	10,671	–
Final dividend in respect of the previous financial year, approved and paid during the year, of \$2.02 per ordinary share (2016: \$2.02 per ordinary share)	4,311	4,311
	14,982	4,311

(c) Share capital

	Number of shares	2017 \$ million	2016 \$ million
Issued and fully paid:			
Voting ordinary shares	2,134,261,654	6,610	6,610

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(d) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policies set out in notes 2(i)(iii) and 2(u).

(ii) Hedging reserve

The hedging 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 2(i)(ii).

(iii) Revenue reserve

The revenue reserve comprises the accumulated profits retained by the Company and its subsidiaries and includes the Group's share of the retained profits of its joint ventures and associates.

(e) Capital management

The Group's primary objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to provide returns to shareholders by securing access to finance at a reasonable cost;
- to support the Group's stability and future growth; and
- to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly reviews and manages its capital structure, taking into consideration the future capital requirements of the Group and capital efficiency, forecast profitability, forecast operating cash flows, forecast capital expenditure and projected investment opportunities.

The Group monitors its capital structure on the basis of a net debt-to-net total capital ratio. For this purpose the Group defines net debt as interest-bearing borrowings (as shown in the consolidated statements 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 2017, the Group's strategy, which was unchanged from 2016, was to control its 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 Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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

During the current year, the Company acted as the guarantor in respect of certain loan facilities granted to its subsidiaries and joint ventures and fully complied with the capital requirements under the loan facility agreements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Financial risk management

The Group is exposed to credit, liquidity, interest rate and currency risks in the normal course of its businesses. The Group is also exposed to equity price risk arising from its equity investments in other entities. In accordance with the Group's 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 Group does not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the statement of financial position. Except for the financial guarantees given by the Group as set out in note 26, the Group has not provided any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 26.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 16.

The Group has no significant concentration of credit risk arising from trade and other receivables, with exposure spread over a number of counterparties.

Offsetting financial assets and financial liabilities

The Group's derivative transactions are executed with financial institutions and governed by either International Swaps and Derivatives Association Master Agreements 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 Group does 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 netting arrangements but not offset as at the end of the reporting period.

\$ million	Note	2017			2016		
		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	20						
Interest rate swaps		-	-	-	45	-	45
Forward foreign exchange contracts		422	(12)	410	881	(22)	859
Total		422	(12)	410	926	(22)	904
Financial liabilities	20						
Cross currency swaps		533	-	533	-	-	-
Interest rate swaps		25	-	25	41	(22)	19
Forward foreign exchange contracts		245	(12)	233	11	-	11
Total		803	(12)	791	52	(22)	30

(b) Liquidity risk

The Group operates a central cash management system for all its subsidiaries in order to achieve a better control of risk and minimise the costs of funds. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with loan covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding to meet its liquidity requirements in the short and longer term. The Group had bank deposits and cash \$25,407 million (2016: \$61,710 million) and no undrawn committed bank facilities at 31 December 2017 (2016: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Financial risk management (Continued)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's 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 Group can be required to pay.

\$ million	2017 Contractual undiscounted cash outflow/(inflow)				Total
	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	
Non-derivative financial liabilities					
Bank loans and other borrowings and interest accruals	3,654	90	3,891	–	7,635
Trade and other payables	3,176	–	–	–	3,176
Derivative financial instruments					
Net settled					
Interest rate swaps	48	35	105	111	299
Gross settled					
Forward foreign exchange contracts:					
– outflow	5,708	–	6,497	6,722	18,927
– inflow	(5,808)	–	(6,675)	(7,531)	(20,014)
Cross currency swaps and related interest accruals:					
– outflow	253	255	3,706	6,724	10,938
– inflow	(180)	(181)	(3,341)	(6,433)	(10,135)
	6,851	199	4,183	(407)	10,826

\$ million	2016 Contractual undiscounted cash outflow/(inflow)				Total
	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	
Non-derivative financial liabilities					
Bank loans and other borrowings and interest accruals	144	5,182	3,659	–	8,985
Trade and other payables	2,572	–	–	–	2,572
Derivative financial instruments					
Net settled					
Interest rate swaps	73	47	111	118	349
Gross settled					
Forward foreign exchange contracts:					
– outflow	3,163	290	6,133	6,103	15,689
– inflow	(3,232)	(298)	(6,646)	(7,497)	(17,673)
Cross currency swaps and related interest accruals:					
– outflow	–	–	–	–	–
– inflow	–	–	–	–	–
	2,720	5,221	3,257	(1,276)	9,922

(c) Interest rate risk

The Group is exposed to cash flow interest rate risk on its interest-bearing assets and liabilities. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

(i) Hedging

The Group's policy is to maintain a balanced combination of fixed and variable rate debt to reduce its interest rate exposure. The Group also uses interest rate swaps to manage the exposure in accordance with its treasury policy. At 31 December 2017, the Group had interest rate swaps with a total notional amount of \$7,246 million (2016: \$6,684 million).

(ii) Interest rate profile

The following table details the interest rate profile of the Group's 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).

	2017		2016	
	Weighted average interest rate %	\$ million	Weighted average interest rate %	\$ million
Net fixed rate assets/(liabilities)				
Loans to unlisted joint ventures/associates	9.9	11,807	10.0	11,055
Deposits with banks and other financial institutions	1.8	24,972	1.2	61,353
Bank loans and other borrowings	2.0	(7,223)	2.1	(6,652)
		<u>29,556</u>		<u>65,756</u>
Net variable rate assets/(liabilities)				
Loans to unlisted joint ventures/associates	5.0	5,800	6.6	918
Cash at bank and on hand	–	435	0.4	357
Bank loans and other borrowings	–	–	1.6	(1,862)
		<u>6,235</u>		<u>(587)</u>

(iii) Sensitivity analysis

At 31 December 2017, 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 Group's profit for the year and revenue reserve by approximately \$41 million (2016: decreased/increased by approximately \$10 million). Other components of consolidated equity would have decreased/increased by approximately \$191 million (2016: decreased/increased by approximately \$205 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 2016.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Financial risk management (Continued)

(d) Currency risk

The Group is exposed to currency risk primarily arising from investments outside Hong Kong. The Group is also exposed to foreign currency risk arising from foreign currency transactions which give rise to receivables, payable and cash balances that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The Group manages this risk as follows:

(i) Investments outside Hong Kong

Currency exposure arising from investments outside Hong Kong is mitigated in part either by funding a portion of the investment through external borrowings in the same currency as the underlying investment or by hedging with forward foreign exchange contracts. The fair value of such borrowings at 31 December 2017 was \$7,248 million (2016: \$8,553 million). The fair value of forward foreign exchange contracts at 31 December 2017 was an asset of \$177 million (2016: \$870 million). The fair value of cross currency swaps contracts at 31 December 2017 was a liability of \$533 million (2016: \$Nil).

(ii) Recognised assets and liabilities

The Group uses forward foreign exchange contracts and cross currency swaps to manage its foreign currency risk arising from foreign currency transactions. The following table details the Group's 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 entity to which they relate.

'million	2017 Exposure to foreign currencies			
	USD	RMB	GBP	AUD
Trade and other receivables	1	–	3	13
Bank deposits and cash	601	–	2	64
Trade and other payables	–	–	–	(1)
	602	–	5	76

'million	2016 Exposure to foreign currencies			
	USD	RMB	GBP	AUD
Trade and other receivables	1	–	4	5
Bank deposits and cash	642	118	487	289
Trade and other payables	–	–	–	(2)
	643	118	491	292

(iii) Sensitivity analysis

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

\$ million	2017		2016	
	Effect on profit for the year and revenue reserve increase/(decrease)	Effect on other components of equity increase/(decrease)	Effect on profit for the year and revenue reserve increase/(decrease)	Effect on other components of equity increase/(decrease)
Pounds Sterling	5	–	472	–
Australian dollars	46	–	164	–
Renminbi	–	–	13	–

A 10 percent weakening in the above currencies against Hong Kong dollars at the end of the reporting period would have had an equal but opposite effect on the Group's profit for the year (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 Group which expose the Group 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. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit for the year and other components of equity measured in their respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis as for 2016.

(e) Equity price risk

The Group is exposed to equity price changes arising from unlisted available-for-sale equity securities which are held for strategic purposes (see note 15).

All of the Group's unlisted investments are held for long term strategic purposes. Their performance is reviewed regularly based on information available to the Group.

These unlisted investments do not have a quoted market price in an active market and are stated at cost. Any increase or decrease in impairment losses in respect of these investments would affect the Group's net profit. As at the end of the reporting period, none of these unlisted investments was considered to be impaired. The review has been performed on the same basis as for 2016.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Financial risk management (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, *Fair value measurement*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

Recurring fair value measurements

	Fair value measurements using significant observable inputs (Level 2)	
	2017 \$ million	2016 \$ million
Financial assets		
Derivative financial instruments:		
– Interest rate swaps	–	45
– Forward foreign exchange contracts	422	881
	422	926
Financial liabilities		
Derivative financial instruments:		
– Interest rate swaps	(25)	(41)
– Cross currency swaps	(533)	–
– Forward foreign exchange contracts	(245)	(11)
	(803)	(52)

(ii) Valuation techniques and inputs in fair value measurements

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

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

Unlisted available-for-sale equity securities were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably. Amounts due from joint ventures and associates, trade and other receivables, trade and other payables and external borrowings are carried at cost or amortised cost which are not materially different from their fair values as at 31 December 2017 and 2016.

25. Capital commitments

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

	2017 \$ million	2016 \$ million
Contracted for:		
Investment in a joint venture	1,395	1,465
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	1	1
Investment in a joint venture	920	144
	921	145

26. Contingent liabilities

	2017 \$ million	2016 \$ million
Financial guarantees issued in respect of banking facilities available to a joint venture	123	97
Other guarantees given in respect of a joint venture	760	724
	883	821

27. Material related party transactions

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

(a) Shareholder

- (i) Outram Limited ("Outram"), a subsidiary of the Company, reimbursed CK Infrastructure Holdings Limited (formerly known as Cheung Kong Infrastructure Holdings Limited) \$32 million (2016: \$30 million) being the actual costs incurred for providing the operation and management services to Outram and its subsidiaries for the year. The transaction constitutes a continuing connected transaction under the Listing Rules for the Company.

(b) Joint ventures

- (i) Interest income received/receivable from joint ventures in respect of the loans to joint ventures amounted to \$913 million (2016: \$783 million) for the year. The outstanding balances with joint ventures are disclosed in note 13.
- (ii) Net tax credit claimed under the consortium relief received/receivable from joint ventures in the United Kingdom amounted to \$11 million (2016: \$50 million) for the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27. Material related party transactions (Continued)

(c) Associates

- (i) Interest income received/receivable from associates in respect of the loans to associates amounted to \$467 million (2016: \$453 million) for the year. The outstanding balances with associates are disclosed in note 14.
- (ii) Other operating costs included support service charge recovered by an associate amounted to \$39 million (2016: \$37 million) for the total costs incurred in the provision or procurement of the general office administration and other support services and office facilities. The outstanding balance with the associate was \$4 million (2016: \$4 million).

28. Substantial shareholder of the Company

The Company is a Hong Kong listed company and its shares are widely held by the public. CK Infrastructure Holdings Limited currently holds approximately 38.01% of the issued share capital of the Company and is a substantial shareholder of the Company.

29. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 21 and 24 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 Group's accounting policies are described below.

(a) Impairment

In considering the impairment losses that may be required for the Group's assets which include unlisted available-for-sale securities and property, plant and equipment, the recoverable amounts of the assets 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 are discounted to their present value, which requires significant judgement. The Group uses 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.

(b) Associates

- (i) CKI Spark Holdings No. One Limited holds a 51% attributable interest in Victoria Power Networks Pty Limited. Victoria Power Networks Pty Limited is the holding company of Powercor and CitiPower. Powercor operates and manages an electricity distribution business in western Victoria, Australia. CitiPower distributes electricity to the Melbourne Central business district. The Group holds 54.76% of CKI Spark Holdings No. One Limited but the Group does not have control or joint control over it and, therefore, it has been accounted for as an associate.
- (ii) CKI Spark Holdings No. Two Limited holds a 51% attributable interest in SA Power Networks Partnership. SA Power Networks Partnership is the sole electricity distributor in South Australia. The Group holds 54.76% of CKI Spark Holdings No. Two Limited but the Group does not have control or joint control over it and, therefore, it has been accounted for as an associate.

30. Company-level Statement of Financial Position

	Note	2017 \$ million	2016 \$ million
Non-current assets			
Property, plant and equipment		1	1
Investments in subsidiaries	30(a)	79,214	108,253
		79,215	108,254
Current assets			
Trade and other receivables		1	2
Bank deposits and cash		89	28
		90	30
Current liabilities			
Trade and other payables		(335)	(288)
Net current liabilities			
		(245)	(258)
Total assets less current liabilities			
		78,970	107,996
Non-current liabilities			
Employee retirement benefit liabilities		(121)	(145)
Net assets			
		78,849	107,851
Capital and reserves			
Share capital	23(c)	6,610	6,610
Reserves		72,239	101,241
Total equity attributable to equity shareholders of the Company			
	30(b)	78,849	107,851

Approved and authorised for issue by the Board of Directors on 16 March 2018.

Tsai Chao Chung, Charles
Director

Chan Loi Shun
Director

(a) Investments in subsidiaries

Investments in subsidiaries included net amounts due from subsidiary companies totalling \$66,864 million (2016: \$95,903 million) which are unsecured, interest free and have no fixed repayment terms but the Company is unlikely to demand payment or repay these amounts within 12 months of the end of the reporting period.

Particulars of the principal subsidiaries at the end of the reporting period are set out in Appendix 2 on pages 124 to 125.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

30. Company-level Statement of Financial Position (Continued)

(b) Total equity attributable to equity shareholders of the Company

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:

\$ million	Share capital (note 23(c))	Revenue reserve (note 23(d)(iii))	Proposed/ declared dividend (note 23(b))	Total
Balance at 1 January 2016	6,610	98,512	4,311	109,433
Changes in equity for 2016:				
Profit for the year	–	4,225	–	4,225
Other comprehensive income	–	(2)	–	(2)
Total comprehensive income	–	4,223	–	4,223
Final dividend in respect of the previous year approved and paid (see note 23(b)(ii))	–	–	(4,311)	(4,311)
Interim dividend paid (see note 23(b)(i))	–	(1,494)	–	(1,494)
Special interim dividend declared and paid after the end of the reporting period (see note 23(b)(i))	–	(10,671)	10,671	–
Proposed final dividend (see note 23(b)(i))	–	(4,311)	4,311	–
Balance at 31 December 2016 and 1 January 2017	6,610	86,259	14,982	107,851
Change in equity for 2017:				
Profit for the year	–	3,603	–	3,603
Other comprehensive income	–	27	–	27
Total comprehensive income	–	3,630	–	3,630
Special interim dividend in respect of the previous year declared and paid (see note 23(b)(ii))	–	–	(10,671)	(10,671)
Final dividend in respect of the previous year approved and paid (see note 23(b)(ii))	–	–	(4,311)	(4,311)
Interim dividend paid (see note 23(b)(i))	–	(1,643)	–	(1,643)
Special interim dividend paid (see note 23(b)(i))	–	(16,007)	–	(16,007)
Special interim dividend declared after the end of the reporting period (see note 23(b)(i))	–	(12,806)	12,806	–
Proposed final dividend (see note 23(b)(i))	–	(4,333)	4,333	–
Balance at 31 December 2017	6,610	55,100	17,139	78,849

The net profit of the Company is \$3,603 million (2016: \$4,225 million) and is included in determining the consolidated profit attributable to equity shareholders of the Company in the financial statements.

All of the Company's revenue reserve is available for distribution to equity shareholders. During the reporting period, the Directors declared a special interim dividend of \$7.50 per ordinary share, amounted to \$16,007 million. After the end of the reporting period, the Directors declared a special interim dividend of \$6.00 (2016: \$5.00) per ordinary share, amounting to \$12,806 million (2016: \$10,671 million) and proposed a final dividend of \$2.03 (2016: \$2.02) per ordinary share, amounting to \$4,333 million (2016: \$4,311 million).

31. Possible impact of amendments and new standards issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
• HKFRS 9, <i>Financial instruments</i>	1 January 2018
• HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
• Amendments to HKFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
• Amendments to HKAS 40, <i>Investment property: Transfers of investment property</i>	1 January 2018
• HK(IFRIC) 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
• HKFRS 16, <i>Leases</i>	1 January 2019
• HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

The Group is 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 Group's financial statements but the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 9.

HKFRS 9, *Financial instruments*

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31. Possible impact of amendments and new standards issued but not yet effective for the year ended 31 December 2017 (Continued)

HKFRS 9, *Financial instruments* (Continued)

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without subsequent reclassification to profit or loss.

The group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without subsequent reclassification to profit or loss) on transition to HKFRS 9. The Group plans to elect this designation option for any of the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in other comprehensive income as they arise. This will give rise to a change in accounting policy as currently the Group records the unlisted available-for-sale equity securities at cost, in accordance with the Group's policies set out in notes 2(g) and 2(l). This will increase volatility in the Group's net assets and total comprehensive income, but will have no impact on profit or loss. Upon the initial adoption of HKFRS 9, fair value gains of \$236 million related to the unlisted available-for-sale equity securities will be credited to the investment revaluation reserve at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model is unlikely to have a significant impact on the Group's financial results.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The Group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

While the assessment has been substantially completed for HKFRS 9, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

Appendix 1

Segment information

\$ million	2017								
	Investment in HKEI	Investments					Sub-total	All other activities	Total
		United Kingdom	Australia	Mainland China	Others				
For the year ended 31 December									
Revenue									
Revenue	–	534	607	39	239	1,419	1	1,420	
Other net income	–	–	–	–	5	5	1,143	1,148	
Reportable segment revenue	–	534	607	39	244	1,424	1,144	2,568	
Result									
Segment earnings	–	534	607	13	243	1,397	647	2,044	
Depreciation and amortisation	–	–	–	–	–	–	(2)	(2)	
Bank deposit interest income	–	–	–	2	–	2	513	515	
Operating profit	–	534	607	15	243	1,399	1,158	2,557	
Finance costs	–	(87)	(189)	–	(19)	(295)	–	(295)	
Share of profits less losses of joint ventures and associates	1,115	3,332	1,013	260	430	5,035	4	6,154	
Profit before taxation	1,115	3,779	1,431	275	654	6,139	1,162	8,416	
Income tax	–	11	(43)	(4)	(61)	(97)	–	(97)	
Reportable segment profit	1,115	3,790	1,388	271	593	6,042	1,162	8,319	
At 31 December									
Assets									
Property, plant and equipment and leasehold land	–	–	–	–	–	–	14	14	
Other assets	–	324	129	69	16	538	38	576	
Interest in joint ventures and associates	16,820	30,613	20,479	2,298	10,787	64,177	7	81,004	
Bank deposits and cash	–	–	–	–	–	–	25,407	25,407	
Reportable segment assets	16,820	30,937	20,608	2,367	10,803	64,715	25,466	107,001	
Liabilities									
Segment liabilities	–	(92)	(774)	(4)	(248)	(1,118)	(2,989)	(4,107)	
Current and deferred taxation	–	–	(27)	–	(64)	(91)	–	(91)	
Interest-bearing borrowings	–	(2,619)	(3,679)	–	(925)	(7,223)	–	(7,223)	
Reportable segment liabilities	–	(2,711)	(4,480)	(4)	(1,237)	(8,432)	(2,989)	(11,421)	

\$ million	2016								
	Investment in HKEI	Investments					Sub-total	All other activities	Total
		United Kingdom	Australia	Mainland China	Others				
For the year ended 31 December									
Revenue									
Revenue	–	556	453	44	227	1,280	8	1,288	
Other net income/(loss)	–	–	–	–	6	6	(777)	(771)	
Reportable segment revenue	–	556	453	44	233	1,286	(769)	517	
Result									
Segment earnings	–	556	453	20	233	1,262	(1,559)	(297)	
Depreciation and amortisation	–	–	–	–	–	–	(1)	(1)	
Bank deposit interest income	–	–	–	–	–	–	550	550	
Operating profit	–	556	453	20	233	1,262	(1,010)	252	
Finance costs	–	(95)	(135)	–	(18)	(248)	–	(248)	
Share of profits less losses of joint ventures and associates	1,201	3,932	696	292	276	5,196	4	6,401	
Profit before taxation	1,201	4,393	1,014	312	491	6,210	(1,006)	6,405	
Income tax	–	50	(41)	(4)	7	12	–	12	
Reportable segment profit	1,201	4,443	973	308	498	6,222	(1,006)	6,417	
At 31 December									
Assets									
Property, plant and equipment and leasehold land	–	–	–	–	–	–	29	29	
Other assets	–	771	125	67	49	1,012	85	1,097	
Interest in joint ventures and associates	16,881	25,756	10,498	3,888	9,911	50,053	7	66,941	
Bank deposits and cash	–	–	–	–	–	–	61,710	61,710	
Reportable segment assets	16,881	26,527	10,623	3,955	9,960	51,065	61,831	129,777	
Liabilities									
Segment liabilities	–	(97)	(8)	(3)	(67)	(175)	(2,617)	(2,792)	
Current and deferred taxation	–	–	(91)	–	(12)	(103)	43	(60)	
Interest-bearing borrowings	–	(4,264)	(3,445)	–	(805)	(8,514)	–	(8,514)	
Reportable segment liabilities	–	(4,361)	(3,544)	(3)	(884)	(8,792)	(2,574)	(11,366)	

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

Appendix 2

Principal subsidiaries

The following list contains only the particulars of subsidiaries as at 31 December 2017 which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Issued share capital	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
Ace Keen Limited	US\$1	100*	British Virgin Islands	Property holding
Associated Technical Services Limited	HK\$1,000,000	100	Hong Kong	Consulting
Aqua Wealth Investments Limited	US\$2	100	British Virgin Islands	Investment holding
Beta Central Profits Limited	GBP277,303,283	100*	United Kingdom	Investment holding
Champion Race Limited	US\$1	100*	British Virgin Islands/ Hong Kong	Property holding
Cheer Venture Enterprises Limited	HK\$4,602,240,001	100*	Hong Kong	Financing
Constant Wealth Limited	US\$1	100	British Virgin Islands	Financing
Devin International Limited	US\$2	100*	British Virgin Islands	Investment holding
Ellanby Green Limited	US\$2	100*	British Virgin Islands	Financing
Goldteam Resources Limited	US\$1 and NZ\$86,000,000	100*	British Virgin Islands	Investment holding
Good Chain Investment Limited	HK\$1,364,293,351	100*	Hong Kong	Investment holding
HEI Leting Limited	HK\$1	100*	Hong Kong	Investment holding
HK Electric Investments Manager Limited	HK\$1	100*	Hong Kong	Trust administration
Hon King Development Limited	HK\$5,238,963,067	100	Hong Kong	Investment holding
Hong Kong Electric International Finance (Australia) Pty Ltd	A\$71,686,777	100*	Australia	Financing
Hongkong Electric (Natural Gas) Limited	US\$1	100	British Virgin Islands	Investment holding
Hongkong Electric Yunnan Dali Wind Power Company Limited	HK\$1	100*	Hong Kong	Investment holding
Jewel Star Investment Limited	HK\$1,283,443,709	100*	Hong Kong	Financing
Kentson Limited	US\$2	100*	British Virgin Islands	Investment holding
Kind Eagle Investment Limited	HK\$666,553,298	100	Hong Kong	Investment holding

* Indirectly held

Name of company	Issued share capital	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
More Advance Development Limited	HK\$331,801,191	100*	Hong Kong	Investment holding
Ocean Dawn Investments Limited	US\$1	100	British Virgin Islands	Investment holding
Optimal Glory Limited	US\$1	100*	British Virgin Islands/ Hong Kong	Investment holding
Outram Limited	US\$1	100*	British Virgin Islands	Investment holding
PAH Canadian Midstream Assets Inc.	C\$866,276	100*	Canada	Investment holding
PAH Canadian Midstream Assets Holdings Inc.	C\$350,653,501	100*	Canada	Investment holding
PAH Gas Infrastructure Limited	GBP330,830,581	100*	United Kingdom	Investment holding
PAI Investment Holdings Limited	HK\$2	100*	Hong Kong	Provision of management services
PAI International Power (Mauritius) Limited	US\$2	100*	Mauritius	Investment holding
PAI Tap Limited S.A.	C\$70,161,538	100*	Belgium	Investment holding
Power Assets Investments Limited	US\$50,901	100	British Virgin Islands	Investment holding
Precious Glory Limited	HK\$11,012,527,147	100*	Hong Kong	Investment holding and financing
Quick Reach International Limited	US\$1	100*	British Virgin Islands	Financing
Quickview Limited	US\$1	100	British Virgin Islands	Investment holding
Sigerson Business Corp.	US\$101	100*	British Virgin Islands	Investment holding
Smarter Corporate Limited	US\$1	100*	British Virgin Islands	Property holding
Sparkle Gain Investment Limited	HK\$5,238,963,067	100*	Hong Kong	Investment holding
Superb Year Limited	US\$2	100*	British Virgin Islands	Investment holding
Vanora Holdings Limited	US\$1	100*	British Virgin Islands	Financing
Well Joint Investment Limited	HK\$2,457,616,097	100*	Hong Kong	Investment holding

* Indirectly held

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

Appendix 3

Principal joint ventures

The following list contains only the particulars of joint ventures as at 31 December 2017 which principally affected the results or assets of the Group:

Name of joint venture	Issued or registered share capital	Percentage of the Group's effective interest	Place of incorporation/operation	Principal activity	Measurement method
Australian Gas Networks Limited (note (a))	A\$879,082,753	27.51%	Australia	Gas distribution	Equity
AVR-Afvalverwerking B.V. (note (b))	EUR1	20%	The Netherlands	Producing energy from waste	Equity
Canadian Power Holdings Inc. (note (c))	C\$139,000,000 Ordinary shares C\$23,000,000 Preferred shares	50%	Canada	Electricity generation	Equity
CK William UK Holdings Limited (notes (d) & (e))	GBP2,049,000,000	20%	United Kingdom	Investment holding	Equity
Electricity First Limited (note (f))	GBP4	50%	United Kingdom	Electricity generation	Equity
Guangdong Zhuhai Jinwan Power Company Limited (note (g))	RMB822,250,000 and US\$83,340,993	45%	People's Republic of China	Electricity generation	Equity
Guangdong Zhuhai Power Station Company Limited (note (h))	RMB456,000,000 and US\$9,638,222	45%	People's Republic of China	Electricity generation	Equity
Husky Midstream Limited Partnership (note (i))	C\$1,184,850,000 Class A units C\$637,996,154 Class B units C\$1,776,923 General Partnership Interest	48.75%	Canada	Oil pipelines, storage facilities and ancillary assets operation	Equity
Iberwind-Desenvolvimento e Projectos, S.A. (note (j))	EUR50,000	50%	Portugal	Generation and sale of wind energy	Equity
Northern Gas Networks Holdings Limited (note (k))	GBP71,670,980	41.29%	United Kingdom	Gas distribution	Equity
Transmission Operations (Australia) Pty Limited (note (l))	A\$7,888,350	50%	Australia	Electricity transmission	Equity
Transmission Operations (Australia) 2 Pty Limited (note (l))	A\$11,102,000	50%	Australia	Electricity transmission	Equity

Name of joint venture	Issued or registered share capital	Percentage of the Group's effective interest	Place of incorporation/ operation	Principal activity	Measurement method
UK Power Networks Holdings Limited (note (m))	GBP6,000,000 A Ordinary shares GBP4,000,000 B Ordinary shares GBP360,000,000 A Preference shares GBP240,000,000 B Preference shares	40%	United Kingdom	Electricity distribution	Equity
Wales & West Gas Networks (Holdings) Limited (note (n))	GBP290,272,506	30%	United Kingdom	Gas distribution	Equity
Wellington Electricity Distribution Network Limited (note (o))	NZ\$172,000,100	50%	New Zealand	Electricity distribution	Equity

Notes:

- (a) Australian Gas Networks Limited owns strategic gas distribution networks and transmission pipelines that operate in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.
- (b) AVR-Afvalverwerking B.V. is owned by Dutch Enviro Energy Holdings B.V., which is principally engaged in the business of waste processing and production and supply of renewable energy from the incineration of waste.
- (c) Canadian Power Holdings Inc. holds a 49.99% partnership interest in TransAlta Cogeneration L.P. which owns interests in four gas-fired cogeneration facilities in Alberta and Ontario, Canada and in a coal-fired, generation facility in Alberta, Canada. Canadian Power Holdings Inc. also holds a 100% interest in the Meridian gas-fired combined cycle cogeneration plant in Saskatchewan, Canada.
- (d) CK William UK Holdings Limited owns 100% interests in the following companies:
Energy Developments Pty Limited
Multinet Group Holdings Pty Limited
DBNGP Holdings Pty Limited
Energy Developments Pty Limited owns and operates an energy generation business mainly in Australia. Multinet Group Holdings Pty Limited and DBNGP Holdings Pty Limited operate natural gas distribution businesses in Australia.
- (e) CK William UK Holdings Limited owns 66% interests in United Energy Distribution Holdings Pty Limited, which operates an energy distribution business in Australia.
- (f) Electricity First Limited holds a 50% stake in Seabank Power Limited, an electricity-generating company located near Bristol in the United Kingdom.
- (g) Guangdong Zhuhai Jinwan Power Company Limited ("Jinwan Power") owns and operates power plants in the People's Republic of China.
- (h) Guangdong Zhuhai Power Station Company Limited ("Zhuhai Power") owns and operates power plants in the People's Republic of China.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

Appendix 3 (Continued)

Principal joint ventures (Continued)

- (i) Husky Midstream Limited Partnership was established in 2016 to assume ownership of midstream pipeline and terminal assets in the Lloydminster region of Alberta and Saskatchewan, Canada. Its asset portfolio includes oil pipeline, storage facilities and other ancillary assets.
- (j) Iberwind-Desenvolvimento e Projectos, S.A. is owned by Portugal Renewable Energy-PTRW, Unipessoal Lda., which is engaged in generation and sale of wind energy from wind power in Portugal.
- (k) Northern Gas Networks Holdings Limited operates a gas distribution network in the North of England.
- (l) Australian Energy Operations Pty Ltd is the holding company of Transmission Operations (Australia) Pty Limited and Transmission Operations (Australia) 2 Pty Limited, which businesses include the design, build, own and operate transmission lines and associate terminal stations to transport the electricity generated from the Mt. Mercer Wind Farm and the Ararat Wind Farm in Victoria, Australia to the main power grid.
- (m) UK Power Networks Holdings Limited owns and operates three regulated electricity distribution networks in the United Kingdom that cover London, South East England and East England. The power networks also include certain non-regulated electricity distribution businesses, which consist predominantly of commercial contracts to distribute electricity to a number of privately owned sites.
- (n) Wales & West Gas Networks (Holdings) Limited is engaged in gas distribution in Wales and the South West of England.
- (o) Wellington Electricity Distribution Network Limited supplies electricity to Wellington, Porirua and Hutt Valley regions of New Zealand.

Appendix 4

Principal associates

The following list contains only the particulars of associates as at 31 December 2017 which principally affected the results or assets of the Group:

Name of associate	Issued share capital	Percentage of the Group's effective interest	Place of incorporation/ operation	Principal activity	Measurement method
HK Electric Investments and HK Electric Investments Limited (note (a))	8,836,200,000 share stapled units being the combination of 8,836,200,000 Units, HK\$4,418,100 Ordinary shares and HK\$4,418,100 Preference shares	33.37%	Cayman Islands/ Hong Kong	Investment holding	Equity
Huaneng Hongkong Electric Dali Wind Power Company Limited (note (b))	RMB150,690,000	45%	People's Republic of China	Electricity generation	Equity
Huaneng Laoting Wind Power Company Limited (note (c))	RMB185,280,000	45%	People's Republic of China	Electricity generation	Equity
Ratchaburi Power Company Limited (note (d))	THB7,325,000,000	25%	Thailand	Electricity generation	Equity
SA Power Networks Partnership (note (e))	N/A	27.93%	Australia	Electricity distribution	Equity
Secan Limited	HK\$10	20%	Hong Kong	Property development	Equity
Victoria Power Networks Pty Limited (note (f))	A\$315,498,640	27.93%	Australia	Electricity distribution	Equity

Notes:

- (a) HK Electric Investments and HK Electric Investments Limited collectively ("HKEI") holds 100% of The Hongkong Electric Company, Limited ("HK Electric"). HK Electric is responsible for the generation, transmission, distribution and supply of electricity to Hong Kong and Lamma Islands.
- (b) Huaneng Hongkong Electric Dali Wind Power Company Limited is engaged in wind power development, operation, management and supply of electricity in the People's Republic of China.
- (c) Huaneng Laoting Wind Power Company Limited is engaged in wind power development, operation, management and supply of electricity in the People's Republic of China.
- (d) Ratchaburi Power Company Limited is engaged in the development, financing, operation and maintenance of a power generating station in Thailand.
- (e) SA Power Networks Partnership operates and manages the electricity distribution business in the state of South Australia in Australia.
- (f) Victoria Power Networks Pty Limited is the holding company of Powercor Australia Limited ("Powercor") and The CitiPower Trust Limited ("CitiPower"). Powercor operates and manages an electricity distribution business in western Victoria, Australia. CitiPower distributes electricity to the Melbourne Central business district in Australia.