CONSOLIDATED INCOME STATEMENT

for the year ended 31st December

HK$ million	Notes	2018	2017
Turnover	7	**37,923**	31,642
Sales and interest income from infrastructure investments	7	**7,149**	6,016
Other income	8	**386**	792
Operating costs	9	**(3,923)**	(4,083)
Finance costs	10	**(502)**	(648)
Exchange (loss)/gain		**(51)**	120
Share of results of associates		**3,405**	3,693
Share of results of joint ventures		**4,894**	5,038
Profit before taxation	11	**11,358**	10,928
Taxation	12(a)	**(105)**	(72)
Profit for the year	13	**11,253**	10,856
Attributable to:			
Shareholders of the Company		**10,443**	10,256
Owners of perpetual capital securities		**796**	626
Non-controlling interests		**14**	(26)
		11,253	10,856
Earnings per share	14	**HK$4.14**	HK$4.07

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31st December

HK$ million	2018	2017
Profit for the year	**11,253**	10,856
Other comprehensive (expense)/income		
Items that may be reclassified subsequently to profit or loss:		
Gain from fair value changes of derivatives designated as effective cash flow hedges	**43**	19
Gain/(Loss) from fair value changes of derivatives designated as effective net investment hedges	**2,984**	(3,429)
Exchange differences on translation of financial statements of foreign operations	**(4,202)**	4,703
Share of other comprehensive (expense)/income of associates	**(783)**	402
Share of other comprehensive income of joint ventures	**66**	89
Reserves released upon disposal of an associate	**–**	44
Income tax relating to components of other comprehensive income	**62**	31
	(1,830)	1,859
Items that will not be reclassified to profit or loss:		
Actuarial gain of defined benefit retirement plan	**5**	19
Share of other comprehensive income of associates	**263**	42
Share of other comprehensive income of joint ventures	**711**	630
Income tax relating to components of other comprehensive income	**(173)**	(119)
	806	572
Other comprehensive (expense)/income for the year	**(1,024)**	2,431
Total comprehensive income for the year	**10,229**	13,287
Attributable to:		
Shareholders of the Company	**9,421**	12,681
Owners of perpetual capital securities	**796**	626
Non-controlling interests	**12**	(20)
	10,229	13,287

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31st December

HK$ million	Notes	2018	2017
Property, plant and equipment	16	**2,508**	2,462
Investment properties	17	**382**	360
Interests in associates	18	**38,191**	43,108
Interests in joint ventures	19	**95,892**	98,462
Other financial assets	20	**7,821**	702
Derivative financial instruments	21	**2,448**	1,253
Goodwill and intangible assets	22	**2,556**	2,569
Deferred tax assets	28	**12**	7
Other non-current assets		**–**	136
Total non-current assets		**149,810**	149,059
Inventories	23	**170**	170
Derivative financial instruments	21	**567**	–
Debtors and prepayments	24	**1,133**	804
Bank balances and deposits	25	**6,090**	9,781
Total current assets		**7,960**	10,755
Bank and other loans	26	**1,442**	10,896
Derivative financial instruments	21	**14**	417
Creditors and accruals	27	**4,703**	4,242
Taxation		**128**	114
Total current liabilities		**6,287**	15,669
Net current assets/(liabilities)		**1,673**	(4,914)
Total assets less current liabilities		**151,483**	144,145
Bank and other loans	26	**28,697**	24,140
Derivative financial instruments	21	**396**	1,287
Deferred tax liabilities	28	**463**	468
Other non-current liabilities		**23**	58
Total non-current liabilities		**29,579**	25,953
Net assets		**121,904**	118,192
Representing:			
Share capital	30	**2,651**	2,651
Reserves		**104,522**	100,822
Equity attributable to shareholders of the Company		**107,173**	103,473
Perpetual capital securities	31	**14,701**	14,701
Non-controlling interests		**30**	18
Total equity		**121,904**	118,192

VICTOR T K LI
Director

IP TAK CHUEN, EDMOND
Director

20th March, 2019

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	Hedging reserve	Exchange translation reserve	Retained profits	Sub-total	Perpetual capital securities	Non-controlling interests	Total
At 1st January, 2017	2,651	25,299	(9,245)	6,062	68	(2,748)	(8,865)	83,383	96,605	9,544	38	106,187
Profit/(loss) 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 31)	–	–	–	–	–	–	–	–	–	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
Opening adjustments arising from adoption of HKFRS 9 and HKFRS 15	–	–	–	–	–	–	–	301	301	–	–	301
At 1st January, 2018 (as restated)	2,651	25,299	(9,245)	6,062	68	(2,861)	(6,899)	88,699	103,774	14,701	18	118,493
Profit for the year	–	–	–	–	–	–	–	10,443	10,443	796	14	11,253
Gain from fair value changes of derivatives designated as effective cash flow hedges	–	–	–	–	–	43	–	–	43	–	–	43
Gain from fair value changes of derivatives designated as effective net investment hedges	–	–	–	–	–	–	2,984	–	2,984	–	–	2,984
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	–	(4,200)	–	(4,200)	–	(2)	(4,202)
Share of other comprehensive (expense)/income of associates	–	–	–	–	–	(222)	(561)	263	(520)	–	–	(520)
Share of other comprehensive income of joint ventures	–	–	–	–	–	66	–	711	777	–	–	777
Actuarial gain of defined benefit retirement plan	–	–	–	–	–	–	–	5	5	–	–	5
Income tax relating to components of other comprehensive income	–	–	–	–	–	62	–	(173)	(111)	–	–	(111)
Total comprehensive (expense)/ income for the year	–	–	–	–	–	(51)	(1,777)	11,249	9,421	796	12	10,229
Final dividend paid for the year 2017	–	–	–	–	–	–	–	(4,309)	(4,309)	–	–	(4,309)
Interim dividend paid	–	–	–	–	–	–	–	(1,713)	(1,713)	–	–	(1,713)
Distribution paid on perpetual capital securities	–	–	–	–	–	–	–	–	–	(796)	–	(796)
At 31st December, 2018	**2,651**	**25,299**	**(9,245)**	**6,062**	**68**	**(2,912)**	**(8,676)**	**93,926**	**107,173**	**14,701**	**30**	**121,904**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31st December

HK$ million	Notes	2018	2017
OPERATING ACTIVITIES			
Cash from operations	33 (a)	**3,994**	3,000
Income taxes paid		**(112)**	(31)
Net cash from operating activities		**3,882**	2,969
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(323)**	(254)
Disposals of property, plant and equipment		**4**	29
Addition to financial assets		**(7,154)**	–
Additions to intangible assets		**(100)**	(6)
Advances to associates		**(9)**	(28)
Return of capital from an associate		**–**	105
Repayment from an associate		**263**	125
Investments in joint ventures		**(1,157)**	(36,014)
Advances to joint ventures		**(1)**	(10)
Return of capital from a joint venture		**44**	–
Repayment from joint ventures		**1,422**	86
Disposal of an associate		**–**	1,235
Disposal of a joint venture		**–**	23
Dividends received from associates		**7,241**	12,784
Dividends received from joint ventures		**2,434**	2,305
Interest received		**133**	102
Net cash received/(paid) on hedging instruments		**322**	(242)
Net cash flows from/(utilised in) investing activities		**3,119**	(19,760)
Net cash flows before financing activities		**7,001**	(16,791)
FINANCING ACTIVITIES			
New bank loans and bonds	33 (b)	**7,480**	27,988
Repayments of bank and other loans	33 (b)	**(10,778)**	(11,230)
Finance costs paid		**(576)**	(694)
Dividends paid		**(6,022)**	(5,795)
Distribution paid on perpetual capital securities		**(796)**	(550)
Issue of perpetual capital securities		**–**	5,081
Direct costs for issue of perpetual capital securities		**–**	(18)
Net cash (utilised in)/from financing activities		**(10,692)**	14,782
Net decrease in cash and cash equivalents		**(3,691)**	(2,009)
Cash and cash equivalents at 1st January		**9,781**	11,790
Cash and cash equivalents at 31st December	25	**6,090**	9,781

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 and Canada.

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, 2018. Except as described below, 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.

(a) HKFRS 9 "Financial Instruments"

In the current year, the Group has adopted HKFRS 9 "Financial Instruments". HKFRS 9 is effective for the accounting periods beginning on or after 1st January, 2018. The Group applied the transition provisions set out in HKFRS 9 to adjust the retained profits or other reserves as at 1st January, 2018, without restating comparative information retrospectively by applying the classification and measurement requirements (including impairment) to instruments that have not been derecognised as at 1st January, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1st January, 2018. In addition, the Group applied the hedge accounting prospectively. Except for the share of impacts on associates and joint ventures as explained in note 3, the principal effects resulting from the application of HKFRS 9 on the Group's assets or liabilities are summarised below:

Classification and measurement of financial assets and financial liabilities

HKFRS 9 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. It also introduces the new requirements on the accounting for financial liabilities that are designated at fair value through profit or loss.

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 equity securities and debt securities previously classified as "available-for-sale financial assets" are classified as "financial assets at fair value through profit or loss" and "financial assets at amortised cost", respectively, according to the business model and cash flow characteristics. All other financial assets continue to be measured on the same basis as are measured under Hong Kong Accounting Standard ("HKAS") 39 "Financial Instruments: Recognition and Measurement".

2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) HKFRS 9 "Financial Instruments" (Cont'd)

Impairment of financial assets

HKFRS 9 replaces the "incurred loss" impairment model in HKAS 39 with a forward-looking "expected credit loss" model. The Group applies simplified approach to recognise lifetime expected losses for all trade debtors, and 12-months expected credit losses for investments in debt securities and other financial instruments. The credit losses calculated pursuant to the new requirements are not significantly different from the amount recognised under HKAS 39. Therefore, the Group considered no adjustment is necessary.

Hedge accounting

The Group has elected to use a more principles-based approach on hedge accounting which is introduced by HKFRS 9. HKFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy. The foreign currency forward contracts, cross currency swaps and interest rate swaps stated as at 31st December, 2017 continue to be qualified as net investment hedges or cash flow hedges under HKFRS 9 and no adjustment is considered necessary.

(b) 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 which are recognised when a performance obligation is satisfied. It replaces existing revenue recognition guidance, including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations.

The Group has elected to adopt HKFRS 15 using the modified retrospective approach, with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated. Except for the share of impacts on associates and joint ventures as explained in note 3, the application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognition of the Group.

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 16 "Leases", 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 16	Leases
HKFRS 17	Insurance Contracts
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments
HKFRS 3 (Amendments)	Definition of a Business
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
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015-2017 Cycle

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

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

Prior to 1st January, 2019, lease and service contracts were classified as operating leases or finance leases. From 1st January, 2019 onwards, HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the date. Subsequently, the lease liability is adjusted for interest calculated by effective interest rate and lease payments, as well as the impact of lease modifications.

For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

As at 31st December, 2018, the Group has non-cancellable operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Expanded disclosure requirements, other certain changes in measurement, classification and presentation are also introduced. These are expected to change the nature and extent of the Group's disclosure about its leases.

3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

Consolidated Statement of Financial Position items

HK$ million	31/12/2017	Effects of adopting HKFRS 9*	Effects of adopting HKFRS 15^	1/1/2018
Interests in associates	43,108	90	–	43,198
Interests in joint ventures	98,462	–	211	98,673
Retained profits	88,398	90	211	88,699

Notes:

* The effects are in relation to the changes in classification and measurement of financial assets of an associate.

^ The effects are in relation to change in revenue recognition of certain sub-metering, maintenance contracts and construction service contracts of joint ventures.

Consolidated Income Statement and Consolidated Statement of Comprehensive Income items

For the year ended 31st December 2018

HK$ million	As reported	Effects of adopting HKFRS 9	Effects of adopting HKFRS 15	Without adoption of HKFRS 9 & 15
Share of results of associates	3,405	(31)	1	3,375
Share of results of joint ventures	4,894	(4)	(10)	4,880
Share of other comprehensive income/(expense) of associates and joint ventures	257	(8)	–	249
Income tax relating to components of other comprehensive income	(111)	3	–	(108)

3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONT'D)

The following table illustrates the classification of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1st January, 2018.

Analysis of financial assets items

HK$ million	Original classification under HKAS 39	Original carrying amount under HKAS 39	New classification under HKFRS 9	New carrying amount under HKFRS 9
Financial assets				
Investment in securities	Available-for-sale financial assets, at cost	477	Financial assets at fair value through profit or loss*	477
	Available-for-sale financial assets, at fair value	179	Financial assets at amortised cost^	179
	Financial assets at fair value through profit or loss	46	Financial assets at fair value through profit or loss	46
Derivatives financial instruments	Hedging instruments at fair value	1,253	Hedging instruments at fair value	1,253
Bank balances and deposits	Loans and receivables	9,781	Financial assets at amortised cost	9,781
Debtors and other receivables	Loans and receivables	696	Financial assets at amortised cost	696
Total financial assets		**12,432**		**12,432**

Notes:

* reclassified at the date of initial application as financial assets measured at fair value through profit or loss.

^ reclassified at the date of initial application as financial assets measured at amortised cost, according to the Group's business model to hold this investment for collection of contractual cash flows, which represent solely payment of principal and interest on the principal amount outstanding.

4. 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.

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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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
Operation license	7%
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.

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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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.

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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Financial Instruments

Investments in securities

Prior to 1st January, 2018, the Group's investments in securities were classified as either available-for-sale financial assets, which were measured at fair value or at cost less accumulated impairment losses when the fair value could not be measured reliably, or financial assets at fair value through profit or loss which were measured at fair value.

The Group designated 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 were dealt with as movements in investment revaluation reserve, until the assets were disposed of or were determined to be impaired, at which time the cumulative gains or losses previously recognised in the reserve were 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 had been identified, the cumulative loss that had been recognised directly in equity should be removed from equity and recognised in the consolidated income statement even though the financial asset had not been disposed of.

From 1st January, 2018 onwards, the equity securities and debt securities previously classified as "available-for-sale financial assets" are classified as "financial assets at fair value through profit or loss" and "financial assets at amortised cost", respectively, according to the business model.

Financial assets at fair value through profit or loss are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit and loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

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

Other investments

From 1st January, 2018 onwards, other investments are classified as financial assets at fair value through profit and loss in accordance with HKFRS 9.

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.

Hedging accounting relationships are aligned with the Group's risk management objectives and strategy.

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. Amount 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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Financial Instruments (Cont'd)

Derivative financial instruments and hedge accounting (Cont'd)

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.

The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria, including instances when the hedging instrument expires or is sold, terminated or exercised. Discountinuing hedge accounting can either affect a hedging relationship in its entirety or only a part of it, in which case hedge accounting continues for the remainder of the hedging relationship. 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.

Debtors

Prior to 1st January, 2018, debtors were classified as loans and receivables in accordance with HKAS 39, and were initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

From 1st January, 2018 onwards, debtors are classified as financial assets at amortised cost in accordance with HKFRS 9, and subsequently measured at amortised cost using the effective interest method.

Appropriate allowances for expected credit loss are recognised in the consolidated income statement to reflect the initial expected credit losses and the changes in credit risk since initial recognition.

Cash and cash equivalents

Cash and cash equivalents 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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Financial Instruments (Cont'd)

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. Financial guarantee contract liabilities are recognised when it is probable and measured initially at their fair values. It is subsequently measured at the higher of the amount initially recognised and the amount of the expected loss determined in accordance with HKFRS 9.

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 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.

Impairment

The Group recognises a loss allowance for expected credit loss on financial assets, financial guarantee and loan commitments which are subject to impairment under HKFRS 9. The amount of expected credit loss is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime expected credit loss represents the expected credit loss that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month expected credit loss represents the portion of lifetime expected credit loss that is expected to result from default events that are possible within 12 months after the reporting date.

The Group recognises lifetime expected credit loss for trade receivables. For all other financial instruments, the Group measures the loss allowance equal to 12-month expected credit loss, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime expected credit loss.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Financial Instruments (Cont'd)

Impairment (Cont'd)

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

(j) Revenue Recognition

Sales of goods

Prior to 1st January, 2018, revenue from sales of goods was recognised at the time when the goods were delivered or title to the goods passes to the customers.

From 1st January, 2018 onwards, revenue from sales of goods is recognised when a performance obligation is satisfied, which can be recognised at a point of time, based on the timing of control of the goods underlying the particular performance obligation being transferred to the customer.

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

Prior to 1st January, 2018, sales of services including waste collection, commercial refuse and recycling services together with refuse transfer station operations and landfill operations were recognised in the accounting period in which the services were 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.

From 1st January, 2018 onwards, revenue from sales of services is recognised when a performance obligation is satisfied, which is recognised at a point of time, based on the timing of control of the services underlying the particular performance obligation being transferred to the customer.

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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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.

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 other comprehensive income. 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 other comprehensive income 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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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.

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.

4. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include other financial assets, 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 25 per cent of the Group's borrowings (2017: 22 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 derivatives 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 derivatives entered into by the Group at the end of the reporting period are set out in note 21.

The Group is also exposed to currency risk arising from bank deposits denominated in foreign currencies, which accounted for 61 per cent of the Group's bank balances and deposits at the end of the reporting period (2017: 90 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.

5. 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:

	2018		2017	
HK$ million	**Effect on profit for the year increase/ (decrease)**	**Effect on other comprehensive income increase/ (decrease)**	Effect on profit for the year increase/ (decrease)	Effect on other comprehensive income increase/ (decrease)
Australian dollars	**53**	**(452)**	46	(263)
Pounds sterling	**42**	**(1,160)**	53	(1,217)
Japanese yen	**(105)**	**–**	(104)	–
Canadian dollars	**4**	**(327)**	11	(291)
New Zealand dollars	**2**	**(73)**	2	(76)
Euros	**4**	**(526)**	3	(400)

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.

5. 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 21 and 26, respectively.

Sensitivity analysis

At 31st December, 2018, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would decrease the Group's profit for the year by HK$41 million (2017: increase by HK$1 million). Other comprehensive income would increase by HK$223 million (2017: HK$14 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.

(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 perform impairment assessment under expected credit loss model upon application of HKFRS 9 based on provision matrix or individual assessment on each debt at the end of the reporting period in relation to waste management services and sales of infrastructure materials to ensure that adequate impairment losses are made. Normally, the Group does not obtain collateral covering the outstanding balances.

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

(c) Credit Risk (Cont'd)

The Group recognises lifetime expected credit loss for trade receivables. For all other financial instruments, the Group measures the loss allowance equal to 12-month expected credit loss, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime expected credit loss.

The estimated loss rates are estimated based on historically observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

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 36, 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 36.

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 24.

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.

5. 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:

	2018						2017					
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	22,007	23,644	519	4,895	18,230	–	26,648	27,975	11,304	320	16,351	–
Secured bank loans	1,228	1,242	1,242	–	–	–	1,284	1,372	61	1,311	–	–
Obligations under finance leases	14	14	4	4	6	–	24	24	10	4	10	–
Unsecured notes and bonds	6,890	7,523	305	91	275	6,852	7,080	7,823	97	307	281	7,138
Trade creditors	228	228	228	–	–	–	211	211	211	–	–	–
Amount due to a joint venture	–	–	–	–	–	–	1	1	1	–	–	–
Other payables and accruals	705	705	682	–	–	23	514	514	491	–	–	23
	31,072	33,356	2,980	4,990	18,511	6,875	35,762	37,920	12,175	1,942	16,642	7,161
Derivatives settled gross:												
Currency derivatives held as net investment hedging instruments:												
– outflow		50,574	15,982	9,998	10,753	13,841		53,192	17,135	1,048	21,137	13,872
– inflow		(54,623)	(16,527)	(11,790)	(11,821)	(14,485)		(54,775)	(16,951)	(1,248)	(22,892)	(13,684)
		(4,049)	(545)	(1,792)	(1,068)	(644)		(1,583)	184	(200)	(1,755)	188

5. 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 and other investments as set out in note 20. 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, 2018, 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$383 million (2017: HK$2 million). A 5 per cent decrease in the prices will have no impact on other comprehensive income (2017: decrease by HK$9 million). 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 and other investments at fair value in existence at that date (as set out in note 20). 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.

(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).

At 31st December, 2018, investment properties amounting to HK$382 million (2017: HK$ 360 million) and unlisted investment in securities amounting to HK$497 million (2017: HK$225 million) were measured at fair value based on value inputs, other than quoted prices, that are observable either directly or indirectly. Other investments amounting to HK$7,154 million (2017: nil) were measured at fair value based on value inputs that are not observable market data but change of these value inputs to reasonable possible alternatives would not have material effect on the Group's results and financial position.

Derivative financial instruments were measured at fair value based on value inputs, other than quoted prices, that are observable either directly or indirectly.

5. 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, 2018 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	1,052	–	1,052	(6)	–	1,046
Financial liability						
Derivative financial instruments	(6)	–	(6)	6	–	–

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	–	–

6. CRITICAL ACCOUNTING JUDGMENTS 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.

(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, 2018 is HK$905 million (2017: HK$934 million). Details of the impairment testing of goodwill are disclosed in note 22.

(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, 2018 is HK$1,651 million (2017: HK$1,635 million).

7. TURNOVER

Turnover represents net sales of infrastructure materials, interest income from loans granted to associates and joint ventures, sales of waste management services and share of turnover of joint ventures. The turnover were substantially recognised at a point of time.

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

HK$ million	2018	2017
Sales of infrastructure materials	2,272	1,985
Interest income from loans granted to associates	332	377
Interest income from loans granted to joint ventures	3,045	2,204
Sales of waste management services	1,500	1,450
Sales and interest income from infrastructure investments	7,149	6,016
Share of turnover of joint ventures	30,774	25,626
Turnover	37,923	31,642

8. OTHER INCOME

Other income includes the following:

HK$ million	2018	2017
Gain on disposal of an associate	–	383
Bank interest income	136	97
Change in fair values of investment properties	22	16

9. OPERATING COSTS

Operating costs include the following:

HK$ million	2018	2017
Depreciation of property, plant and equipment	195	202
Amortisation of intangible assets	32	29
Cost of inventories sold	1,943	1,790
Cost of services provided	873	824

10. FINANCE COSTS

HK$ million	2018	2017
Interest and other finance costs on		
Bank borrowings	696	625
Notes and bonds	103	100
Others	(297)	(77)
Total	502	648

11. PROFIT BEFORE TAXATION

HK$ million	2018	2017
Profit before taxation is arrived at after charging:		
Staff costs	790	770
Operating lease rental for land and buildings	57	55
Directors' emoluments (note 34)	111	107
Auditor's remuneration	8	7

12. 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	2018	2017
Current taxation – Hong Kong	–	–
Current taxation – outside Hong Kong	95	71
Deferred taxation (note 28)	10	1
Total	105	72

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

HK$ million	2018	2017
Profit before taxation	11,358	10,928
Less: Share of results of associates	(3,405)	(3,693)
Share of results of joint ventures	(4,894)	(5,038)
	3,059	2,197
Tax at 16.5% (2017: 16.5%)	505	363
Tax impact on:		
Different domestic rates of subsidiaries operating in other tax jurisdictions	(237)	(142)
Income not subject to tax	(282)	(244)
Expenses not deductible for tax purpose	98	75
Tax losses and other temporary differences not recognised	15	11
Others	6	9
Tax charge	105	72

13. PROFIT FOR THE YEAR AND SEGMENT INFORMATION

for the year ended 31st December

			Infrastructure Investments																	
	Investment in Power Assets Holdings Limited		United Kingdom		Australia		Continental Europe		Hong Kong and Mainland China		Canada		New Zealand		Total before unallocated items		Unallocated items		Consolidated	
HK$ million	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Turnover	**–**	–	**18,405**	17,397	**6,741**	5,240	**5,238**	2,368	**3,319**	3,288	**2,093**	1,251	**2,127**	2,098	**37,923**	31,642	**–**	–	**37,923**	31,642
Sales and interest income from infrastructure investments	**–**	–	**1,562**	1,457	**789**	671	**731**	274	**2,272**	1,985	**243**	124	**1,552**	1,505	**7,149**	6,016	**–**	–	**7,149**	6,016
Bank interest income	**–**	–	**–**	1	**–**	–	**–**	–	**33**	38	**–**	–	**1**	1	**34**	40	**102**	57	**136**	97
Other income	**–**	–	**–**	25	**–**	62	**–**	–	**144**	182	**–**	–	**6**	2	**150**	271	**100**	18	**250**	289
Change in fair value of derivative financial instruments	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**10**	(10)	**10**	(10)
Depreciation and amortisation	**–**	–	**–**	–	**–**	–	**–**	–	**(81)**	(84)	**–**	–	**(145)**	(146)	**(226)**	(230)	**(1)**	(1)	**(227)**	(231)
Other operating expenses	**–**	–	**–**	–	**(2)**	–	**–**	–	**(2,057)**	(1,920)	**–**	–	**(1,168)**	(1,100)	**(3,227)**	(3,020)	**(479)**	(822)	**(3,706)**	(3,842)
Finance costs	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(70)**	(71)	**(70)**	(71)	**(432)**	(577)	**(502)**	(648)
Exchange gain/(loss)	**–**	–	**–**	–	**–**	–	**–**	–	**1**	(12)	**–**	–	**–**	–	**1**	(12)	**(52)**	132	**(51)**	120
Gain on disposal of an associate	**–**	383	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	383	**–**	–	**–**	383
Gain on disposal of a joint venture	**–**	–	**–**	–	**–**	–	**–**	–	**–**	23	**–**	–	**–**	–	**–**	23	**–**	–	**–**	23
Share of results of associates and joint ventures	**2,903**	3,214	**3,713**	3,779	**1,279**	1,206	**139**	138	**151**	250	**100**	141	**14**	3	**8,299**	8,731	**–**	–	**8,299**	8,731
Profit/(Loss) before taxation	**2,903**	3,597	**5,275**	5,262	**2,066**	1,939	**870**	412	**463**	462	**343**	265	**190**	194	**12,110**	12,131	**(752)**	(1,203)	**11,358**	10,928
Taxation	**–**	–	**–**	11	**–**	–	**–**	–	**(60)**	(20)	**(8)**	(24)	**(18)**	(23)	**(86)**	(56)	**(19)**	(16)	**(105)**	(72)
Profit/(Loss) for the year	**2,903**	3,597	**5,275**	5,273	**2,066**	1,939	**870**	412	**403**	442	**335**	241	**172**	171	**12,024**	12,075	**(771)**	(1,219)	**11,253**	10,856
Attributable to:																				
Shareholders of the Company	**2,903**	3,597	**5,275**	5,273	**2,066**	1,939	**870**	412	**389**	468	**335**	241	**172**	171	**12,010**	12,101	**(1,567)**	(1,845)	**10,443**	10,256
Owners of perpetual capital securities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**796**	626	**796**	626
Non-controlling interests	**–**	–	**–**	–	**–**	–	**–**	–	**14**	(26)	**–**	–	**–**	–	**14**	(26)	**–**	–	**14**	(26)
	2,903	3,597	**5,275**	5,273	**2,066**	1,939	**870**	412	**403**	442	**335**	241	**172**	171	**12,024**	12,075	**(771)**	(1,219)	**11,253**	10,856

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

for the year ended 31st December

HK$ million	Investment in Power Assets Holdings Limited		Infrastructure Investments: United Kingdom		Infrastructure Investments: Australia		Infrastructure Investments: Continental Europe		Infrastructure Investments: Hong Kong and Mainland China		Infrastructure Investments: Canada		Infrastructure Investments: New Zealand		Total before unallocated items		Unallocated items		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Other information																				
Expenditure for segment non-current assets:																				
– Additions to property, plant and equipment	**–**	–	**–**	–	**–**	–	**–**	–	**152**	4	**–**	–	**171**	249	**323**	253	**–**	1	**323**	254
– Additions to intangible assets	**–**	–	**–**	–	**–**	–	**–**	–	**91**	–	**–**	–	**9**	6	**100**	6	**–**	–	**100**	6
– Investments in joint ventures	**–**	–	**387**	–	**33**	17,274	**–**	14,237	**–**	–	**112**	4,503	**625**	–	**1,157**	36,014	**–**	–	**1,157**	36,014
as at 31st December																				
Assets																				
Interests in associates and joint ventures	**31,765**	36,264	**47,111**	46,743	**29,311**	31,475	**16,824**	17,618	**834**	787	**7,255**	7,671	**983**	1,012	**134,083**	141,570	**–**	–	**134,083**	141,570
Property, plant and equipment and investment properties	**–**	–	**–**	–	**–**	–	**–**	–	**1,850**	1,806	**–**	–	**1,039**	1,014	**2,889**	2,820	**1**	2	**2,890**	2,822
Other segment assets	**–**	–	**627**	1,339	**–**	–	**–**	–	**2,675**	1,613	**6**	4	**2,722**	2,803	**6,030**	5,759	**–**	–	**6,030**	5,759
Unallocated corporate assets	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**14,767**	9,663	**14,767**	9,663
Total assets	**31,765**	36,264	**47,738**	48,082	**29,311**	31,475	**16,824**	17,618	**5,359**	4,206	**7,261**	7,675	**4,744**	4,829	**143,002**	150,149	**14,768**	9,665	**157,770**	159,814
Liabilities																				
Segment liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**852**	673	**10**	23	**1,940**	1,950	**2,802**	2,646	**–**	–	**2,802**	2,646
Unallocated corporate liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**33,064**	38,976	**33,064**	38,976
Total liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**852**	673	**10**	23	**1,940**	1,950	**2,802**	2,646	**33,064**	38,976	**35,866**	41,622

13. 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.

14. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of the Company of HK$10,443 million (2017: HK$10,256 million) and on 2,519,610,945 shares (2017: 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 31) 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.

15. DIVIDENDS

(a)

HK$ million	2018	2017
Interim dividend paid of HK$0.68 per share (2017: HK$0.67 per share)	**1,713**	1,688
Proposed final dividend of HK$1.75 per share (2017: HK$1.71 per share)	**4,410**	4,309
Total	**6,123**	5,997

During the year, dividends of HK$6,123 million (2017: HK$5,997 million) are stated after elimination of HK$318 million (2017: HK$312 million) paid/proposed for the shares issued in connection with the issue of perpetual capital securities (note 31).

(b)

HK$ million	2018	2017
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$1.71 per share (2017: HK$1.63 per share)	**4,309**	4,107

Final dividend in respect of the previous financial year, approved and paid during the year ended 31st December, 2018, is stated after elimination of HK$224 million (2017: HK$214 million) for the shares issued in connection with the issue of perpetual capital securities (note 31).

16. 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, 2017	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
Additions	–	42	23	46	210	2	323
Disposals	–	–	–	–	(98)	(2)	(100)
Exchange translation differences	–	(4)	(7)	(39)	(100)	(2)	(152)
At 31st December, 2018	393	147	210	1,384	3,041	66	5,241
Accumulated depreciation							
At 1st January, 2017	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
Charge for the year	6	3	–	22	157	7	195
Disposals	–	–	–	–	(96)	(2)	(98)
Exchange translation differences	–	(2)	–	(16)	(53)	(1)	(72)
At 31st December, 2018	207	52	–	694	1,734	46	2,733
Carrying value							
At 31st December, 2018	**186**	**95**	**210**	**690**	**1,307**	**20**	**2,508**
At 31st December, 2017	192	58	194	689	1,303	26	2,462

The carrying value of the Group's mains, pipes, other plant and machinery includes an amount of HK$13 million (2017: HK$23 million) in respect of assets held under finance leases.

17. INVESTMENT PROPERTIES

HK$ million	
Medium term leases in Hong Kong, at fair value	
At 1st January, 2017	344
Change in fair values	16
At 31st December, 2017	360
Change in fair values	22
At 31st December, 2018	**382**

The fair values of the Group's investment properties at 31st December, 2018 and 2017 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.

18. INTERESTS IN ASSOCIATES

HK$ million	2018	2017
Investment costs		
– Listed in Hong Kong	**8,495**	8,495
– Unlisted	**730**	730
Share of post-acquisition reserves	**25,855**	30,295
	35,080	39,520
Amounts due by unlisted associates (note 37)	**3,111**	3,588
	38,191	43,108
Market value of investment in a listed associate	**44,054**	53,505

Included in the amounts due by unlisted associates are subordinated loans of HK$2,946 million (2017: HK$3,444 million). The rights in respect of these loans are subordinated to the rights of any other lenders to the associates.

18. 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	**2018**	2017
Current assets	**5,475**	25,574
Non-current assets	**85,962**	81,248
Current liabilities	**(4,072)**	(6,832)
Non-current liabilities	**(3,808)**	(4,589)
Equity	**83,557**	95,401
Reconciled to the Group's interests in the material associate		
Group's effective interest	**38.01%**	38.01%
Group's shares of net assets of the material associate and its carrying amount in the consolidated financial statements	**31,765**	36,264

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

	Power Assets	
HK$ million	**2018**	2017
Turnover	**1,555**	1,420
Profit for the year	**7,636**	8,319
Other comprehensive (expense)/income	**(1,113)**	1,482
Total comprehensive income	**6,523**	9,801
Dividend received from the material associate	**7,139**	12,685

18. INTERESTS IN ASSOCIATES (CONT'D)

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

HK$ million	2018	2017
Aggregate carrying amount of individually insignificant associates in the consolidated financial statements	**3,315**	3,256
Aggregate amounts of the Group's share of those associates'		
Profit for the year	**502**	479
Other comprehensive expense	**(80)**	(91)
Total comprehensive income	**422**	388

Particulars of the principal associates are set out in Appendix 2 on pages 152 and 153.

19. INTERESTS IN JOINT VENTURES

HK$ million	2018	2017
Investment costs	**45,963**	44,849
Share of post-acquisition reserves	**8,598**	9,693
	54,561	54,542
Impairment losses	**(141)**	(141)
	54,420	54,401
Amounts due by joint ventures (note 37)	**41,472**	44,061
	95,892	98,462

Included in the amounts due by joint ventures are subordinated loans of HK$27,082 million (2017: HK$27,161 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, 2018 and no further impairment loss is considered necessary for the year (2017: nil).

19. 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	**2018**	2017	**2018**	2017
Current assets	**2,800**	4,365	**3,961**	3,441
Non-current assets	**88,388**	91,858	**122,879**	123,654
Current liabilities	**(9,046)**	(8,435)	**(7,789)**	(8,139)
Non-current liabilities	**(62,854)**	(66,588)	**(67,850)**	(70,370)
Equity	**19,288**	21,200	**51,201**	48,586
Reconciled to the Group's interest in the joint ventures				
Group's effective interest	**40%**	40%	**40%**	40%
Group's share of net assets of the joint ventures	**7,715**	8,480	**20,480**	19,434
Consolidation adjustments at Group level and non-controlling interests	**611**	397	**118**	124
Carrying amount of the joint ventures in the consolidated financial statements	**8,326**	8,877	**20,598**	19,558
Included in the above assets and liabilities:				
Cash and cash equivalents	**512**	2,022	**979**	783
Current financial liabilities (excluding trade and other payables and provisions)	**(5,692)**	(4,756)	**(894)**	(901)
Non-current financial liabilities (excluding trade and other payables and provisions)	**(55,028)**	(60,874)	**(55,207)**	(55,160)

19. INTERESTS IN JOINT VENTURES (CONT'D)

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

HK$ million	CK William 2018	CK William 2017	UK Power Networks 2018	UK Power Networks 2017
Turnover	**10,936**	7,277	**18,623**	17,531
Profit for the year	**810**	676	**7,173**	6,846
Other comprehensive (expense)/ income	**(291)**	128	**971**	(783)
Total comprehensive income	**519**	804	**8,144**	6,063
Dividend received from the joint ventures	**116**	–	**1,014**	549
Included in the above profit:				
Depreciation and amortisation	**(2,804)**	(1,800)	**(2,592)**	(2,346)
Interest income	**14**	11	**302**	293
Interest expense	**(2,771)**	(1,260)	**(2,771)**	(2,494)
Income tax expense	**(585)**	(231)	**(1,585)**	(1,646)

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

HK$ million	2018	2017
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**25,496**	25,966
Aggregate amounts of the Group's share of those joint ventures'		
Profit for the year	**1,701**	2,029
Other comprehensive income	**377**	818
Total comprehensive income	**2,078**	2,847

Particulars of the principal joint ventures are set out in Appendix 3 on pages 154 and 155.

20. OTHER FINANCIAL ASSETS

HK$ million	2018	2017
Financial assets at fair value through profit or loss		
Equity securities, unlisted	497	46
Other investments#	7,154	–
Available-for-sale financial assets		
Equity securities, unlisted, at cost	–	477
Debt securities, unlisted, at fair value	–	179
Financial assets at amortised cost		
Debt securities, unlisted	170	–
Total	7,821	702

Other investments represent the investments under the agreement with CK Hutchison Holdings Limited and its wholly-owned subsidiary dated 31st August, 2018. Further details are set out in the Company's announcement dated 31st August, 2018.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
HK$ million	Assets	Liabilities	Assets	Liabilities
Forward foreign exchange contracts	2,588	(6)	1,253	(488)
Cross currency swaps	427	(45)	–	(803)
Interest rate swaps	–	(359)	–	(413)
	3,015	(410)	1,253	(1,704)
Portion classified as:				
Non-current	2,448	(396)	1,253	(1,287)
Current	567	(14)	–	(417)
	3,015	(410)	1,253	(1,704)

21. 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 forward foreign exchange contracts and cross currency swaps 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, 2018 Notional amount	Maturity
Sell GBP 1,261.4 million^	2019
Sell NZD 280.0 million^	2019
Sell AUD 159.3 million^	2019
Sell CAD 184.2 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 CAD 100.0 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 CAD 132.5 million^	2025
Sell AUD 1,414.8 million^	2027

^ designated as hedging instrument in accordance with HKFRS 9

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

Currency Derivatives (Cont'd)

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

* designated as hedging instrument in accordance with HKAS 39

The fair values of the above currency derivatives that are designated and effective as net investment hedges totalling HK$2,964 million (net assets to the Group) (2017: HK$38 million (net liabilities to the Group)) have been deferred in equity at 31st December, 2018.

None of above currency derivatives is designated and effective as cash flow hedges and fair value hedges at 31st December, 2018 and 2017.

21. DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)

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, 2018 and the major terms of these contracts are as follows:

As at 31st December, 2018 HK$ million	Floating interest rate	Weighted average fixed interest rate	Notional principal amount
Contracts maturing in 2019	BKBM*	3.48%	792
Contracts maturing in 2022	LIBOR*	1.89%	5,952
Contracts maturing in 2025	BBSW*	2.70%	2,835

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

* 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$189 million (2017: HK$232 million) (net liabilities to the Group) have been deferred in equity at 31st December, 2018.

22. GOODWILL AND INTANGIBLE ASSETS

HK$ million	2018	2017
Goodwill	905	934
Intangible assets	1,651	1,635
Total	**2,556**	2,569

Goodwill

HK$ million	2018	2017
At 1st January	934	920
Exchange difference	(29)	14
At 31st December	**905**	934

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 (2017: 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 (2017: 3 per cent). The Group considers that cash flow projections of 5 years (2017: 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 7.6 per cent to 13.7 per cent (2017: 7.8 per cent to 13.9 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, 2018 and 2017.

22. GOODWILL AND INTANGIBLE ASSETS (CONT'D)

Intangible Assets

HK$ million	Brand name and trademarks	Customer contracts	Resource consents	Computer software	Operation license	Others	Total
Cost							
At 1st January, 2017	127	58	1,488	53	–	12	1,738
Additions	–	1	–	4	–	1	6
Disposal	–	–	(5)	–	–	–	(5)
Exchange translation differences	2	1	22	1	–	–	26
At 31st December, 2017	129	60	1,505	58	–	13	1,765
Additions	–	–	–	9	91	–	100
Exchange translation differences	(4)	(2)	(46)	(3)	–	(1)	(56)
At 31st December, 2018	125	58	1,459	64	91	12	1,809
Accumulated amortisation							
At 1st January, 2017	–	24	63	7	–	10	104
Charge for the year	–	7	16	5	–	1	29
Disposal	–	–	(5)	–	–	–	(5)
Exchange translation differences	–	1	1	–	–	–	2
At 31st December, 2017	–	32	75	12	–	11	130
Charge for the year	–	6	18	6	1	1	32
Exchange translation differences	–	(1)	(2)	–	–	(1)	(4)
At 31st December, 2018	–	37	91	18	1	11	158
Carrying value							
At 31st December, 2018	**125**	**21**	**1,368**	**46**	**90**	**1**	**1,651**
At 31st December, 2017	129	28	1,430	46	–	2	1,635

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.

23. INVENTORIES

HK$ million	2018	2017
Raw materials	65	49
Work-in-progress	39	41
Stores, spare parts and supplies	43	56
Finished goods	23	24
Total	**170**	170

24. DEBTORS AND PREPAYMENTS

HK$ million	2018	2017
Trade debtors	274	286
Prepayments, deposits and other receivables	859	518
Total	**1,133**	804

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

HK$ million	2018	2017
Current	173	178
Less than 1 month past due	81	85
1 to 3 months past due	15	13
More than 3 months but less than 12 months past due	10	14
More than 12 months past due	8	21
Amount past due	114	133
Loss allowance	(13)	(25)
Total after allowance	**274**	286

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.

24. DEBTORS AND PREPAYMENTS (CONT'D)

During the year ended 31st December, 2018, the Group measured the loss allowance based on provision matrix or individual assessment under the expected credit loss model.

The Group used average loss rates ranging from 0.1% to 24.0% for provision matrix assessment. The average loss rates were estimated based on historically observed default rates of the debtors and were adjusted for any forward-looking information that was available without undue cost or effort.

The movement in the loss allowance during the year is as follows:

HK$ million	2018	2017
At 1st January	25	25
Impairment loss recognised	1	1
Impairment loss written back	(5)	(2)
Uncollective amounts written off	(7)	–
Exchange translation differences	(1)	1
At 31st December	**13**	25

25. BANK BALANCES AND DEPOSITS

Bank balances and deposits carry average effective interest rate at 1.84 per cent (2017: 0.93 per cent) per annum.

26. BANK AND OTHER LOANS

HK$ million	2018	2017
Unsecured bank loans repayable:		
Within 1 year	**–**	10,886
In the 2nd year	**4,424**	–
In the 3rd to 5th year, inclusive	**17,583**	15,762
	22,007	26,648
Obligations under finance leases repayable:		
Within 1 year	**4**	10
In the 2nd year	**4**	4
In the 3rd to 5th year, inclusive	**6**	10
	14	24
Unsecured notes and bonds repayable:		
Within 1 year	**210**	–
In the 2nd year	**–**	211
In the 3rd to 5th year, inclusive	**–**	–
After 5 years	**6,680**	6,869
	6,890	7,080
Secured bank loans repayable:		
Within 1 year	**1,228**	–
In the 2nd year	**–**	1,284
	1,228	1,284
Total	**30,139**	35,036
Portion classified as:		
Current liabilities	**1,442**	10,896
Non-current liabilities	**28,697**	24,140
Total	**30,139**	35,036

26. 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	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
GBP	**2,976**	3,144	**–**	–	**–**	–	**–**	–	**2,976**	3,144
AUD	**15,108**	16,276	**–**	–	**–**	–	**–**	–	**15,108**	16,276
JPY	**840**	842	**–**	–	**1,260**	1,264	**–**	–	**2,100**	2,106
EUR	**895**	926	**–**	–	**–**	–	**5,370**	5,556	**6,265**	6,482
NZD	**1,228**	1,284	**14**	24	**–**	–	**–**	–	**1,242**	1,308
USD	**8**	5,460	**–**	–	**–**	–	**–**	–	**8**	5,460
HKD	**2,180**	–	**–**	–	**260**	260	**–**	–	**2,440**	260
Total	**23,235**	27,932	**14**	24	**1,520**	1,524	**5,370**	5,556	**30,139**	35,036

The average effective interest rates of the Group's bank loans and finance leases are 2.40 per cent (2017: 2.41 per cent) per annum and 7.22 per cent (2017: 7.41 per cent) per annum, respectively.

The Group's notes and bonds of HK$6,890 million (2017: HK$7,080 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 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 (2017: 2 per cent) per annum.

Fixed rate notes, bonds and finance leases carried interest ranging from 1.00 per cent to 5.82 per cent (2017: 1.00 per cent to 11.00 per cent) per annum.

The shares of a subsidiary were pledged to secure bank borrowings totalling HK$1,228 million (2017: HK$1,284 million) granted to the Group.

* BBSY – Australian Bank Bill Swap Bid Rate

26. BANK AND OTHER LOANS (CONT'D)

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

HK$ million	2018	2017
Minimum lease payments:		
Within 1 year	4	10
In the 2nd year	4	4
In the 3rd to 5th year, inclusive	6	10
	14	24
Less: Future finance charges	–	–
Present value of lease payments	14	24
Less: Amount due for settlement within 12 months	(4)	(10)
Amount due for settlement after 12 months	10	14

At 31st December, 2018, the remaining weighted average lease term was 2.47 years (2017: 2.75 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 16).

27. CREDITORS AND ACCRUALS

HK$ million	2018	2017
Trade creditors	228	211
Other payables and accruals	4,475	4,031
Total	4,703	4,242

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

HK$ million	2018	2017
Current	171	142
1 month	32	30
2 to 3 months	7	9
Over 3 months	18	30
Total	228	211

28. DEFERRED TAX ASSETS/LIABILITIES

HK$ million	2018	2017
Deferred tax assets	(12)	(7)
Deferred tax liabilities	463	468
Total	**451**	461

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, 2017	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
Charge to profit for the year	7	–	–	3	10
Exchange translation differences	(2)	–	(13)	1	(14)
Others	–	–	–	(6)	(6)
At 31st December, 2018	**86**	**(6)**	**395**	**(24)**	**451**

28. 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$1,464 million (2017: HK$1,410 million) at 31st December, 2018. 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	**2018**	2017
Within 1 year	**19**	27
In the 2nd year	**84**	20
In the 3rd to 5th year, inclusive	**106**	200
No expiry date	**1,255**	1,163
Total	**1,464**	1,410

29. 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.

29. 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 (2017: HK$25 million). Forfeited contributions and earnings for the year under the defined contribution plans amounting to HK$2 million were used to reduce the existing level of contributions (2017: HK$1 million). At 31st December, 2018, there were no forfeited contributions and earnings available to the Group to reduce its contributions to the defined contribution plans in future years (2017: nil).

(b) Defined Benefit Retirement Plan operating in Hong Kong

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

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

As at 1st April, 2018, the defined benefit plan was terminated with the transfer value being determined for each member as at 31st March, 2018. Each member's transfer value had been paid from the defined benefit plan and transferred to the Group's MPF Schemes, and the remaining assets of the defined benefit plan were refunded to the Group.

Actuarial valuation of the defined benefit plan according to HKAS 19 "Employee Benefits" was carried out at 31st March, 2018, 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 were as follows:

	2018	2017
Discount rate at 31st December	**–**	1.70% per annum
Discount rate at 31st March	**1.60% per annum**	–
Expected rate of salary increase	**4.00% per annum**	4.00% per annum

29. RETIREMENT PLANS (CONT'D)

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

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

HK$ million	2018	2017
Current service cost (net of employee contributions)	–	3
Net amount debited to the consolidated income statement	–	3

The actual return on plan assets for the period ended 31st March, 2018 was a gain of HK$2 million (for the year ended 31st December 2017: HK$15 million).

The amount included in the consolidated statement of financial position at the end of the reporting period arising from the Group's obligations in respect of its defined benefit plan in Hong Kong is as follows:

HK$ million	2018	2017
Present value of defined benefit obligations	–	62
Fair value of plan assets	–	(65)
Employee retirement benefit assets classified as other non-current liabilities included in the consolidated statement of financial position	–	(3)

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

HK$ million	2018	2017
At 1st January	62	93
Current service cost (net of employee contributions)	–	3
Actual benefits paid	(16)	(31)
Actual employee contributions	–	1
Actuarial gain on experience	(3)	–
Actuarial gain on financial assumptions	–	(3)
Actuarial gain on demographic assumptions	–	(1)
Curtailments	(4)	–
Settlements	(39)	–
At 31st December	–	62

29. RETIREMENT PLANS (CONT'D)

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

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

HK$ million	2018	2017
At 1st January	65	79
Return on plan assets greater than discount rate	2	15
Actual company contributions	–	1
Actual employee contributions	–	1
Actual benefits paid	(16)	(31)
Settlements	(39)	–
Surplus refunded to the employer	(12)	–
At 31st December	–	65

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

As at 31st December	2018	2017
Equity instruments	–	64%
Debt instruments	–	36%
Total	–	100%

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

The Group recognised net actuarial gain on defined benefit obligations amounting to HK$3 million (2017: HK$4 million) directly through other comprehensive income. Return on plan assets greater than discount rate amounting to HK$2 million (2017: HK$15 million) was recognised through other comprehensive income in 2018.

30. SHARE CAPITAL

	Number of Shares		Amount	
	2018	2017	2018 HK$ million	2017 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:				
Ordinary shares of HK$1 each	**2,650,676,042**	2,650,676,042	**2,651**	2,651

31. PERPETUAL CAPITAL SECURITIES

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.

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.

31. PERPETUAL CAPITAL SECURITIES (CONT'D)

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.

32. 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 26, 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 16.5 per cent (2017: 17.6 per cent) as at 31st December, 2018. The management targets to maintain a solid capital position to pursue more new investment opportunities. The Group's overall strategy remains unchanged from 2017.

The net debt to net total capital ratios at 31st December, 2018 and 2017 were as follows:

HK$ million	**2018**	2017
Total debts	**30,139**	35,036
Bank balances and deposits	**(6,090)**	(9,781)
Net debt	**24,049**	25,255
Net total capital	**145,953**	143,447
Net debt to net total capital ratio	**16.5%**	17.6%

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.

33. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash from Operations

HK$ million	2018	2017
Profit before taxation	**11,358**	10,928
Share of results of associates	**(3,405)**	(3,693)
Share of results of joint ventures	**(4,894)**	(5,038)
Interest income from loans granted to associates	**(332)**	(377)
Interest income from loans granted to joint ventures	**(3,045)**	(2,204)
Bank interest income	**(136)**	(97)
Finance costs	**502**	648
Depreciation of property, plant and equipment	**195**	202
Amortisation of intangible assets	**32**	29
Change in fair values of investment properties	**(22)**	(16)
Gain on disposal of property, plant and equipment	**(2)**	(14)
Gain on disposal of an associate	**–**	(383)
Gain on disposal of a joint venture	**–**	(23)
Change in fair value of derivative financial instruments	**(10)**	10
Pension costs of defined benefit retirement plans	**–**	3
Curtailments of defined benefit retirement plans	**(4)**	–
Unrealised exchange (gain)/loss	**(6)**	57
Returns received from joint ventures	**94**	253
Interest received from associates	**346**	376
Interest received from joint ventures	**2,982**	2,099
Contributions to defined benefit retirement plans	**–**	(1)
Others	**(71)**	(126)
Operating cash flows before changes in working capital	**3,582**	2,633
Increase in inventories	**–**	(31)
Increase in debtors and prepayments	**(363)**	(63)
Increase in creditors and accruals	**508**	311
Exchange translation differences	**267**	150
Cash from operations	**3,994**	3,000

33. 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, 2017	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
Financing cash flows	(3,272)	(16)	(10)	–	(3,298)
Exchange loss	(1,369)	(40)	–	(190)	(1,599)
At 31st December, 2018	**22,007**	**1,228**	**14**	**6,890**	**30,139**

34. 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 2018**	Total Emoluments 2017
Victor T K Li [(1)]	0.075	–	33.236	–	–	**33.311**	32.343
Kam Hing Lam	0.075	4.200	11.697	–	–	**15.972**	15.631
Ip Tak Chuen, Edmond	0.075	1.800	11.697	–	–	**13.572**	13.231
Fok Kin Ning, Canning [(1)]	0.075	–	–	–	–	**0.075**	0.075
Andrew John Hunter [(1)]	0.075	12.111	14.193	1.210	–	**27.589**	25.920
Chan Loi Shun [(1 and 2)]	0.075	6.571	3.167	0.655	–	**10.468**	10.022
Chen Tsien Hua [(3)]	0.075	5.283	2.545	0.526	–	**8.429**	8.211
Frank John Sixt	0.075	–	–	–	–	**0.075**	0.075
Cheong Ying Chew, Henry [(4)]	0.180	–	–	–	–	**0.180**	0.180
Kwok Eva Lee [(4)]	0.155	–	–	–	–	**0.155**	0.155
Sng Sow-Mei [(4)]	0.155	–	–	–	–	**0.155**	0.155
Colin Stevens Russel [(4)]	0.180	–	–	–	–	**0.180**	0.180
Lan Hong Tsung, David [(4)]	0.155	–	–	–	–	**0.155**	0.155
Barrie Cook	0.075	–	–	–	–	**0.075**	0.075
Paul Joseph Tighe [(3)]	0.075	–	–	–	–	**0.075**	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 2018	**1.725**	**29.965**	**76.535**	**2.391**	**–**	**110.616**	
Total for the year 2017	1.702	28.819	73.812	2.277	–		106.610

Notes:

(1) During the year, Mr. Victor T K Li, Mr. Andrew John Hunter and Mr. Chan Loi Shun each received directors' fees of HK$70,000 (2017: HK$70,000), Mr. Fok Kin Ning, Canning received director's fees of HK$120,000 (2017: HK$120,000) from Power Assets. The directors' fees totalling HK$330,000 (2017: HK$330,000) were then paid back to the Company.

(2) During the year, the directors' emoluments in the sum of HK$5,072,520 (2017: HK$4,696,800) received by Mr. Chan Loi Shun from Power Assets were paid back to the Company.

34. 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) 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 (2017: HK$825,000).

Of the 5 individuals with the highest emoluments in the Group, all (2017: all) are directors whose emoluments are disclosed above.

35. 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	2018	2017
Investment in a joint venture	334	464
Plant and machinery	64	40
Total	398	504

(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	2018	2017
Within 1 year	56	59
In the 2nd to 5th year, inclusive	121	144
Over 5 years	119	132
Total	296	335

36. CONTINGENT LIABILITIES

The contingent liabilities of the Group are as follows:

HK$ million	2018	2017
Guarantee in respect of bank loan drawn by a joint venture	**1,136**	1,312
Other guarantees given in respect of a joint venture	**529**	760
Performance bond indemnities	**89**	92
Total	**1,754**	2,164

37. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group advanced HK$9 million (2017: HK$28 million) to its unlisted associates. The Group received return of capital of HK$ nil (2017: HK$105 million) and repayment of HK$263 million (2017: HK$125 million) from an unlisted associate during the year. The total outstanding loan balances as at 31st December, 2018 amounted to HK$3,111 million (2017: HK$3,588 million), of which HK$2,946 million (2017: HK$3,444 million) at fixed rates ranging from 10.85 per cent to 11.19 per cent (2017: from 10.85 per cent to 11.19 per cent) per annum and HK$165 million (2017: HK$144 million) was interest-free. The average effective interest rate of the loan granted to associates is 11.03 per cent (2017: 11.02 per cent) per annum. As stated in note 7, interest income from loans granted to associates during the year amounted to HK$332 million (2017: HK$377 million). Except for a loan of HK$94 million (2017: HK$94 million) which was repayable within three years (2017: four years), the loans had no fixed terms of repayment.

During the year, the Group advanced HK$1 million (2017: HK$10 million) to its joint ventures. The Group received return of capital of HK$44 million (2017: nil) and repayments of HK$1,422 million (2017: HK$86 million) from its joint ventures. The total outstanding loan balances as at 31st December, 2018 amounted to HK$41,472 million (2017: HK$44,061 million), of which HK$18,131 million (2017: HK$18,510 million) bore interest with reference to London Interbank Offered Rate, Australian Bank Bill Swap Reference Rate and return from joint ventures, and HK$22,934 million (2017: HK$25,139 million) at fixed rate ranging from 4.9 per cent to 14 per cent (2017: from 4.9 per cent to 14 per cent) per annum, and HK$407 million (2017: HK$412 million) was interest-free. The average effective interest rate of the loan granted to joint ventures is 7.28 per cent (2017: 7.64 per cent) per annum. As stated in note 7, interest income from loans granted to joint ventures during the year amounted to HK$3,045 million (2017: HK$2,204 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$357 million (2017: HK$401 million) and HK$ nil (2017: HK$1 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$100 million (2017: HK$91 million) and HK$51 million (2017: HK$50 million), respectively for the current year.

The emoluments of key management have been presented in note 34 above.

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

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(a) Statement of Financial Position of the Company

as at 31st December

HK$ million	2018	2017
Property, plant and equipment	1	2
Unlisted investments in subsidiaries	50,638	49,429
Total non-current assets	**50,639**	49,431
Amounts due from subsidiaries	55,598	52,105
Amount due from a joint venture	2	2
Prepayments, deposits and other receivables	45	98
Bank balances	18	15
Total current assets	**55,663**	52,220
Amounts due to subsidiaries	51,511	46,602
Other payables and accruals	302	289
Total current liabilities	**51,813**	46,891
Net current assets	**3,850**	5,329
Net assets	**54,489**	54,760
Representing:		
Share capital	2,651	2,651
Reserves	51,838	52,109
Total equity	**54,489**	54,760

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

(b) Movements in the Company's Equity

HK$ million	Share capital	Share premium	Retained profits	Total
At 1st January, 2017	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
Profit for the year	–	–	6,064	6,064
Final dividend paid for the year 2017	–	–	(4,533)	(4,533)
Interim dividend paid	–	–	(1,802)	(1,802)
At 31st December, 2018	**2,651**	**25,267**	**26,571**	**54,489**

39. EVENT AFTER THE REPORTING PERIOD

In January 2019, the Group entered into a placing agreement with a placing agent to sell an aggregate of 43,800,000 shares in Power Assets at a price of HK$52.93 per share. After completion, the Group currently holds approximately 35.96% of Power Assets' issued share capital.

40. COMPARATIVE FIGURES

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

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements set out on pages 87 to 155 were approved by the Board of Directors on 20th March, 2019.

PRINCIPAL SUBSIDIARIES

APPENDIX 1

The table below shows the subsidiaries as at 31st December, 2018 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, 2018 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, 2018 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	£29,027	30	Gas distribution
Electricity First Limited	United Kingdom	£1,004	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$147,000,000 ordinary	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$406,500,100	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