CONSOLIDATED INCOME STATEMENT

for the year ended 31st December

HK$ million	Notes	2017	2016
Turnover	6	**31,642**	27,346
Sales and interest income from infrastructure investments	6	**6,016**	5,321
Other income	7	**792**	580
Operating costs	8	**(4,083)**	(3,972)
Finance costs	9	**(648)**	(560)
Exchange gain/(loss)		**120**	(698)
Gain on disposal of investment in securities		**–**	781
Share of results of associates		**3,693**	2,861
Share of results of joint ventures		**5,038**	5,887
Profit before taxation	10	**10,928**	10,200
Taxation	11(a)	**(72)**	8
Profit for the year	12	**10,856**	10,208
Attributable to:			
Shareholders of the Company		**10,256**	9,636
Owners of perpetual capital securities		**626**	584
Non-controlling interests		**(26)**	(12)
		10,856	10,208
Earnings per share	13	**HK$4.07**	HK$3.82

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December

HK$ million	2017	2016
Profit for the year	**10,856**	10,208
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Gain from fair value changes of available-for-sale financial assets	**–**	219
Gain/(Loss) from fair value changes of derivatives designated as effective cash flow hedges	**19**	(363)
(Loss)/Gain from fair value changes of derivatives designated as effective net investment hedges	**(3,429)**	4,277
Exchange differences on translation of financial statements of foreign operations	**4,703**	(8,106)
Share of other comprehensive income/(expense) of associates	**402**	(1,821)
Share of other comprehensive income/(expense) of joint ventures	**89**	(1,283)
Reserves released upon disposal of an associate	**44**	–
Reserves released upon disposal of investment in securities	**–**	(790)
Income tax relating to components of other comprehensive income	**31**	235
	1,859	(7,632)
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) of defined benefit retirement plan	**19**	(2)
Share of other comprehensive income/(expense) of associates	**42**	(545)
Share of other comprehensive income/(expense) of joint ventures	**630**	(2,274)
Income tax relating to components of other comprehensive income	**(119)**	453
	572	(2,368)
Other comprehensive income/(expense) for the year	**2,431**	(10,000)
Total comprehensive income for the year	**13,287**	208
Attributable to:		
Shareholders of the Company	**12,681**	(359)
Owners of perpetual capital securities	**626**	584
Non-controlling interests	**(20)**	(17)
	13,287	208

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31st December

HK$ million	Notes	2017	2016
Property, plant and equipment	15	**2,462**	2,404
Investment properties	16	**360**	344
Interests in associates	17	**43,108**	52,177
Interests in joint ventures	18	**98,462**	53,973
Investments in securities	19	**702**	648
Derivative financial instruments	20	**1,253**	2,178
Goodwill and intangible assets	21	**2,569**	2,554
Deferred tax assets	27	**7**	29
Other non-current assets		**136**	64
Total non-current assets		**149,059**	114,371
Inventories	22	**170**	139
Derivative financial instruments	20	**–**	982
Debtors and prepayments	23	**804**	628
Bank balances and deposits	24	**9,781**	11,790
Total current assets		**10,755**	13,539
Bank and other loans	25	**10,896**	9,901
Derivative financial instruments	20	**417**	3
Creditors and accruals	26	**4,242**	3,837
Taxation		**114**	96
Total current liabilities		**15,669**	13,837
Net current liabilities		**(4,914)**	(298)
Total assets less current liabilities		**144,145**	114,073
Bank and other loans	25	**24,140**	6,944
Derivative financial instruments	20	**1,287**	422
Deferred tax liabilities	27	**468**	481
Other non-current liabilities		**58**	39
Total non-current liabilities		**25,953**	7,886
Net assets		**118,192**	106,187
Representing:			
Share capital	29	**2,651**	2,651
Reserves		**100,822**	93,954
Equity attributable to shareholders of the Company		**103,473**	96,605
Perpetual capital securities	30	**14,701**	9,544
Non-controlling interests		**18**	38
Total equity		**118,192**	106,187

LI TZAR KUOI, VICTOR
Director

IP TAK CHUEN, EDMOND
Director

16th March, 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31st December

	Attributable to shareholders of the Company												
HK$ million	Share capital	Share premium	Treasury shares	Contributed surplus	Property revaluation reserve	Investment revaluation reserve	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Perpetual capital securities	Non-controlling interests	Total
At 1st January, 2016	2,520	16,185	–	6,062	68	734	(1,122)	(3,598)	81,722	102,571	7,933	55	110,559
Profit for the year	–	–	–	–	–	–	–	–	9,636	9,636	584	(12)	10,208
Gain from fair value changes of available-for-sale financial assets	–	–	–	–	–	219	–	–	–	219	–	–	219
Loss from fair value changes of derivatives designated as effective cash flow hedges	–	–	–	–	–	–	(363)	–	–	(363)	–	–	(363)
Gain from fair value changes of derivatives designated as effective net investment hedges	–	–	–	–	–	–	–	4,277	–	4,277	–	–	4,277
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	–	(8,101)	–	(8,101)	–	(5)	(8,106)
Share of other comprehensive expense of associates	–	–	–	–	–	–	(215)	(1,606)	(545)	(2,366)	–	–	(2,366)
Share of other comprehensive expense of joint ventures	–	–	–	–	–	–	(1,283)	–	(2,274)	(3,557)	–	–	(3,557)
Reserves released upon disposal of investment in securities	–	–	–	–	–	(953)	–	163	–	(790)	–	–	(790)
Actuarial loss of defined benefit retirement plan	–	–	–	–	–	–	–	–	(2)	(2)	–	–	(2)
Income tax relating to components of other comprehensive income	–	–	–	–	–	–	235	–	453	688	–	–	688
Total comprehensive (expense)/ income for the year	–	–	–	–	–	(734)	(1,626)	(5,267)	7,268	(359)	584	(17)	208
Final dividend paid for the year 2015	–	–	–	–	–	–	–	–	(3,905)	(3,905)	–	–	(3,905)
Interim dividend paid	–	–	–	–	–	–	–	–	(1,587)	(1,587)	–	–	(1,587)
Distribution paid on perpetual capital securities	–	–	–	–	–	–	–	–	–	–	(533)	–	(533)
Issue of perpetual capital securities (note 30)	131	9,114	(9,245)	–	–	–	–	–	–	–	9,360	–	9,360
Direct costs for issue of perpetual capital securities	–	–	–	–	–	–	–	–	(115)	(115)	–	–	(115)
Redemption of perpetual capital securities (note 30)	–	–	–	–	–	–	–	–	–	–	(7,800)	–	(7,800)
At 31st December, 2016	2,651	25,299	(9,245)	6,062	68	–	(2,748)	(8,865)	83,383	96,605	9,544	38	106,187
Profit for the year	–	–	–	–	–	–	–	–	10,256	10,256	626	(26)	10,856
Gain from fair value changes of derivatives designated as effective cash flow hedges	–	–	–	–	–	–	19	–	–	19	–	–	19
Loss from fair value changes of derivatives designated as effective net investment hedges	–	–	–	–	–	–	–	(3,429)	–	(3,429)	–	–	(3,429)
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	–	4,697	–	4,697	–	6	4,703
Share of other comprehensive (expense)/income of associates	–	–	–	–	–	–	(264)	666	42	444	–	–	444
Share of other comprehensive income of joint ventures	–	–	–	–	–	–	89	–	630	719	–	–	719
Reserves released upon disposal of an associate	–	–	–	–	–	–	12	32	–	44	–	–	44
Actuarial gain of defined benefit retirement plan	–	–	–	–	–	–	–	–	19	19	–	–	19
Income tax relating to components of other comprehensive income	–	–	–	–	–	–	31	–	(119)	(88)	–	–	(88)
Total comprehensive (expense)/ income for the year	–	–	–	–	–	–	(113)	1,966	10,828	12,681	626	(20)	13,287
Final dividend paid for the year 2016	–	–	–	–	–	–	–	–	(4,107)	(4,107)	–	–	(4,107)
Interim dividend paid	–	–	–	–	–	–	–	–	(1,688)	(1,688)	–	–	(1,688)
Distribution paid on perpetual capital securities	–	–	–	–	–	–	–	–	–	–	(550)	–	(550)
Issue of perpetual capital securities (note 30)	–	–	–	–	–	–	–	–	–	–	5,081	–	5,081
Direct costs for issue of perpetual capital securities	–	–	–	–	–	–	–	–	(18)	(18)	–	–	(18)
At 31st December, 2017	**2,651**	**25,299**	**(9,245)**	**6,062**	**68**	**–**	**(2,861)**	**(6,899)**	**88,398**	**103,473**	**14,701**	**18**	**118,192**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December

HK$ million	Notes	2017	2016
OPERATING ACTIVITIES			
Cash from operations	32 (a)	**3,000**	2,490
Income taxes (paid)/recovered		**(31)**	25
Net cash from operating activities		**2,969**	2,515
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(254)**	(303)
Disposals of property, plant and equipment		**29**	3
Additions to intangible assets		**(6)**	(19)
Advances to associates		**(28)**	(6)
Return of capital from an associate		**105**	175
Repayment from an associate		**125**	–
Investments in joint ventures		**(36,014)**	(1,741)
Advances to joint ventures		**(10)**	(13)
Repayment from joint ventures		**86**	4
Disposals of investments in securities		**–**	1,451
Disposal of an associate		**1,235**	–
Disposal of a joint venture		**23**	–
Loan note repayment from stapled securities		**–**	16
Dividends received from associates		**12,784**	2,416
Dividends received from joint ventures		**2,305**	2,622
Interest received		**102**	108
Net cash (paid)/received on hedging instrument		**(242)**	1,716
Net cash flows (utilised in)/from investing activities		**(19,760)**	6,429
Net cash flows before financing activities		**(16,791)**	8,944
FINANCING ACTIVITIES			
New bank loans and bonds	32 (b)	**27,988**	1,364
Repayments of bank and other loans	32 (b)	**(11,230)**	(1,229)
Finance costs paid		**(694)**	(606)
Dividends paid		**(5,795)**	(5,492)
Distribution paid on perpetual capital securities		**(550)**	(533)
Issue of perpetual capital securities		**5,081**	9,360
Direct costs for issue of perpetual capital securities		**(18)**	(115)
Redemption of perpetual capital securities		**–**	(7,800)
Net cash from/(utilised in) financing activities		**14,782**	(5,051)
Net (decrease)/increase in cash and cash equivalents		**(2,009)**	3,893
Cash and cash equivalents at 1st January		**11,790**	7,897
Cash and cash equivalents at 31st December	24	**9,781**	11,790

1. GENERAL

The Company is a limited liability company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange"). The addresses of its registered office and principal place of business are disclosed in the section headed "Corporate Information" of the Group's Annual Report. The Company's ultimate holding company is CK Hutchison Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on Hong Kong Stock Exchange.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Group's principal activities are the development, investment and operation of infrastructure businesses in Hong Kong, Mainland China, the United Kingdom, Continental Europe, Australia, New Zealand, Canada and the United States.

The Directors are of the opinion that, taking into account of the available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted a number of revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective to the Group for accounting periods beginning on or after 1st January, 2017. The adoption of those revised HKFRSs has no material impact on the Group's results and financial position for the current or prior years and does not result in any significant change in accounting policies of the Group. Nevertheless, disclosure on reconciliation between the opening and closing balances for liabilities arising from financial activities is added in note 32(b) to the consolidated financial statements in compliance with Amendments to HKAS 7 "Statement of Cash Flows: Disclosure Initiative".

The Group has not early adopted the following new and revised HKFRSs issued by HKICPA that have been issued but are not yet effective. The Group is continuing to assess the implication of the adoption of these standards. Except for the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" as set out below and HKFRS 16 "Leases" of which the Directors are assessing the impact on the results and financial position of the Group, the Directors anticipate that the adoption of the other new and revised HKFRSs listed below will have no material impact on the results and financial position of the Group.

2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendments)	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
HKFRS 9	Financial Instruments
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments
HKFRS 16	Leases
HKFRS 17	Insurance Contracts
HKAS 40 (Amendments)	Transfers of Investment Property
HKAS 28 (Amendments)	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle

Based on preliminary assessment, the Group has the following updates:

HKFRS 9 "Financial Instruments"

HKFRS 9 "Financial Instruments" introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, and the new requirements on the accounting for financial liabilities that are designated at fair value through profit or loss. HKFRS 9 also replaces the "incurred loss" impairment model in HKAS 39 with a forward-looking "expected credit loss" model. HKFRS 9 is mandatory for annual periods beginning on or after 1st January, 2018.

Prior to 1st January, 2018, the Group's investments in securities were classified as either available-for-sale financial assets or financial assets at fair value through profit or loss. From 1st January, 2018 onwards, the classification of available-for-sale financial assets would be eliminated and the existing equity and debt investments classified as available-for-sale financial assets would be classified as financial assets measured at fair value through profit or loss and amortised cost, respectively, according to the business model. All other financial assets will continue to be measured on the same basis as are currently measured under HKAS 39. The impact is not known or reasonably estimable.

HKFRS 9 also introduces new rules for hedge accounting. More hedge relationships might be eligible for hedge accounting under HKFRS 9 using a more principles-based approach. The Group selected to adopt hedge accounting under HKFRS 9 from 1st January, 2018 and the Group's existing hedge relationships appear to qualify as continuing hedges upon the adoption of HKFRS 9. The Directors does not expect a significant impact on the accounting for its hedging relationships.

Expanded disclosure requirements and changes in presentation are also introduced. These are expected to change the nature and extent of the Group's disclosures about its financial instruments.

2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 "Revenue from Contracts with Customers" establishes a single comprehensive model in accounting for revenue arising from contracts with customers. It replaces existing revenue recognition guidance, including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations. HKFRS 15 is mandatory for annual periods beginning on or after 1st January, 2018.

HKFRS 15 requires the transaction price of a contract to be allocated to individual performance obligation (or distinct good or service). It expands disclosure requirements relating to revenue and introduces new standard on the presentation of contract assets and receivables in the statement of financial position.

The Directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognition. However, the application of HKFRS 15 may result in more disclosures in the future.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the principal accounting policies set out below.

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the year together with the Group's interests in associates and joint ventures on the basis set out in (e) below.

The results of subsidiaries, share of results of associates and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control/exercises significant influences/gains joint control until the date when the Group ceases to control/ceases to exercise significant influences/ceases to joint control, as appropriate.

(b) Goodwill

In relation to business combination that took place on or after 1st January, 2010, goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the subsidiaries, and the fair value of the Group's previously held equity interests in the subsidiaries (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill recognised prior to 1st January, 2010 was measured as the excess of costs of acquisition over the net fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the subsidiaries, associates and joint ventures acquired.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Goodwill (Cont'd)

Goodwill is recognised as an asset less any identified impairment loss. Goodwill recognised in reserves prior to 1st January, 2001 continues to be held in the reserves and are transferred to retained profits when the business to which the goodwill relates is disposed of or becomes impaired.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the business acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of a subsidiary, associate, joint venture or relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

(c) Intangible Assets

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are carried at cost less accumulated amortisation and accumulated impairment losses, on the same basis that are acquired separately.

Amortisation of intangible assets is provided over their estimated useful lives using the straight-line method, at the following rates per annum:

Brand name and trademarks	Indefinite useful lives
Customer contracts	Over the contract lives
Resource consents (excluding landfills)	4% or over the contract lives
Computer software	33% or over the license period
Others	Over the contract lives

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired through business combination are carried at cost less accumulated impairment losses.

The useful life of the resource consents for the landfills is dependent on the total capacity of the landfills, the level of tonnage of waste, the compacting rate and other variable. As such the landfills useful life is reassessed annually and the amortisation rate of the landfills resource consents is adjusted accordingly.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Intangible Assets (Cont'd)

The carrying amount of intangible assets with indefinite useful life is tested for impairment annually. The carrying amount of intangible assets with finite useful life is reviewed for indications of impairment at the end of each reporting period. 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. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(d) Subsidiaries

A subsidiary is an entity that is controlled by the Company. The Company controls an entity when it has power over the investees; it is exposed, or has rights, to variable returns from its involvement with the entity; and has the ability to affect those returns through its power over the entity.

The acquisition of a subsidiary is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. After 1st January, 2010, acquisition-related costs are generally recognised in profit or loss as incurred.

Prior to 1st January, 2010, any costs directly attributable to business combination were included as part of the cost of the acquisition.

The acquiree's identifiable assets, liabilities and contingent liabilities, where appropriate, are recognised at their fair values at the acquisition date.

(e) Associates and Joint Ventures

An associate is a company, other than a subsidiary or joint venture, in which the Group has a long-term equity interest and over which the Group is in a position to exercise significant influence over its management, including participation in the financial and operating policy decisions.

A joint venture is a contractual arrangement whereby the venturers agree to share control of the arrangement which exists only when the decisions about the relevant activities require unanimous consent of the parties sharing control, and have rights to the net assets of the arrangement.

The results and assets and liabilities of associates/joint ventures are incorporated in the Group's consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates/joint ventures are carried in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Associates and Joint Ventures (Cont'd)

Losses of an associate/joint venture in excess of the Group's interest in that associate/joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate/joint venture) are not recognised.

(f) Property, Plant and Equipment

Property, plant and equipment, other than freehold land, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Freehold land is not depreciated. Depreciation of property, plant and equipment is provided to write off their depreciable amounts over their estimated useful lives using the straight-line method, at the following rates per annum:

Leasehold land	over the unexpired lease term
Buildings	2% to 3% or over the unexpired lease terms of the land, whichever is the higher
Mains, pipes, other plant and machinery	3% to 26% or over the expected useful lives
Furniture, fixtures and others	3% to 33% or over the expected useful lives

When an asset is disposed of or retired, any gain or loss, representing the difference between the carrying value and the sales proceeds, if any, is included in the consolidated income statement.

(g) Investment Properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at its fair value at the end of the reporting period. Gains or losses arising from changes in the fair values of investment properties are recognised in the consolidated income statement for the period in which they arise.

(h) Inventories

Inventories are stated at the lower of cost, computed on a weighted-average or a first-in first-out basis as appropriate, and net realisable value. Cost includes cost of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated costs to completion and selling expenses.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Financial Instruments

Investments in securities

The Group's investments in securities are classified as either available-for-sale financial assets, which are measured at fair value or at cost less accumulated impairment losses when the fair value cannot be measured reliably, or financial assets at fair value through profit or loss which are measured at fair value.

The Group designates the securities intended to be held for long term strategic purposes as available-for-sale financial assets. Gains and losses arising from changes in fair values of these assets are dealt with as movements in investment revaluation reserve, until the assets are disposed of or are determined to be impaired, at which time the cumulative gains or losses previously recognised in the reserve is included in the consolidated income statement for the period. When a significant or prolonged decline in the fair value of an available-for-sale financial asset has been identified, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the consolidated income statement even though the financial asset has not been disposed of. Impairment losses recognised in the consolidated income statement for equity classified as available-for-sale financial assets are not subsequently reversed in the consolidated income statement.

Securities which are managed and their performances are evaluated based on a fair value basis are designated as financial assets at fair value through profit or loss. The management considers that such designation is appropriate given that the basis of internal risk assessments and performance evaluations on these assets is different from other investments and assets of the Group. Gains and losses arising from changes in fair values of these assets are dealt with in the consolidated income statement. The relevant dividend or interest accrued on the financial assets are also recognised in the consolidated income statement.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially measured at fair values on the dates at which the contracts are entered into, and are remeasured to their fair values at subsequent reporting dates.

Changes in the fair values of derivative financial instruments that are designated as effective in hedging future cash flows are recognised directly in hedging reserve. Amounts deferred in the equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. Any ineffective portion is recognised immediately in the consolidated income statement.

Changes in fair values of derivative financial instruments that are designated and qualify as net investment hedges are recognised directly in exchange translation reserve. Any ineffective portion is recognised immediately in the consolidated income statement.

Changes in the fair values of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or the hedge no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the hedged risk associated with the hedged item is ultimately recognised in profit or loss. The cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss when a forecast transaction is no longer expected to occur in relation to hedging of a forecast transaction.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Financial Instruments (Cont'd)

Debtors

Debtors are classified as loans and receivables in accordance with HKAS 39, and are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the consolidated income statement when there is objective evidence that the assets are impaired.

Cash and cash equivalents

Cash and cash equivalents are classified as loans and receivables in accordance with HKAS 39, and comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank and other loans

Interest-bearing bank and other loans are initially measured at fair values, and are subsequently measured at amortised cost, using the effective interest method.

Creditors

Creditors are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Perpetual capital securities issued by the Group are classified as equity instruments and are initially recorded at the proceeds received.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group, which is not designated as a fair value through profit or loss, is recognised initially at its fair value less transaction costs directly attributable to the issue of the financial guarantee contract.

Fair value

Fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Fair value of derivative financial instruments and certain available-for-sale financial assets not traded on active liquid markets are determined with reference to fair value estimated by independent professionals or the present value of the estimated future cash flows discounted at the effective interest rate.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(j) Revenue Recognition

Sales of goods

Revenue from sales of goods is recognised at the time when the goods are delivered or title to the goods passes to the customers. Revenue is measured at the fair value of the consideration received or receivable and is arrived at after deduction of any sales returns and discounts and taxes.

Sales of services

Sales of services including waste collection, commercial refuse and recycling services together with refuse transfer station operations and landfill operations are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Income from investments in securities

Interest income from investments in securities are recognised when the Group's right to receive payment is established.

(k) Foreign Currencies

The individual financial statements of each group entity is prepared and presented in the currency of the primary economic environment in which the entity operates ("functional currency"). For the purpose of the consolidated financial statements, the result and financial position of each entity are presented in Hong Kong dollars, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was measured. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Foreign Currencies (Cont'd)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the consolidated income statement for the year, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised directly in equity. Exchange differences arising on the retranslation of non-monetary items carried at fair values are included in the consolidated income statement for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in other comprehensive income and accumulated in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Hong Kong dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and included in the Group's exchange translation reserve. Such translation differences are recognised in the consolidated income statement in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange translation reserve.

(l) Taxation

Hong Kong profits tax is provided for at the prevailing tax rate on the estimated assessable profits less available tax relief for losses brought forward of each individual company comprising the Group. Overseas tax is provided for at the applicable local tax rates on the estimated assessable profits less available tax losses of the individual company concerned.

Deferred tax is provided for all temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit of the corresponding year. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(l) Taxation (Cont'd)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(m) Operating Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rentals payable under operating leases are recorded in the consolidated income statement on a straight-line basis over the respective lease terms.

(n) Finance Leases

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the lessees are accounted for as finance leases.

Assets held under finance leases are recognised as assets at their fair values or, if lower, at the present value of the minimum lease payment at the dates of inception. The corresponding liabilities to the lessor are shown within bank and other loans in the consolidated statement of financial position as obligations under finance leases. Finance costs are charged to the consolidated income statement over the terms of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(o) Employee Retirement Benefits

The Group operates defined contribution and defined benefit retirement plans for its employees.

The costs of defined contribution plans are charged to the consolidated income statement as an expense when employees have rendered service entitling them to the contributions.

The cost of providing retirement benefits under the Group's defined benefit retirement plans is determined using the projected unit credit method, with actuarial valuations being carried out annually. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a planned amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. The amount recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of available refunds and reductions in future contributions to the plans.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include investments in securities, derivative financial instruments, bank balances and deposits, bank and other loans, and debtors and creditors. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Currency Risk

The Group is exposed to currency risk primarily arising from foreign investments and borrowings denominated in currencies other than the functional currency of individual subsidiaries, which accounted for 22 per cent of the Group's borrowings (2016: 26 per cent). The Group generally hedges those investments with the appropriate level of borrowings denominated in the local currencies of relevant countries. The Group also entered into currency swaps to hedge most foreign investments financed by internal resources. Given this, the management considers that the net exposure to currency risk is kept to an appropriate level. Details of the currency swaps entered into by the Group at the end of the reporting period are set out in note 20.

The Group is also exposed to currency risk arising from bank deposits denominated in foreign currencies, which accounted for 90 per cent of the Group's bank balances and deposits at the end of the reporting period (2016: 76 per cent). Those bank balances and deposits are mainly denominated in United States dollars, Australian dollars, Pounds sterling, Canadian dollars, New Zealand dollars and Euros. The management maintains the portfolio of bank deposits denominated in different currencies and the exposure to currency risk is kept to an appropriate level.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(a) Currency Risk (Cont'd)

Sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year and other comprehensive income in response to a 5 per cent strengthening in foreign currencies (except for United States dollars) against Hong Kong dollars to which the Group has significant exposure related to monetary financial assets and liabilities and derivative financial instruments in existence at the end of the reporting period:

HK$ million	2017 Effect on profit for the year increase/ (decrease)	2017 Effect on other comprehensive income increase/ (decrease)	2016 Effect on profit for the year increase/ (decrease)	2016 Effect on other comprehensive income increase/ (decrease)
Australian dollars	**46**	**(263)**	128	(44)
Pounds sterling	**53**	**(1,217)**	189	(1,119)
Japanese yen	**(104)**	**–**	(103)	–
Canadian dollars	**11**	**(291)**	7	(120)
New Zealand dollars	**2**	**(76)**	21	(75)
Euros	**3**	**(400)**	2	(56)

A 5 per cent weakening in the above foreign currencies against Hong Kong dollars would have had an equal but opposite effect on the Group's profit for the year and other comprehensive income.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the Group's entities exposure to currency risk for both monetary financial assets and liabilities and derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of the next reporting period. In this respect, the management does not expect any significant movements in the pegged rate of 7.8 between the United States dollars and Hong Kong dollars. It is also assumed that such pegged rate would be materially unaffected by any changes in movement in value of the United States dollars against other currencies.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(b) Interest Rate Risk

The Group's interest rate risk relates primarily to floating rate borrowings and deposits. In relation to these floating rate borrowings, the management aims at keeping borrowings at fixed rates at appropriate level by entering into interest rate swaps. In order to achieve this result, the Group entered into interest rate swaps to hedge against certain exposures to changes in interest rates of the borrowings. The management adopts a policy of ensuring that all the material borrowings of the Group are effectively on a fixed rate basis, either through the contractual terms of the loan facilities agreements or through the use of interest rate swaps.

Details of the Group's interest rate swaps and borrowings entered into by the Group at the end of the reporting period are set out in notes 20 and 25, respectively.

Sensitivity analysis

At 31st December, 2017, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would increase the Group's profit for the year by HK$1 million (2016: HK$79 million). Other comprehensive income would increase by HK$14 million (2016: HK$20 million) in response to the general increase in interest rates. A decrease of 100 basis points in interest rate would have had an equal but opposite effect on the Group's profit for the year and other comprehensive income.

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 100 basis point increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period. The analysis was performed on the same basis for 2016.

(c) Credit Risk

The Group's credit risk is primarily attributable to debt securities investments, derivative financial instruments entered into for hedging purposes, bank balances and deposits, trade debtors and other receivables.

In respect of trade debtors and other receivables, local management teams of subsidiaries are responsible for monitoring the procedures to ensure that follow-up actions are taken to recover overdue debts of the subsidiaries. In addition, the teams review the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Normally, the Group does not obtain collateral covering the outstanding balances.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(c) Credit Risk (Cont'd)

Debt securities investments are normally liquid securities for long term strategic purposes. Transactions involving derivative financial instruments and liquid funds are also with banks or financial institutions of high credit standing.

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. Except for the guarantees given by the Group as set out in note 35, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these guarantees at the end of the reporting period is disclosed in note 35.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade debtors and other receivables are set out in note 23.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(d) Liquidity Risk

The Group's treasury activities are centralised to achieve better risk control and minimise the cost of funds. Cash is generally placed in short-term deposits mostly denominated in United States dollars, Hong Kong dollars, Australian dollars, Pounds sterling, Canadian dollars, New Zealand dollars and Euros. The management aims to maintain a balance between continuity of adequate funding and the flexibility through the use of bank and other borrowings. The Group's liquidity and financing requirements are reviewed regularly to mitigate the effects of fluctuations in cash flows. The management will consider new financing while maintaining appropriate gearing for new investments and refinancing of existing debts.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(d) Liquidity Risk (Cont'd)

The following table details the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial assets and liabilities, 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:

	2017						2016					
HK$ million	Carrying amount	Total contractual undiscounted cash outflows	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	Carrying amount	Total contractual undiscounted cash outflows	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
Unsecured bank loans	26,648	27,975	11,304	320	16,351	–	11,842	12,189	7,735	1,664	2,790	–
Secured bank loans	1,284	1,372	61	1,311	–	–	1,154	1,332	52	51	1,229	–
Obligations under finance leases	24	24	10	4	10	–	34	34	10	10	14	–
Unsecured notes and bonds	7,080	7,823	97	307	281	7,138	3,815	4,238	2,400	41	319	1,478
Trade creditors	211	211	211	–	–	–	253	253	253	–	–	–
Amount due to a joint venture	1	1	1	–	–	–	1	1	1	–	–	–
Other payables and accruals	514	514	491	–	–	23	478	478	454	1	–	23
	35,762	37,920	12,175	1,942	16,642	7,161	17,577	18,525	10,905	1,767	4,352	1,501
Derivatives settled gross:												
Forward foreign exchange contracts held as net investment hedging instruments:												
– outflow		53,192	17,135	1,048	21,137	13,872		28,489	15,985	–	11,248	1,256
– inflow		(54,775)	(16,951)	(1,248)	(22,892)	(13,684)		(32,575)	(16,939)	–	(14,111)	(1,525)
		(1,583)	184	(200)	(1,755)	188		(4,086)	(954)	–	(2,863)	(269)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(e) Other Price Risk

The Group is exposed to other price risk through its investments in securities as set out in note 19. The management manages this exposure by maintaining a portfolio of investments with different risks. For strategic purposes, the Group holds primarily equity or debt instruments operating in energy sector.

Sensitivity analysis

At 31st December, 2017, it is estimated that a 5 per cent decrease in the prices of the respective instruments, with all other variables held constant, would decrease the Group's profit for the year by HK$2 million (2016: HK$2 million). Other comprehensive income would decrease by HK$9 million (2016: HK$8 million) in response to 5 per cent decrease in the prices. A 5 per cent increase in prices would have had an equal but opposite effect on the Group's profit for the year and other comprehensive income.

The sensitivity analysis above has been determined assuming that the change in prices had occurred at the end of the reporting period and had been applied to the exposure to price risk for the Group's investments in securities at fair value in existence at that date (as set out in note 19). The 5 per cent decrease in prices represents management's assessment of a reasonably possible change in the prices of those instruments over the period until the end of the next reporting period. The analysis is performed on the same basis for 2016.

(f) Fair Value

Except for certain investments in securities which are stated at cost, the carrying values of all financial assets and financial liabilities approximate to their fair values.

The fair value of the Group's financial instruments and non-financial instruments are grouped into Level 1 to 3 with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(f) Fair Value (Cont'd)

The following table provides an analysis of the Group's financial instruments and non-financial instruments that are measured at fair value at the end of the reporting period:

Assets measured at fair value

	Level 1		Level 2		Level 3		Total	
HK$ million	2017	2016	2017	2016	2017	2016	2017	2016
Investment properties (note 16)	–	–	360	344	–	–	360	344
Financial assets at fair value through profit or loss (note 19)								
Equity securities, unlisted	–	–	46	46	–	–	46	46
Available-for-sale financial assets (note 19)								
Debt securities, unlisted	–	–	179	164	–	–	179	164
Derivative financial instruments (note 20)								
Forward foreign exchange contracts	–	–	1,253	3,160	–	–	1,253	3,160
Total	–	–	1,838	3,714	–	–	1,838	3,714

Liabilities measured at fair value

	Level 1		Level 2		Level 3		Total	
HK$ million	2017	2016	2017	2016	2017	2016	2017	2016
Derivative financial instruments (note 20)								
Forward foreign exchange contracts	–	–	1,291	3	–	–	1,291	3
Interest rate swaps	–	–	413	422	–	–	413	422
Total	–	–	1,704	425	–	–	1,704	425

The fair values of the financial assets and financial liabilities included in Level 2 category above have been determined in accordance with generally accepted pricing models.

There were no transfers between Level 1 and 2 during the year (2016: nil).

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

(g) Offsetting Financial Assets and Financial Liabilities

The following tables set out the carrying amounts of financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they are offset in the Group's consolidated statement of financial position.

As at 31st December, 2017 HK$ million	Gross amounts of recognised financial assets/ (liabilities)	Gross amounts offset in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts
				Financial assets/ (liabilities)	Cash collateral pledged/ (received)	
Financial asset						
Derivative financial instruments	487	–	487	(275)	–	212
Financial liability						
Derivative financial instruments	(275)	–	(275)	275	–	–

As at 31st December, 2016 HK$ million	Gross amounts of recognised financial assets/ (liabilities)	Gross amounts offset in the consolidated statement of financial position	Net amounts presented in the consolidated statement of financial position	Related amounts not offset in the consolidated statement of financial position		Net amounts
				Financial assets/ (liabilities)	Cash collateral pledged/ (received)	
Financial asset						
Derivative financial instruments	1,144	–	1,144	(3)	–	1,141
Financial liability						
Derivative financial instruments	(3)	–	(3)	3	–	–

5. CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES

Significant estimates and assumptions concerning the future may be required in selecting and applying the appropriate accounting methods and policies in the financial statements. The Group bases its estimates and judgments on historical experience and various other assumptions that it believes are reasonable under various circumstances. Actual results may differ from these estimates and judgments under different assumptions and conditions.

5. CRITICAL ACCOUNTING JUDGMENT AND ESTIMATES (CONT'D)

(a) Impairment testing of goodwill

Goodwill are tested for impairment annually or more frequently when there is any indication of impairment which required the Group to estimate the value in use of the relevant cash-generating unit. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value. The carrying value of goodwill as at 31st December, 2017 is HK$934 million (2016: HK$920 million). Details of the impairment testing of goodwill are disclosed in note 21.

(b) Impairment testing of intangible assets

Impairment testing of intangible assets requires significant judgment and estimate. Intangible assets with indefinite useful lives are tested for impairment annually and intangible assets with definite useful lives are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs of disposals and value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value. The carrying value of intangible assets as at 31st December, 2017 is HK$1,635 million (2016: HK$1,634 million).

6. TURNOVER

Turnover represents net sales of infrastructure materials, interest income from loans granted to associates and joint ventures, sales of waste management services, interest income from investments in securities classified as infrastructure investments and share of turnover of joint ventures.

Turnover comprises both sales and interest income from infrastructure investments and share of turnover of joint ventures as follows:

HK$ million	2017	2016
Sales of infrastructure materials	**1,985**	1,980
Interest income from loans granted to associates	**377**	364
Interest income from loans granted to joint ventures	**2,204**	1,631
Sales of waste management services	**1,450**	1,322
Interest income from investments in securities	**–**	24
Sales and interest income from infrastructure investments	**6,016**	5,321
Share of turnover of joint ventures	**25,626**	22,025
Turnover	**31,642**	27,346

7. OTHER INCOME

Other income includes the following:

HK$ million	2017	2016
Gain on disposal of an associate	383	–
Bank interest income	97	114
Change in fair values of investment properties	16	10

8. OPERATING COSTS

Operating costs include the following:

HK$ million	2017	2016
Staff costs including directors' emoluments	877	817
Depreciation of property, plant and equipment	202	193
Amortisation of intangible assets	29	33
Cost of inventories sold	1,790	1,700
Cost of services provided	824	727

9. FINANCE COSTS

HK$ million	2017	2016
Interest and other finance costs on		
Bank borrowings	625	467
Notes and bonds	100	75
Others	(77)	18
Total	648	560

10. PROFIT BEFORE TAXATION

HK$ million	2017	2016
Profit before taxation is arrived at after charging:		
Operating lease rental for land and buildings	55	45
Directors' emoluments (note 33)	107	93
Auditor's remuneration	7	6

11. TAXATION

(a) Taxation is provided for at the applicable tax rates on the estimated assessable profits less available tax losses. Deferred taxation is provided on temporary differences under the liability method using tax rates applicable to the Group's operations in different countries.

HK$ million	2017	2016
Current taxation – Hong Kong	–	(4)
Current taxation – outside Hong Kong	71	69
Deferred taxation (note 27)	1	(73)
Total	72	(8)

(b) Reconciliation between tax charge/(credit) and accounting profit at Hong Kong profits tax rate:

HK$ million	2017	2016
Profit before taxation	10,928	10,200
Less: Share of results of associates	(3,693)	(2,861)
Share of results of joint ventures	(5,038)	(5,887)
	2,197	1,452
Tax at 16.5% (2016: 16.5%)	363	240
Tax impact on:		
Different domestic rates of subsidiaries operating in other tax jurisdictions	(142)	(266)
Income not subject to tax	(244)	(132)
Expenses not deductible for tax purpose	75	135
Tax losses and other temporary differences not recognised	11	1
Others	9	14
Tax charge/(credit)	72	(8)

12. PROFIT FOR THE YEAR AND SEGMENT INFORMATION

for the year ended 31st December

	Investment in Power Assets Holdings Limited		Infrastructure Investments: United Kingdom		Australia		Continental Europe		Mainland China		Canada and United States		New Zealand		Infrastructure related business		Total before unallocated items		Unallocated items		Consolidated	
HK$ million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Turnover	–	–	17,484	17,747	5,028	1,872	2,368	1,630	398	430	1,376	779	2,098	1,938	2,890	2,950	31,642	27,346	–	–	31,642	27,346
Sales and interest income from infrastructure investments #	–	–	1,464	1,367	658	388	274	145	–	–	130	65	1,505	1,376	1,985	1,980	6,016	5,321	–	–	6,016	5,321
Bank interest income	–	–	1	–	–	–	–	–	1	1	–	–	1	–	37	31	40	32	57	82	97	114
Other income	–	–	25	53	62	–	–	–	137	139	–	–	2	1	45	62	271	255	18	211	289	466
Change in fair value of derivative financial instruments	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(10)	(124)	(10)	(124)
Depreciation and amortisation	–	–	–	–	–	–	–	–	–	–	–	–	(146)	(143)	(84)	(82)	(230)	(225)	(1)	(1)	(231)	(226)
Other operating expenses	–	–	–	–	–	–	–	–	(3)	–	–	–	(1,100)	(974)	(1,912)	(1,813)	(3,015)	(2,787)	(827)	(835)	(3,842)	(3,622)
Finance costs	–	–	–	–	–	–	–	–	–	–	–	–	(71)	(62)	–	–	(71)	(62)	(577)	(498)	(648)	(560)
Exchange (loss)/gain	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(12)	1	(12)	1	132	(699)	120	(698)
Gain on disposal of an associate	383	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	383	–	–	–	383	–
Gain on disposal of a joint venture	–	–	–	–	–	–	–	–	–	–	–	–	–	–	23	–	23	–	–	–	23	–
Gain on disposal of investment in securities	–	–	–	–	–	781	–	–	–	–	–	–	–	–	–	–	–	781	–	–	–	781
Share of results of associates and joint ventures	3,214	2,494	3,782	4,848	1,225	769	138	126	161	219	119	124	3	11	89	157	8,731	8,748	–	–	8,731	8,748
Profit/(Loss) before taxation	3,597	2,494	5,272	6,268	1,945	1,938	412	271	296	359	249	189	194	209	171	336	12,136	12,064	(1,208)	(1,864)	10,928	10,200
Taxation	–	–	11	58	–	–	–	–	(8)	(12)	(24)	–	(23)	(23)	(12)	5	(56)	28	(16)	(20)	(72)	8
Profit/(Loss) for the year	3,597	2,494	5,283	6,326	1,945	1,938	412	271	288	347	225	189	171	186	159	341	12,080	12,092	(1,224)	(1,884)	10,856	10,208
Attributable to:																						
Shareholders of the Company	3,597	2,494	5,283	6,326	1,945	1,938	412	271	288	347	225	189	171	186	185	353	12,106	12,104	(1,850)	(2,468)	10,256	9,636
Owners of perpetual capital securities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	626	584	626	584
Non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(26)	(12)	(26)	(12)	–	–	(26)	(12)
	3,597	2,494	5,283	6,326	1,945	1,938	412	271	288	347	225	189	171	186	159	341	12,080	12,092	(1,224)	(1,884)	10,856	10,208

12. PROFIT FOR THE YEAR AND SEGMENT INFORMATION (CONT'D)

for the year ended 31st December

	Investment in Power Assets Holdings Limited		Infrastructure Investments: United Kingdom		Australia		Continental Europe		Mainland China		Canada and United States		New Zealand		Infrastructure related business		Total before unallocated items		Unallocated items		Consolidated	
HK$ million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Other information																						
Expenditure for segment non-current assets:																						
– Additions to property, plant and equipment	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**249**	214	**4**	89	**253**	303	**1**	–	**254**	303
– Additions to intangible assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**6**	19	**–**	–	**6**	19	**–**	–	**6**	19
– Investments in joint ventures	**–**	–	**–**	–	**17,274**	8	**14,237**	–	**–**	–	**4,503**	1,733	**–**	–	**–**	–	**36,014**	1,741	**–**	–	**36,014**	1,741
as at 31st December																						
Assets																						
Interests in associates and joint ventures	**36,264**	45,829	**46,743**	40,070	**31,475**	12,383	**17,618**	2,831	**369**	452	**7,671**	3,093	**1,012**	1,014	**418**	478	**141,570**	106,150	**–**	–	**141,570**	106,150
Property, plant and equipment and investment properties §	**–**	–	**–**	62	**–**	–	**–**	–	**–**	–	**–**	–	**1,014**	885	**1,806**	1,799	**2,820**	2,746	**2**	2	**2,822**	2,748
Other segment assets	**–**	–	**1,339**	628	**–**	–	**–**	–	**4**	4	**4**	8	**2,803**	2,769	**1,609**	2,333	**5,759**	5,742	**–**	–	**5,759**	5,742
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**9,663**	13,270	**9,663**	13,270
Total assets	**36,264**	45,829	**48,082**	40,760	**31,475**	12,383	**17,618**	2,831	**373**	456	**7,675**	3,101	**4,829**	4,668	**3,833**	4,610	**150,149**	114,638	**9,665**	13,272	**159,814**	127,910
Liabilities																						
Segment liabilities	**–**	–	**–**	3	**–**	42	**–**	–	**13**	18	**23**	10	**1,950**	1,869	**660**	633	**2,646**	2,575	**–**	–	**2,646**	2,575
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**38,976**	19,148	**38,976**	19,148
Total liabilities	**–**	–	**–**	3	**–**	42	**–**	–	**13**	18	**23**	10	**1,950**	1,869	**660**	633	**2,646**	2,575	**38,976**	19,148	**41,622**	21,723

Notes:

\# Sales of infrastructure materials comprise sales in Hong Kong of HK$1,087 million (2016: HK$1,257 million), sales in Mainland China of HK$896 million (2016: HK$721 million) and sales in other region of HK$2 million (2016: HK$2 million).

§ The carrying value of HK$617 million (2016: HK$615 million) and HK$1,189 million (2016: HK$1,184 million) of the property, plant and equipment and investment properties of infrastructure related business are located in Hong Kong and Mainland China respectively.

12. PROFIT FOR THE YEAR AND SEGMENT INFORMATION (CONT'D)

Segment profit attributable to shareholders of the Company represents the profit earned by each segment after the profit attributable to owners of perpetual capital securities and non-controlling interests without allocation of gains or losses from treasury activities, corporate overheads and other expenses of the Group's head office.

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than financial assets of the Group's head office; and
- all liabilities are allocated to reportable segments other than financial and other liabilities of the Group's head office.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$10,256 million (2016: HK$9,636 million) and on the weighted average of 2,519,610,945 shares (2016: 2,519,610,945 shares) in issue during the year.

The 131,065,097 shares issued in connection with the issue of perpetual capital securities in March 2016 (note 30) were excluded from the calculation of earnings per share since these shares are disregarded for the purpose of determining the number of shares held by the public.

14. DIVIDENDS

(a)

HK$ million	2017	2016
Interim dividend paid of HK$0.67 per share (2016: HK$0.63 per share)	**1,688**	1,587
Proposed final dividend of HK$1.71 per share (2016: HK$1.63 per share)	**4,309**	4,107
Total	**5,997**	5,694

During the year, dividends of HK$5,997 million (2016: HK$5,694 million) are stated after elimination of HK$312 million (2016: HK$296 million) paid/proposed for the shares issued in connection with the issue of perpetual capital securities (note 30).

(b)

HK$ million	2017	2016
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$1.63 per share (2016: HK$1.55 per share)	**4,107**	3,905

Final dividend in respect of the previous financial year, approved and paid during the year ended 31st December, 2017, is stated after elimination of HK$214 million (2016: HK$203 million) for the shares issued in connection with the issue of perpetual capital securities (note 30).

15. PROPERTY, PLANT AND EQUIPMENT

HK$ million	Medium term leasehold land in Hong Kong	Medium term leasehold land outside Hong Kong	Freehold land outside Hong Kong	Buildings	Mains, pipes, other plant and machinery	Furniture, fixtures and others	Total
Cost							
At 1st January, 2016	393	110	165	1,353	2,790	75	4,886
Transfer between categories	–	–	–	26	(26)	–	–
Additions	–	–	3	13	283	4	303
Disposals	–	–	–	–	(93)	(7)	(100)
Exchange translation differences	–	(7)	2	(60)	(78)	(4)	(147)
At 31st December, 2016	393	103	170	1,332	2,876	68	4,942
Transfer between categories	–	–	–	(13)	13	–	–
Additions	–	–	22	1	229	2	254
Disposals	–	–	–	(1)	(176)	(5)	(182)
Exchange translation differences	–	6	2	58	87	3	156
At 31st December, 2017	393	109	194	1,377	3,029	68	5,170
Accumulated depreciation							
At 1st January, 2016	187	47	–	652	1,583	38	2,507
Charge for the year	7	2	–	22	154	8	193
Disposals	–	–	–	–	(90)	(7)	(97)
Exchange translation differences	–	(3)	–	(21)	(39)	(2)	(65)
At 31st December, 2016	194	46	–	653	1,608	37	2,538
Transfer between categories	–	–	–	(6)	6	–	–
Charge for the year	7	2	–	22	163	8	202
Disposals	–	–	–	(1)	(98)	(5)	(104)
Exchange translation differences	–	3	–	20	47	2	72
At 31st December, 2017	201	51	–	688	1,726	42	2,708
Carrying value							
At 31st December, 2017	**192**	**58**	**194**	**689**	**1,303**	**26**	**2,462**
At 31st December, 2016	199	57	170	679	1,268	31	2,404

15. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The carrying value of the Group's mains, pipes, other plant and machinery includes an amount of HK$23 million (2016: HK$32 million) in respect of assets held under finance leases.

16. INVESTMENT PROPERTIES

HK$ million	
Medium term leases in Hong Kong, at fair value	
At 1st January, 2016	334
Change in fair values	10
At 31st December, 2016	344
Change in fair values	16
At 31st December, 2017	**360**

The fair values of the Group's investment properties at 31st December, 2017 and 2016 are determined based on a valuation carried out by Mr. K. B. Wong for and on behalf of DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. Mr. K. B. Wong is a member of the Hong Kong Institute of Surveyors. The valuation which reflects the highest and best use was arrived at by reference to comparable market transactions and also taking reference of capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties.

17. INTERESTS IN ASSOCIATES

HK$ million	2017	2016
Investment costs		
– Listed in Hong Kong	**8,495**	8,687
– Unlisted	**730**	838
Share of post-acquisition reserves	**30,295**	39,181
	39,520	48,706
Amounts due by unlisted associates (note 36)	**3,588**	3,471
	43,108	52,177
Market value of investment in a listed associate	**53,505**	56,703

Included in the amounts due by unlisted associates are subordinated loans of HK$3,444 million (2016: HK$3,348 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

17. INTERESTS IN ASSOCIATES (CONT'D)

Summarised financial information of Power Assets Holdings Limited ("Power Assets"), the only material associate, are adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below.

(a) Financial information of the material associate as at 31st December

	Power Assets	
HK$ million	**2017**	2016
Current assets	**25,574**	61,871
Non-current assets	**81,248**	67,396
Current liabilities	**(6,832)**	(2,641)
Non-current liabilities	**(4,589)**	(8,725)
Equity	**95,401**	117,901
Reconciled to the Group's interests in the material associate		
Group's effective interest	**38.01%**	38.87%
Group's shares of net assets of the material associate and its carrying amount in the consolidated financial statements	**36,264**	45,829

(b) Financial information of the material associate for the year ended 31st December

	Power Assets	
HK$ million	**2017**	2016
Turnover	**1,420**	1,288
Profit for the year	**8,319**	6,417
Other comprehensive income/(expense)	**1,482**	(5,798)
Total comprehensive income	**9,801**	619
Dividend received from the material associate	**12,685**	2,257

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

HK$ million	**2017**	2016
Aggregate carrying amount of individually insignificant associates in the consolidated financial statements	**3,256**	2,877
Aggregate amounts of the Group's share of those associates'		
Profit for the year	**479**	367
Other comprehensive (expense)/income	**(91)**	13
Total comprehensive income	**388**	380

Particulars of the principal associates are set out in Appendix 2 on pages 158 and 159.

18. INTERESTS IN JOINT VENTURES

HK$ million	2017	2016
Investment costs	**44,849**	32,573
Share of post-acquisition reserves	**9,693**	3,169
	54,542	35,742
Impairment losses	**(141)**	(141)
	54,401	35,601
Amounts due by joint ventures (note 36)	**44,061**	18,372
	98,462	53,973

Included in the amounts due by joint ventures are subordinated loans of HK$27,161 million (2016: HK$11,436 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the joint ventures.

The Directors reviewed certain joint ventures' operations and financial positions as at 31st December, 2017 and no further impairment loss is considered necessary for the year (2016: nil).

18. INTERESTS IN JOINT VENTURES (CONT'D)

Summarised financial information of CK William UK Holdings Limited ("CK William") (which privatised DUET Group in 2017) and UK Power Networks Holdings Limited ("UK Power Networks"), the material joint ventures, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below.

(a) Financial information of the material joint ventures as at 31st December

	CK William#	UK Power Networks	
HK$ million	**2017**	**2017**	2016
Current assets	**4,365**	**3,441**	3,150
Non-current assets	**91,858**	**123,654**	108,025
Current liabilities	**(8,435)**	**(8,139)**	(7,510)
Non-current liabilities	**(66,588)**	**(70,370)**	(63,837)
Equity	**21,200**	**48,586**	39,828
Reconciled to the Group's interest in the joint ventures			
Group's effective interest	**40%**	**40%**	40%
Group's share of net assets of the joint ventures	**8,480**	**19,434**	15,931
Consolidation adjustments at Group level and non-controlling interests	**397**	**124**	113
Carrying amount of the joint ventures in the consolidated financial statements	**8,877**	**19,558**	16,044
Included in the above assets and liabilities:			
Cash and cash equivalents	**2,022**	**783**	776
Current financial liabilities (excluding trade and other payables and provisions)	**(4,756)**	**(901)**	(835)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(60,874)**	**(55,160)**	(50,336)

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

18. INTERESTS IN JOINT VENTURES (CONT'D)

(b) Financial information of the material joint ventures for the year ended 31st December

	CK William	UK Power Networks	
HK$ million	2017	2017	2016
Turnover	7,277	17,531	18,136
Profit for the year	676	6,846	7,321
Other comprehensive income/(expense)	128	(783)	(3,110)
Total comprehensive income	804	6,063	4,211
Dividend received from the joint ventures	–	549	899
Included in the above profit:			
Depreciation and amortisation	(1,800)	(2,346)	(2,225)
Interest income	11	293	326
Interest expense	(1,260)	(2,494)	(2,649)
Income tax expense	(231)	(1,646)	(1,205)

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

HK$ million	2017	2016
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	25,966	19,557
Aggregate amounts of the Group's share of those joint ventures'		
Profit for the year	2,029	2,959
Other comprehensive income/(expense)	818	(1,758)
Total comprehensive income	2,847	1,201

Particulars of the principal joint ventures are set out in Appendix 3 on pages 160 and 161.

19. INVESTMENTS IN SECURITIES

HK$ million	2017	2016
Financial assets at fair value through profit or loss*		
Equity securities, unlisted	**46**	46
Available-for-sale financial assets		
Equity securities, unlisted, at cost	**477**	438
Debt securities, unlisted, at fair value	**179**	164
Total	**702**	648

* designated as financial assets at fair value through profit or loss in accordance with HKAS 39

20. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
HK$ million	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	**1,253**	**(1,291)**	3,160	(3)
Interest rate swaps	**–**	**(413)**	–	(422)
	1,253	**(1,704)**	3,160	(425)
Portion classified as:				
Non-current	**1,253**	**(1,287)**	2,178	(422)
Current	**–**	**(417)**	982	(3)
	1,253	**(1,704)**	3,160	(425)

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

Currency Derivatives

During the current year, the Group utilised currency derivatives to hedge long-term foreign investments. The Group is a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. No material cash flow is expected to occur in the coming year.

The following contracts are outstanding as at the end of the reporting period and the major terms of these contracts are as follows:

As at 31st December, 2017 Notional amount	Maturity
Sell GBP 1,161.4 million*	2018
Sell AUD 159.3 million*	2018
Sell NZD 280.0 million*	2018
Sell CAD 416.7 million*	2018
Sell GBP 100.0 million*	2019
Sell EUR 200.0 million*	2020
Sell GBP 760.0 million*	2020
Sell CAD 114.9 million*	2020
Sell GBP 250.4 million*	2021
Sell EUR 515.0 million*	2022
Sell GBP 76.0 million*	2022
Sell CAD 400.0 million*	2022
Sell EUR 450.0 million*	2024
Sell CAD 200.0 million*	2024
Sell AUD 1,414.8 million*	2027

As at 31st December, 2016 Notional amount	Maturity
Sell GBP 1,161.4 million*	2017
Sell AUD 159.3 million*	2017
Sell NZD 280.0 million*	2017
Sell CAD 416.7 million*	2017
Sell GBP 100.0 million*	2019
Sell EUR 70.0 million*	2020
Sell GBP 760.0 million*	2020
Sell GBP 250.4 million*	2021
Sell EUR 65.0 million*	2022
Sell GBP 76.0 million*	2022

* designated as hedging instrument in accordance with HKAS 39

20. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

Currency Derivatives (Cont'd)

The fair values of the above currency derivatives that are designated and effective as net investment hedges totalling HK$38 million (net liabilities to the Group) (2016: HK$3,157 million (net assets to the Group)) have been deferred in equity at 31st December, 2017.

None of above currency derivatives is designated and effective as cash flow hedges and fair value hedges at 31st December, 2017 and 2016.

Interest Rate Swaps

During the current year, the Group utilised interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. The notional principal amounts of the interest rate swap contracts outstanding as at 31st December, 2017 and the major terms of these contracts are as follows:

As at 31st December, 2017 HK$ million	Floating interest rate	Weighted average fixed interest rate	Notional principal amount
Contract maturing in 2018	EURIBOR*	2.00%	1,824
Contracts maturing in 2019	BKBM*	3.48%	818
Contracts maturing in 2022	LIBOR*	1.89%	6,288
Contracts maturing in 2025	BBSW*	2.70%	3,054

As at 31st December, 2016 HK$ million	Floating interest rate	Weighted average fixed interest rate	Notional principal amount
Contract maturing in 2018	EURIBOR*	2.00%	1,592
Contracts maturing in 2019	BKBM*	3.48%	806
Contracts maturing in 2022	LIBOR*	1.89%	5,772
Contracts maturing in 2025	BBSW*	2.70%	2,866

* BBSW – Australian Bank Bill Swap Reference Rate
EURIBOR – Euro Interbank Offered Rate
BKBM – New Zealand Bank Bill Reference Rate
LIBOR – London Interbank Offered Rate

The fair values of the above interest rate swaps that are designated and effective as cash flow hedges totalling HK$232 million (net liabilities to the Group) (2016: HK$251 million) have been deferred in equity at 31st December, 2017.

21. GOODWILL AND INTANGIBLE ASSETS

HK$ million	2017	2016
Goodwill	**934**	920
Intangible assets	**1,635**	1,634
Total	**2,569**	2,554

Goodwill

HK$ million	2017	2016
At 1st January	**920**	905
Exchange difference	**14**	15
At 31st December	**934**	920

For the purpose of impairment test, the recoverable amount of the cash-generating units is determined based on value in use calculations.

The Group prepared its cash flow projections of each cash-generating unit based on the latest approved budget plus extrapolated cash flows for the subsequent 4 years (2016: 4 years) except for a landfill where the whole life model is used. Cash flow projections for each cash-generating unit are based on the expected terminal growth rate of 3 per cent (2016: 3 per cent). The Group considers that cash flow projections of 5 years (2016: 5 years) are appropriate as they entered long-term contracts with customers.

The model uses a terminal value which is equal to eight to ten times of earnings before interest, taxation, depreciation and amortisation and discount rate of 7.8 per cent to 13.9 per cent (2016: 7.8 per cent to 13.8 per cent). The impairment test of its assets is then assessed using the value in use for each cash-generating unit. Based on impairment tests prepared, there is no impairment for goodwill as at 31st December, 2017 and 2016.

21. GOODWILL AND INTANGIBLE ASSETS (CONT'D)

Intangible Assets

HK$ million	Brand name and trademarks	Customer contracts	Resource consents	Computer software	Others	Total
Cost						
At 1st January, 2016	125	57	1,461	36	10	1,689
Additions	–	–	1	17	1	19
Exchange translation differences	2	1	26	–	1	30
At 31st December, 2016	127	58	1,488	53	12	1,738
Additions	–	1	–	4	1	6
Disposals	–	–	(5)	–	–	(5)
Exchange translation differences	2	1	22	1	–	26
At 31st December, 2017	129	60	1,505	58	13	1,765
Accumulated amortisation						
At 1st January, 2016	–	18	39	4	8	69
Charge for the year	–	6	22	3	2	33
Exchange translation differences	–	–	2	–	–	2
At 31st December, 2016	–	24	63	7	10	104
Charge for the year	–	7	16	5	1	29
Disposals	–	–	(5)	–	–	(5)
Exchange translation differences	–	1	1	–	–	2
At 31st December, 2017	–	32	75	12	11	130
Carrying value						
At 31st December, 2017	**129**	**28**	**1,430**	**46**	**2**	**1,635**
At 31st December, 2016	127	34	1,425	46	2	1,634

For brand name and trademarks of the Group that are regarded to have indefinite useful lives, there is no foreseeable limit to the period over which these assets are expected to generate cash flows for the Group.

For other intangible assets of the Group that are regarded to have finite useful lives, they are amortised on a straight-line basis according to their legal lives or contract lives.

22. INVENTORIES

HK$ million	2017	2016
Raw materials	49	35
Work-in-progress	41	36
Stores, spare parts and supplies	56	51
Finished goods	24	17
Total	170	139

23. DEBTORS AND PREPAYMENTS

HK$ million	2017	2016
Trade debtors	286	308
Prepayments, deposits and other receivables	518	320
Total	804	628

The aging analysis of the Group's trade debtors is as follows:

HK$ million	2017	2016
Current	178	191
Less than 1 month past due	85	96
1 to 3 months past due	13	20
More than 3 months but less than 12 months past due	14	4
More than 12 months past due	21	22
Amount past due	133	142
Allowance for doubtful debts	(25)	(25)
Total after allowance	286	308

23. DEBTORS AND PREPAYMENTS (CONT'D)

Trade with customers is carried out largely on credit, except for new customers, residential customers of waste management services and customers with unsatisfactory payment records, where payment in advance is normally required. Invoices are normally due within 1 month of issuance, except for certain well-established customers, where the terms are extended to 2 months, and certain customers with disputed items, where the terms are negotiated individually. Each customer has a maximum credit limit, which was granted and approved by senior management in accordance with the laid-down credit review policy and procedures.

The movement in the allowance for doubtful debts during the year is as follows:

HK$ million	2017	2016
At 1st January	**25**	33
Impairment loss recognised	**1**	–
Impairment loss written back	**(2)**	(6)
Uncollective amounts written off	**–**	(1)
Exchange translation differences	**1**	(1)
At 31st December	**25**	25

At 31st December, 2017, gross trade debtors' balances totalling HK$25 million (2016: HK$25 million) were individually determined to be impaired, which related to customers that were in financial difficulties. Consequently, specific allowance for doubtful debts of HK$25 million (2016: HK$25 million) was recognised at 31st December, 2017. The Group does not hold any collateral over these balances.

23. DEBTORS AND PREPAYMENTS (CONT'D)

The aging analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

HK$ million	2017	2016
Neither past due nor impaired	**178**	191
Less than 1 month past due	**85**	96
1 to 3 months past due	**13**	17
More than 3 months but less than 12 months past due	**8**	–
More than 12 months past due	**2**	4
Amount past due	**108**	117
Total	**286**	308

The trade debtors that were neither past due nor impaired related to customers for whom there was no recent history of default.

The trade debtors that were past due but not impaired related to customers that had good track records with the Group. Management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

24. BANK BALANCES AND DEPOSITS

Bank balances and deposits carry average effective interest rate at 0.93 per cent (2016: 1.19 per cent) per annum.

25. BANK AND OTHER LOANS

HK$ million	2017	2016
Unsecured bank loans repayable:		
Within 1 year	**10,886**	7,566
In the 2nd year	**–**	1,592
In the 3rd to 5th year, inclusive	**15,762**	2,684
	26,648	11,842
Obligations under finance leases repayable:		
Within 1 year	**10**	10
In the 2nd year	**4**	10
In the 3rd to 5th year, inclusive	**10**	14
	24	34
Unsecured notes and bonds repayable:		
Within 1 year	**–**	2,325
In the 2nd year	**211**	–
In the 3rd to 5th year, inclusive	**–**	205
After 5 years	**6,869**	1,285
	7,080	3,815
Secured bank loans repayable:		
In the 2nd year	**1,284**	–
In the 3rd to 5th year, inclusive	**–**	1,154
	1,284	1,154
Total	**35,036**	16,845
Portion classified as:		
Current liabilities	**10,896**	9,901
Non-current liabilities	**24,140**	6,944
Total	**35,036**	16,845

25. BANK AND OTHER LOANS (CONT'D)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Bank loans		Finance leases		Notes		Bonds		Total	
HK$ million	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
GBP	3,144	2,886	–	–	–	–	–	–	3,144	2,886
AUD	16,276	6,544	–	–	–	–	–	–	16,276	6,544
JPY	842	820	–	–	1,264	1,230	–	–	2,106	2,050
EUR	926	1,592	–	–	–	–	5,556	–	6,482	1,592
NZD	1,284	1,154	24	34	–	–	–	–	1,308	1,188
USD	5,460	–	–	–	–	2,325	–	–	5,460	2,325
HKD	–	–	–	–	260	260	–	–	260	260
Total	27,932	12,996	24	34	1,524	3,815	5,556	–	35,036	16,845

The average effective interest rates of the Group's bank loans and finance leases are 2.41 per cent (2016: 2.96 per cent) per annum and 7.41 per cent (2016: 8.20 per cent) per annum, respectively.

The Group's notes and bonds of HK$7,080 million (2016: HK$1,490 million) were arranged at fixed interest rate and exposed the Group to fair value interest rate risk. Other borrowings were arranged at floating rates, thus exposed the Group to cash flow interest rate risk.

Bank loans and floating rate notes carried interest at floating rate, which was determined with reference to BBSY*, LIBOR, USD LIBOR, EURIBOR, BKBM or British Bankers Association Interest Settlement Rate for Yen deposit plus an average margin less than 2 per cent (2016: 2 per cent) per annum.

Fixed rate notes, bonds and finance leases carried interest ranging from 1.00 per cent to 11.00 per cent (2016: 1.75 per cent to 13.50 per cent) per annum.

The shares of a subsidiary were pledged to secure bank borrowings totalling HK$1,284 million (2016: HK$1,154 million) granted to the Group.

* BBSY – Australian Bank Bill Swap Bid Rate

25. BANK AND OTHER LOANS (CONT'D)

Details of the present value of the minimum finance lease payments are shown below:

HK$ million	2017	2016
Minimum lease payments:		
Within 1 year	**10**	10
In the 2nd year	**4**	10
In the 3rd to 5th year, inclusive	**10**	14
	24	34
Less: Future finance charges	**–**	–
Present value of lease payments	**24**	34
Less: Amount due for settlement within 12 months	**(10)**	(10)
Amount due for settlement after 12 months	**14**	24

At 31st December, 2017, the remaining weighted average lease term was 2.75 years (2016: 3.4 years). All leases are denominated in NZD on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligations under finance leases are secured by the lessors' charge over the leased assets (note 15).

26. CREDITORS AND ACCRUALS

HK$ million	2017	2016
Trade creditors	**211**	253
Other payables and accruals	**4,031**	3,584
Total	**4,242**	3,837

The aging analysis of the Group's trade creditors is as follows:

HK$ million	2017	2016
Current	**142**	192
1 month	**30**	20
2 to 3 months	**9**	7
Over 3 months	**30**	34
Total	**211**	253

27. DEFERRED TAX ASSETS/LIABILITIES

HK$ million	2017	2016
Deferred tax assets	(7)	(29)
Deferred tax liabilities	468	481
Total	**461**	452

The followings are the major deferred tax (assets)/liabilities recognised by the Group and movements thereon during the current and prior years:

HK$ million	Accelerated tax depreciation	Tax losses	Fair value arising from business combination	Others	Total
At 1st January, 2016	96	(22)	404	(11)	467
Charge/(Credit) to profit for the year	7	(74)	(8)	2	(73)
Credit to other comprehensive income for the year	–	–	–	(8)	(8)
Exchange translation differences	(2)	5	7	(1)	9
Others	–	67	–	(10)	57
At 31st December, 2016	101	(24)	403	(28)	452
Charge/(Credit) to profit for the year	4	(14)	(1)	12	1
Charge to other comprehensive income for the year	–	–	–	4	4
Exchange translation differences	2	(2)	6	1	7
Others	(26)	34	–	(11)	(3)
At 31st December, 2017	**81**	**(6)**	**408**	**(22)**	**461**

27. DEFERRED TAX ASSETS/LIABILITIES (CONT'D)

Apart from the unused tax losses of which the deferred tax assets were recognised as presented above, the Group had unused tax losses and other unused tax credits totalling HK$1,410 million (2016: HK$1,322 million) at 31st December, 2017. No deferred tax asset has been recognised in respect of these tax losses and tax credits due to the unpredictability of future profit streams to utilise the available tax losses and tax credits.

An analysis of the expiry dates of the tax losses and tax credits is as follows:

HK$ million	2017	2016
Within 1 year	27	8
In the 2nd year	20	26
In the 3rd to 5th year, inclusive	200	204
No expiry date	1,163	1,084
Total	1,410	1,322

28. RETIREMENT PLANS

(a) Defined Contribution Retirement Plans

The Group provides defined contribution retirement plans for its eligible employees except for a defined benefit plan for the employees of certain subsidiaries as detailed in (b) below.

Contributions to the defined contribution plans in Hong Kong are made by either the employer only at 10 per cent of the employees' monthly basic salaries or by both the employer and the employees each at 10 or 15 per cent of the employees' monthly basic salaries. The Company and its Hong Kong subsidiaries also participate in master trust Mandatory Provident Fund ("MPF") schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5 per cent of the employees' monthly relevant income each capped at HK$30,000.

Contribution to the defined contribution plans in New Zealand are made by either the employer only at 9 per cent of the employees' monthly basic salaries or by both the employer and employees each at 4 to 9 per cent of the employees' monthly basic salaries.

28. RETIREMENT PLANS (CONT'D)

(a) Defined Contribution Retirement Plans (Cont'd)

As the Group's retirement plans in Hong Kong, including the defined benefit plan mentioned in (b) below, are all MPF-exempted recognised occupational retirement schemes ("ORSO schemes"), except for certain subsidiaries of which the new Hong Kong employees have to join the MPF schemes, the Group offers an option to its new Hong Kong employees to elect between the ORSO schemes and the MPF schemes.

The Group's costs in respect of defined contribution plans for the year amounted to HK$25 million (2016: HK$23 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK$1 million were used to reduce the existing level of contributions (2016: nil). At 31st December, 2017, there were no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years (2016: nil).

(b) Defined Benefit Retirement Plan operating in Hong Kong

Certain subsidiaries of the Group operate a defined benefit retirement plan in Hong Kong for their eligible employees. Contributions to the defined benefit plan are made by the employees at either 5 or 7 per cent of the employees' salaries and contributions made by the employer are based on the recommendations of an independent actuary according to a periodic actuarial valuation of the plan.

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk, longevity risk and salary risk.

Actuarial valuation of the defined benefit plan according to HKAS 19 "Employee Benefits" was carried out at 31st December, 2017, by Ms. Phoebe W. Y. Shair of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the defined benefit obligations, the related current service cost and past service cost, if any, were measured using the Projected Unit Credit Method. The principal actuarial assumptions used are as follows:

	2017	2016
Discount rate at 31st December	**1.70% per annum**	1.00% per annum
Expected rate of salary increase	**4.00% per annum**	5.00% per annum

The actuarial valuation showed that the market value of plan assets was HK$65 million (2016: HK$79 million) and that the actuarial value of these assets represented 105 per cent (2016: 85 per cent) of the benefits that had accrued to members.

28. RETIREMENT PLANS (CONT'D)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

The below analysis shows how the defined benefit obligation as at 31st December, 2017 would have increased/(decreased) as a result of 0.25 per cent change in the significant actuarial assumptions:

HK$ million	Increase in 0.25%	Decrease in 0.25%
Discount rate	(1)	1
Expected rate of salary increase	–	–

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

The following amounts in respect of the defined benefit plan have been debited to the consolidated income statement under operating costs:

HK$ million	2017	2016
Current service cost (net of employee contributions)	3	3
Net amount debited to the consolidated income statement	**3**	3

The actual return on plan assets for the year ended 31st December, 2017 was a gain of HK$15 million (2016: HK$1 million).

The amount included in the consolidated statement of financial position at 31st December, 2017 arising from the Group's obligations in respect of its defined benefit plan in Hong Kong is as follows:

HK$ million	2017	2016
Present value of defined benefit obligations	62	93
Fair value of plan assets	(65)	(79)
Employee retirement benefit (assets)/liabilities classified as other non-current liabilities included in the consolidated statement of financial position	**(3)**	14

28. RETIREMENT PLANS (CONT'D)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

Changes in the present value of the defined benefit obligations are as follows:

HK$ million	2017	2016
At 1st January	93	91
Current service cost (net of employee contributions)	3	3
Actual benefits paid	(31)	(4)
Actual employee contributions	1	1
Actuarial loss on experience	–	2
Actuarial gain on financial assumptions	(3)	–
Actuarial gain on demographic assumptions	(1)	–
At 31st December	62	93

Changes in the fair value of the plan assets are as follows:

HK$ million	2017	2016
At 1st January	79	81
Return on plan assets greater than discount rate	15	–
Actual company contributions	1	1
Actual employee contributions	1	1
Actual benefits paid	(31)	(4)
At 31st December	65	79

Major categories of the plan assets at the end of the reporting period are analysed as follows:

As at 31st December	2017	2016
Equity instruments	64%	59%
Debt instruments	36%	41%
Total	100%	100%

All the equity instruments and debt instruments have quoted prices in active markets.

The Group recognised net actuarial gain on defined benefit obligations amounting to HK$4 million (2016: loss of HK$2 million) directly through other comprehensive income. Return on plan assets greater than discount rate amounting to HK$15 million (2016: nil) was recognised through other comprehensive income in 2017.

28. RETIREMENT PLANS (CONT'D)

(b) Defined Benefit Retirement Plan operating in Hong Kong (Cont'd)

Another actuarial valuation was completed at 1st January, 2016 by Ms. Phoebe W. Y. Shair of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries, to determine the funding rates to be adopted by the Group in accordance with requirements of Occupational Retirement Schemes Ordinance. The actuarial method adopted was Attained Age Funding Method. The major assumptions used were the long-term average annual rate of investment return on the plan assets at 5 per cent per annum, and the average annual salary increases at 5 per cent per annum. The actuarial valuation showed that the fair value of the plan assets attributable to the Group at 31st December, 2015 represented 103 per cent of the present value of the obligations as at that date. Contributions to fund the obligations were based upon the recommendations of actuary to fully fund the retirement plan on an ongoing basis. The funding rates will be reviewed no later than 1st January, 2019 as required by Occupational Retirement Schemes Ordinance.

The Group expects to make a contribution of HK$1 million (2016: HK$2 million) to the defined benefit plan during the next financial year.

29. SHARE CAPITAL

	Number of Shares		Amount	
	2017	2016	**2017 HK$ million**	2016 HK$ million
Authorised:				
Ordinary shares of HK$1 each	**4,000,000,000**	4,000,000,000	**4,000**	4,000
Issued and fully paid:				
At 1st January	**2,650,676,042**	2,519,610,945	**2,651**	2,520
Issue of new shares in connection with the issue of perpetual capital securities (note 30)	**–**	131,065,097	**–**	131
At 31st December	**2,650,676,042**	2,650,676,042	**2,651**	2,651

30. PERPETUAL CAPITAL SECURITIES

On 29th September, 2010, the Group issued US$1,000 million 6.625 per cent guaranteed perpetual capital securities at an issue price of 100 per cent. These perpetual capital securities were issued for general corporate funding purposes. Distributions on these perpetual capital securities are paid semi-annually in arrears from 29th March, 2011 and may be deferred at the discretion of the Group. These perpetual capital securities have no fixed maturity and are redeemable at the Group's option on or after 29th September, 2015 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank.

On 29th March, 2016, the Company redeemed these perpetual capital securities by paying US$1,033.1 million, being US$1,000 million outstanding principal and US$33.1 million accrued distribution up to 29th March, 2016, to the securities owner.

On 1st March, 2016, OVPH Limited (the "Issuer") issued US$1,200 million perpetual capital securities which are guaranteed by the Company and listed on Hong Kong Stock Exchange at an issue price of 100 per cent. Distribution is payable semi-annually in arrear based on a fixed rate, which is 5.875 per cent per annum. Distribution by the Issuer may be deferred at its sole discretion. These perpetual capital securities have no fixed maturity and are redeemable in whole, but not in part, at the Issuer's option on 1st March, 2021, or any distribution payment date falling thereafter at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank.

On 2nd March, 2016, the Company issued 131,065,097 new ordinary shares to the Issuer for a consideration of approximately US$1,200 million (equivalent to approximately HK$9,360 million). The net proceeds for the shares issued were approximately HK$9,245 million. The shares were issued in connection with the issue of the above perpetual capital securities. A swap agreement dated 1st March, 2016 was entered into between the Company and the Issuer under which the Issuer is obliged to act in accordance with directions from the Company on certain matters. As a result, these shares were accounted for as treasury shares.

30. PERPETUAL CAPITAL SECURITIES (CONT'D)

On 23rd August, 2017, the Group issued US$500 million 4.85 per cent guaranteed perpetual capital securities at an issue price of 100 per cent. These perpetual capital securities were issued for general corporate funding purposes. Distributions on these perpetual capital securities are paid semi-annually in arrears from 23rd August, 2017 and may be deferred at the discretion of the Group. These perpetual capital securities have no fixed maturity and are redeemable at the Group's option on or after 23rd August, 2022 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank.

On 3rd November, 2017, the Group issued US$150 million 4.85 per cent guaranteed perpetual capital securities at an issue price of 100 per cent plus an amount corresponding to accrued distribution from and including 23rd August, 2017 to, but excluding 3rd November, 2017. The perpetual capital securities were issued for general corporate funding purposes. Distributions on these perpetual capital securities are paid from 23rd August, 2017 and may be deferred at the discretion of the Group. These perpetual capital securities have no fixed maturity and are redeemable at the Group's option on or after 23rd August, 2022 at their principal amounts together with any accrued, unpaid or deferred distributions. While any distributions are unpaid or deferred, the Company will not declare, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank.

31. 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 expand and generate attractive and predictable returns for shareholders and benefits for other stakeholders, by establishing and maintaining a quality investment portfolio with stable earnings and appropriate level of risks that the management are comfortable with.

The capital structure of the Group consists of debts, which includes bank borrowings, notes, bonds and obligations under finance leases as detailed in note 25, bank balances and deposits, equity attributable to shareholders of the Company, comprising issued share capital and reserves, and perpetual capital securities as detailed in the consolidated statement of changes in equity.

The management actively and regularly reviews and manages the Group's capital structure to maintain a balance between high shareholders' returns and strong capital position, and makes adjustments to the capital structure in light of changes in the global market conditions.

The Group maintained a low net debt to net total capital ratio of 17.6 per cent (2016: 4.5 per cent) as at 31st December, 2017. The management targets to maintain a solid capital position to pursue more new investment opportunities. The Group's overall strategy remains unchanged from 2016.

The net debt to net total capital ratio at 31st December, 2017 and 2016 was as follows:

HK$ million	**2017**	2016
Total debts	**35,036**	16,845
Bank balances and deposits	**(9,781)**	(11,790)
Net debt	**25,255**	5,055
Net total capital	**143,447**	111,242
Net debt to net total capital ratio	**17.6%**	4.5%

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

32. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash from Operations

HK$ million	2017	2016
Profit before taxation	10,928	10,200
Share of results of associates	(3,693)	(2,861)
Share of results of joint ventures	(5,038)	(5,887)
Interest income from loans granted to associates	(377)	(364)
Interest income from loans granted to joint ventures	(2,204)	(1,631)
Bank and other interest income	(97)	(114)
Interest income from investments in securities	–	(24)
Finance costs	648	560
Depreciation of property, plant and equipment	202	193
Amortisation of intangible assets	29	33
Change in fair values of investment properties	(16)	(10)
Gain on disposal of property, plant and equipment	(14)	–
Gain on disposal of an associate	(383)	–
Gain on disposal of a joint venture	(23)	–
Gain on disposal of investments in securities	–	(781)
Change in fair value of derivative financial instruments	10	124
Pension costs of defined benefit retirement plans	3	3
Unrealised exchange loss	57	260
Returns received from joint ventures	253	176
Interest received from investments in securities	–	24
Interest received from associates	376	365
Interest received from joint ventures	2,099	1,761
Contributions to defined benefit retirement plans	(1)	(1)
Others	(126)	(125)
Operating cash flows before changes in working capital	2,633	1,901
(Increase)/Decrease in inventories	(31)	26
(Increase)/Decrease in debtors and prepayments	(63)	134
Increase in creditors and accruals	311	414
Exchange translation differences	150	15
Cash from operations	**3,000**	2,490

32. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS (CONT'D)

(b) Reconciliation of liabilities arising from financial activities

HK$ million	Unsecured bank loans	Secured bank loans	Obligations under finance leases	Unsecured notes and bonds	Total
At 1st January, 2016	12,410	1,008	22	3,737	17,177
Financing cash flows	–	124	11	–	135
Exchange (loss)/gain	(568)	22	1	78	(467)
At 31st December, 2016	11,842	1,154	34	3,815	16,845
Financing cash flows	13,479	113	(10)	3,176	16,758
Exchange gain	1,327	17	–	89	1,433
At 31st December, 2017	**26,648**	**1,284**	**24**	**7,080**	**35,036**

33. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments comprise payments to the Company's directors by the Group in connection with the management of the affairs of the Group. The independent non-executive directors ("INED") receive an annual director's fee of HK$75,000 each; and for those acting as the audit committee members ("ACM") and remuneration committee members ("RCM"), additional annual fee of HK$80,000 each is paid for the former and HK$25,000 each is paid for the latter. The emoluments of each of the Company's directors for the current year, excluding emoluments received from the Group's associates, are as follows:

HK$ million	Fees	Basic Salaries, Allowances and Other Benefits	Bonuses	Provident Fund Contributions	Inducement or Compensation Fees	Total Emoluments 2017	Total Emoluments 2016
Li Tzar Kuoi, Victor (1)	0.075	–	32.268	–	–	**32.343**	30.510
Kam Hing Lam	0.075	4.200	11.356	–	–	**15.631**	15.300
Ip Tak Chuen, Edmond	0.075	1.800	11.356	–	–	**13.231**	12.900
Fok Kin Ning, Canning (1)	0.075	–	–	–	–	**0.075**	0.075
Andrew John Hunter (1)	0.075	11.592	13.095	1.158	–	**25.920**	24.013
Chan Loi Shun (1 and 2)	0.075	6.289	3.031	0.627	–	**10.022**	9.594
Chen Tsien Hua (3)	0.075	4.938	2.706	0.492	–	**8.211**	N/A
Chow Woo Mo Fong, Susan (4)	–	–	–	–	–	**–**	0.044
Frank John Sixt (1)	0.075	–	–	–	–	**0.075**	0.075
Cheong Ying Chew, Henry (5)	0.180	–	–	–	–	**0.180**	0.180
Kwok Eva Lee (5)	0.155	–	–	–	–	**0.155**	0.155
Sng Sow-Mei (5)	0.155	–	–	–	–	**0.155**	0.155
Colin Stevens Russel (5)	0.180	–	–	–	–	**0.180**	0.180
Lan Hong Tsung, David (5)	0.155	–	–	–	–	**0.155**	0.155
Barrie Cook	0.075	–	–	–	–	**0.075**	0.075
Paul Joseph Tighe (3)	0.052	–	–	–	–	**0.052**	–
Lee Pui Ling, Angelina	0.075	–	–	–	–	**0.075**	0.075
George Colin Magnus	0.075	–	–	–	–	**0.075**	0.075
Total for the year 2017	**1.702**	**28.819**	**73.812**	**2.277**	**–**	**106.610**	
Total for the year 2016	1.619	23.106	67.128	1.708	–		93.561

Notes:

(1) During the year, Mr. Li Tzar Kuoi, Victor, Mr. Andrew John Hunter and Mr. Chan Loi Shun each received directors' fees of HK$70,000 (2016: HK$70,000), Mr. Fok Kin Ning, Canning received director's fees of HK$120,000 (2016: HK$120,000) from Power Assets. In 2016, Mr. Frank John Sixt received directors' fee of HK$70,000 from Power Assets. The directors' fees totalling HK$330,000 (2016: HK$400,000) were then paid back to the Company.

(2) During the year, part of the directors' emoluments in the sum of HK$4,696,800 (2016: HK$4,560,000) received by Mr. Chan Loi Shun from Power Assets were paid back to the Company.

33. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (CONT'D)

Notes (Cont'd):

(3) Ms. Chen Tsien Hua and Mr. Paul Joseph Tighe have been appointed as directors of the Company with effect from 1st January, 2017 and 21st April, 2017, respectively.

(4) Mrs. Chow Woo Mo Fong, Susan was retired as director of the Company with effect from 1st August, 2016.

(5) INED, ACM and RCM – During the year, Mr. Cheong Ying Chew, Henry, Mrs. Kwok Eva Lee, Mr. Lan Hong Tsung, David, Mr. Colin Stevens Russel and Mrs. Sng Sow-Mei have acted as INED and ACM of the Company. Mr. Cheong Ying Chew, Henry and Mr. Colin Stevens Russel have acted as RCM of the Company during the year. The total emoluments paid to these INED, ACM and RCM during the year were HK$825,000 (2016: HK$825,000).

Of the 5 individuals with the highest emoluments in the Group, all (2016: all) are directors whose emoluments are disclosed above.

34. COMMITMENTS

(a) The Group's capital commitments outstanding at 31st December and not provided for in the consolidated financial statements are as follows:

	Contracted but not provided for	
HK$ million	**2017**	2016
Investment in a joint venture	**464**	486
Plant and machinery	**40**	52
Total	**504**	538

(b) At 31st December, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings and other assets, which fall due as follows:

HK$ million	**2017**	2016
Within 1 year	**59**	38
In the 2nd to 5th year, inclusive	**144**	64
Over 5 years	**132**	49
Total	**335**	151

35. CONTINGENT LIABILITIES

The contingent liabilities of the Group are as follows:

HK$ million	2017	2016
Guarantee in respect of bank loan drawn by joint ventures	**1,312**	1,225
Other guarantees given in respect of a joint venture	**760**	724
Performance bond indemnities	**92**	101
Sub-contractor warranties	**–**	6
Total	**2,164**	2,056

36. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group advanced HK$28 million (2016: HK$6 million) to its unlisted associates. The Group received return of capital of HK$105 million (2016: HK$175 million) and repayment of HK$125 million (2016: nil) from an unlisted associate during the year. The total outstanding loan balances as at 31st December, 2017 amounted to HK$3,588 million (2016: HK$3,471 million), of which HK$3,444 million (2016: HK$3,348 million) at fixed rates ranging from 10.85 per cent to 11.19 per cent (2016: from 10.85 per cent to 11.19 per cent) per annum and HK$144 million (2016: HK$123 million) was interest-free. The average effective interest rate of the loan granted to associates is 11.02 per cent (2016: 11.05 per cent) per annum. As stated in note 6, interest income from loans granted to associates during the year amounted to HK$377 million (2016: HK$364 million). Except for a loan of HK$94 million (2016: HK$94 million) which was repayable within four years (2016: five years), the loans had no fixed terms of repayment.

During the year, the Group advanced HK$10 million (2016: HK$13 million) to its joint ventures. The Group received repayments totalling HK$86 million (2016: HK$4 million) from its joint ventures. The total outstanding loan balances as at 31st December, 2017 amounted to HK$44,061 million (2016: HK$18,372 million), of which HK$18,510 million (2016: HK$4,808 million) bore interest with reference to London Interbank Offered Rate, Australian Bank Bill Swap Reference Rate and return from joint ventures, and HK$25,139 million (2016: HK$13,167 million) at fixed rate ranging from 4.9 per cent to 14 per cent (2016: from 8 per cent to 14 per cent) per annum, and HK$412 million (2016: HK$397 million) was interest-free. The average effective interest rate of the loan granted to joint ventures is 7.64 per cent (2016: 9.18 per cent) per annum. As stated in note 6, interest income from loans granted to joint ventures during the year amounted to HK$2,204 million (2016: HK$1,631 million). The loans had no fixed terms of repayment.

Moreover, the Group's sales and purchases of infrastructure materials to/from a joint venture for the current year amounted to HK$401 million (2016: HK$413 million) and HK$1 million (2016: HK$2 million), respectively. The Group also received income and incurred operating costs from sales of waste management services from/to its joint ventures amounted to HK$91 million (2016: HK$87 million) and HK$50 million (2016: HK$44 million), respectively for the current year.

The emoluments of key management have been presented in note 33 above.

The above related party transactions made during the year did not constitute connected transactions or continuing connected transactions.

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

as at 31st December

(a) Statement of Financial Position of the Company

HK$ million	2017	2016
Property, plant and equipment	2	2
Unlisted investments in subsidiaries	49,429	44,970
Total non-current assets	49,431	44,972
Amounts due from subsidiaries	52,105	20,858
Amount due from a joint venture	2	2
Prepayments, deposits and other receivables	98	36
Bank balances	15	33
Total current assets	52,220	20,929
Amounts due to subsidiaries	46,602	10,600
Other payables and accruals	289	284
Total current liabilities	46,891	10,884
Net current assets	5,329	10,045
Net assets	54,760	55,017
Representing:		
Share capital	2,651	2,651
Reserves	52,109	52,366
Total equity	54,760	55,017

37. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONT'D)

(b) Movements in the Company's Reserves

HK$ million	Share capital	Share premium	Retained profits	Total
At 1st January, 2016	2,520	16,153	27,338	46,011
Profit for the year	–	–	5,539	5,539
Final dividend paid for the year 2015	–	–	(4,108)	(4,108)
Interim dividend paid	–	–	(1,670)	(1,670)
Issue of new ordinary shares	131	9,114	–	9,245
At 31st December, 2016	2,651	25,267	27,099	55,017
Profit for the year	–	–	5,840	5,840
Final dividend paid for the year 2016	–	–	(4,321)	(4,321)
Interim dividend paid	–	–	(1,776)	(1,776)
At 31st December, 2017	**2,651**	**25,267**	**26,842**	**54,760**

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

39. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 94 to 161 were approved by the Board of Directors on 16th March, 2018.

PRINCIPAL SUBSIDIARIES

APPENDIX 1

The table below shows the subsidiaries as at 31st December, 2017 which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of all the subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name	Place of incorporation/ principal place of business	Issued share capital	Proportion of nominal value of issued capital held by the Group (per cent)	Principal activities
Anderson Asia (Holdings) Limited	Hong Kong	HK$1 ordinary HK$60,291,765 Non-voting deferred	100	Investment holding
Anderson Asphalt Limited	Hong Kong	HK$30,300,000	100	Production and laying of asphalt and investment holding
Cheung Kong China Infrastructure Limited	Hong Kong	HK$2	100	China infrastructure investment holding
China Cement Company (International) Limited	Hong Kong	HK$1,000,000	70	Investment holding
Green Island Cement Company, Limited	Hong Kong	HK$306,694,931	100	Manufacturing, sale and distribution of cement and property investment
Green Island Cement (Holdings) Limited	Hong Kong	HK$722,027,503	100	Investment holding
Cheung Kong Infrastructure Finance (BVI) Limited	British Virgin Islands/ Hong Kong	US$1	100	Financing
Daredon Assets Limited	British Virgin Islands/ Hong Kong	US$1	100	Financing
Cheung Kong Infrastructure Finance (Australia) Pty Ltd	Australia	A$63,840,181	100	Financing
Enviro Waste Services Limited	New Zealand	NZ$84,768,736	100	Waste management services

Note: The shares of all the above subsidiaries are indirectly held by the Company.

PRINCIPAL ASSOCIATES

APPENDIX 2

The table below shows the associates as at 31st December, 2017 which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of all the associates would, in the opinion of the Directors, result in particulars of excessive length.

Name	Place of incorporation/ principal place of business	Issued share capital	Percentage of equity attributable to the Group	Principal activities
Power Assets Holdings Limited (note 1)	Hong Kong	HK$6,610,008,417	38	Investment in energy and utility-related businesses
SA Power Networks Partnership (note 2)	Australia	N/A	23	Electricity distribution
Victoria Power Networks Pty Limited (note 3)	Australia	A$315,498,640	23	Electricity distribution

Notes:

1. The associate is listed on Hong Kong Stock Exchange.

2. SA Power Networks Partnership, an unincorporated body, is formed by the following companies:

   CKI Utilities Development Limited
   PAI Utilities Development Limited
   Spark Infrastructure SA (No.1) Pty Ltd
   Spark Infrastructure SA (No.2) Pty Ltd
   Spark Infrastructure SA (No.3) Pty Ltd

   CKI Utilities Development Limited and PAI Utilities Development Limited, both of which are associates of the Group, together own a 51 per cent interest in SA Power Networks Partnership.

   The partnership operates and manages the electricity distribution business in the State of South Australia of Australia.

3. Victoria Power Networks Pty Limited owns 100 per cent interests in the following companies:

   Powercor Australia Ltd
   CitiPower Pty Ltd
   The CitiPower Trust

   Powercor Australia Ltd and The CitiPower Trust each operates and manages an electricity distribution business in the State of Victoria of Australia.

PRINCIPAL JOINT VENTURES

APPENDIX 3

The table below shows the joint ventures as at 31st December, 2017 which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of all the joint ventures would, in the opinion of the Directors, result in particulars of excessive length.

Name	Place of incorporation/ principal place of business	Issued share capital	Percentage of equity attributable to the Group	Principal activities
UK Power Networks Holdings Limited	United Kingdom	£6,000,000 A ordinary £4,000,000 B ordinary £360,000,000 A preference £240,000,000 B preference	40	Electricity distribution
Northumbrian Water Group Limited	United Kingdom	£19 A ordinary £142 B ordinary	40	Water supply, sewerage and waste water businesses
Northern Gas Networks Holdings Limited	United Kingdom	£71,670,979 ordinary £1 special	47	Gas distribution
Wales & West Gas Networks (Holdings) Limited	United Kingdom	£290,272,506	30	Gas distribution
Electricity First Limited	United Kingdom	£4	50	Electricity generation
Eversholt UK Rails Limited	United Kingdom	£102	50	Leasing of rolling stock
CK William UK Holdings Limited (note 1 & 2)	United Kingdom	£2,049,000,000	40	Investment holding
Australian Gas Networks Limited	Australia	A$879,082,753	45	Gas distribution
Canadian Power Holdings Inc.	Canada	C$139,000,000 ordinary C$23,000,000 preference	50	Electricity generation
1822604 Alberta Ltd.	Canada	C$1	50	Off-airport parking operation

APPENDIX 3 (CONT'D)

Name	Place of incorporation/ principal place of business	Issued share capital	Percentage of equity attributable to the Group	Principal activities
Husky Midstream Limited Partnership	Canada	C$1,153,845,000 class A units C$621,301,154 class B units C$1,776,923 general partnership interest	16	Oil pipelines, storage facilities and anciliary assets operation
CKP (Canada) Holdings Limited	Canada	C$1,143,862,830	25	Water heater and HVAC (heating, ventilation and air conditioning) rentals, sales and services
Wellington Electricity Distribution Network Limited	New Zealand	NZ$172,000,100	50	Electricity distribution
Trionista TopCo GmbH	Germany	€25,000	35	Sub-metering and related services
AVR-Afvalverwerking B.V.	The Netherlands	€1	35	Producing energy from waste
Iberwind – Desenvolvimento e Projectos, S.A.	Portugal	€50,000	50	Generation and sale of wind energy

Notes:

1. CK William UK Holdings Limited owns 100 per cent 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.

2. CK William UK Holdings Limited owns 66 per cent interests in United Energy Distribution Holdings Pty Limited, which operates an energy distribution business in Australia.

SCHEDULE OF MAJOR PROPERTIES

APPENDIX 4

Location	Lot Number	Group's Interest (per cent)	Approximate floor/site area attributable to the Group (sq. m.)	Existing Usage	Lease Term
14-18 Tsing Tim Street, Tsing Yi	TYTL 98	100	3,355	I	Medium
TMTL 201 Tap Shek Kok	TMTL 201	100	152,855	I	Medium
Certain units of Harbour Centre Tower 2, 8 Hok Cheung Street, Hunghom	KML 113	100	5,528	C	Medium

I: Industrial C: Commercial