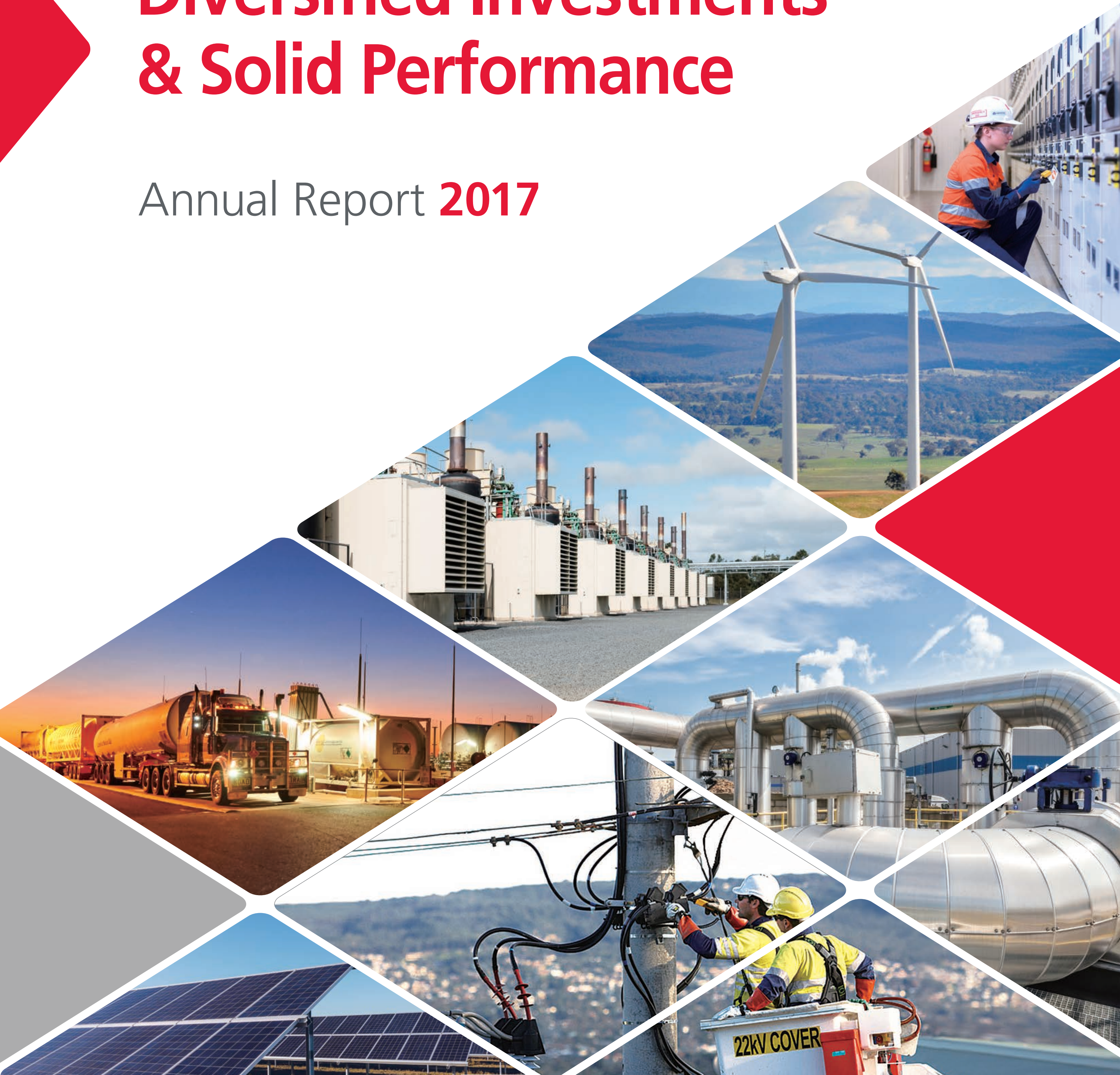
Power Assets Holdings Ltd.
電能實業有限公司
(Stock Code : 6)

Diversified Investments & Solid Performance

Annual Report 2017



Diversified Investments & Solid Performance

The cover of the 2017 Annual Report is a mosaic that celebrates the diversity and global presence of Power Assets Holdings Ltd. By its very nature, the design exemplifies the importance of individual elements, while ensuring the assemblage translates into a meaningful and evocative image.

Each tile here is dedicated to a critical component that powers the enormous, trans-continental eco-system of the company. Solar and wind farms, gas and electricity distribution, power plants and network maintenance are representative features of a cohesive whole; a failsafe structure that supplies one of life's essentials, day on day, month on month, year on year.

A strategic global investor in the energy sector

Power Assets is a global investor in energy and utility-related businesses, with interests in the generation of thermal and renewable power, the transmission of electricity, gas and oil as well as the distribution of electricity and gas.

From our origins in Hong Kong over a century ago, our operations today span global markets including the United Kingdom, Australia, New Zealand, mainland China, Thailand, the Netherlands, Portugal, Canada and the United States. In 2017, we broadened our portfolio with the acquisition of a stake in the DUET Group, a diversified group that owns and operates companies in electricity and gas distribution, gas transmission, as well as electricity generation from waste coal mine and landfill gases plus renewables.

Power Assets' investments comprise primarily of acquisitions, supplemented by green-field development activities. We follow an active yet prudent strategy for sustainable growth over the long term by concentrating on companies operating in well-regulated and mature markets that are able to deliver predictable and reliable income streams. We invest systematically in innovation and technology across our businesses to enable them to provide smarter, more efficient and sustainable energy in their markets.

Listed on the Stock Exchange of Hong Kong as a constituent share of the Hang Seng Index, Power Assets is also one of only nine Hong Kong companies included in the Dow Jones Sustainability Index Asia Pacific and one of the constituents in the Hang Seng Corporate Sustainability Index.

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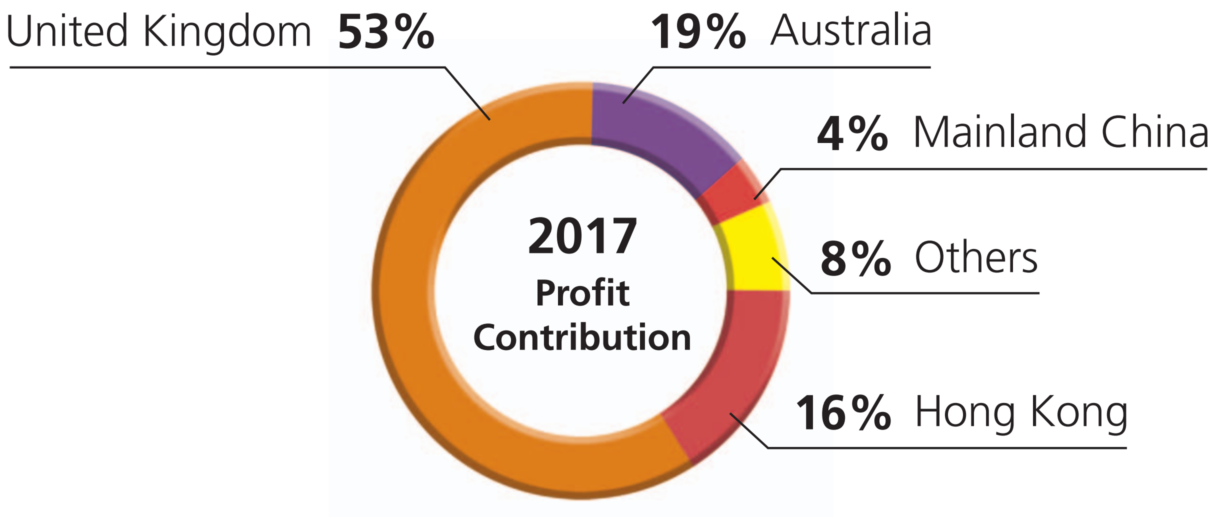
PERFORMANCE HIGHLIGHTS

Financials	2017 HK$	2016 HK$	Change
Profit attributable to shareholders (million)	**8,319**	6,417	**+30%**
Earnings per share	**3.90**	3.01	**+30%**
Dividends per share	**2.80**	2.72	**+3%**
Special interim dividends per share	**13.50**	5.00	**+170%**

2017 Profit Contribution by Reportable Business Segment



Power Assets Operations

Number of Customers
18,903,000

Power Network Length
396,600 km

Gas / Oil Pipeline Length
110,900 km

Generation Capacity
12,171 MW

LONG-TERM DEVELOPMENT STRATEGY

With global investments in energy generation, transmission and distribution across four continents, Power Assets serves millions of customers with power and heating.

Underpinning our growth and future development are three key principles.

Grow shareholder value in fields of expertise

The Group aspires to deliver long-term earnings growth through investing in a portfolio of carefully selected companies. Supported by our loyal base of committed shareholders who share this ethos, Power Assets pursues this goal by addressing itself to sectors where it has a natural expertise, within stable, well-structured international markets: namely, renewables, energy-from-waste, electricity, and gas infrastructure businesses.

We actively invest in innovation to increase the value that our operating companies deliver in an evolving energy world. Our research and development focus mirrors our areas of expertise and seeks to improve our performance therein: namely decarbonisation, storage and transmission of renewable energy, smart metering and grid technology, carbon dioxide management and energy efficiency.

Pursue global diversification while minimising risks

Power Assets' approach to expanding its portfolio is active but disciplined. First we identify and rigorously evaluate suitable opportunities that operate in stable, well-regulated energy markets around the world to deliver progress with minimal impact on investor risk. We target enterprises that yield steady revenues under government regulation, or whose income is safeguarded by long-term power purchase agreements. Our due diligence process ensures that the technologies, sources of fuel and customer base of potential investments are proven and sustainable.

The Group is active in Europe, North America, Asia and Australia to minimise exposure to the economic cycles of any one single market. In 2017 we strengthened our presence in Australia with a stake in the DUET Group, a well-established player in mature as well as emerging and renewable energy technologies.

Maintain a strong balance sheet as a foundation for agility

Power Assets believes that a strong balance sheet is the foundation of sustainable growth. Our A- credit rating and strong cash position give us sufficient financial power to be agile while pursuing appropriate opportunities.

CHAIRMAN'S STATEMENT

Full year results

It is my pleasure to report the Power Assets Group's full-year results for 2017.

The Group's 2017 audited profits attributable to shareholders amounted to HK$8,319 million (2016: HK$6,417 million), an increase of 30% as compared to 2016. This was mainly due to a one-off gain on disposal of properties recorded in 2017, the first full-year contribution from Husky Midstream partnership, contribution from newly acquired investment in the DUET Group (DUET) and more favourable exchange rates on translation of foreign currency deposits to Hong Kong dollar. The profit increase was partially offset by a one-off deferred tax credit recognised in 2016 for a reduction of corporate tax rate in the United Kingdom. Earnings per share was HK$3.9 (2016: HK$3.01).

Dividends

The Directors declared a one-off special interim dividend of HK$6 per share for 2017, payable on 16 April 2018 to shareholders whose name appear in the Company's Register of Members on 4 April 2018.

The Directors will recommend a final dividend of HK$2.03 per share, payable on 29 May 2018 to those persons registered as shareholders on 15 May 2018. Together with the special interim dividend of HK$7.5 per share paid in August 2017, the above special interim dividend of HK$6 per share and the interim dividend of HK$0.77 per share, the total dividend for the year will be HK$16.3 per share (2016: HK$7.72 per share which included a one-off special interim dividend of HK$5 per share).

DUET offers access to new expertise

Our long-term strategy has been to invest in carefully selected high-quality energy companies operating in mature and well-regulated markets. We took a major step forward in building our market presence in emerging and renewable energy technologies with the acquisition of the 20% interest in DUET in May 2017. DUET owns and operates companies in electricity and gas distribution, gas transmission, as well as electricity generation from waste gases as well as renewables. The distribution businesses are contiguous to the group's existing businesses in Australia and are well established and complementary to the Group's existing operations offering substantial synergies with prospects for assured, long-term revenues. DUET's generation business includes solar energy, wind energy, remote power generation as well as power from coal mine and landfill gases. We are very positive about the potential for knowledge transfer from these acquisitions across Group companies.

Investment in smart technologies

Globally, the energy sector is evolving steadily to meet the needs of the future. Governments are establishing policies and regulatory environment that will facilitate decarbonisation in line with the Paris UN Climate Change Conference (COP21) targets.

As a Group we believe that technological innovation is key to meeting these changing needs: through smart technologies to cater for distributed generation and commercial scale battery energy storage system.

Leadership in customer satisfaction

Regardless of market or sector of operation, our companies delivered very strong performance in customer satisfaction and operating efficiencies, in many cases outperforming regulatory targets.

In the UK, 2017 marked another strong year of performance for our distribution networks with improved customer interruption and satisfaction scores paving the road for our operations to be regarded as the best performing distribution networks. UK Power Networks, Northern Gas Networks (NGN), and Wales & West Utilities (WWU) all received incentive awards from the regulator Ofgem for efficiency and reliability, and also achieved their highest customer satisfaction performance in recent years. All three companies continued their programmes of investment in network maintenance and upgrades. WWU and NGN conducted groundbreaking research on improving the emissions performance of gas networks by blending bio-gas and potentially hydrogen with natural gas. Initial results are very encouraging and could help reduce carbon emissions in the country. The Seabank power plant achieved high availability and delivered a stable income stream for the Group.

Australia has seen a significant uptake of renewable generation and all our companies in the market implemented bespoke projects to enable them to accommodate the huge addition of commercial and domestic solar power generation. Australian Gas Networks, SA Power Networks, and Victoria Power Networks all outperformed their regulatory targets in customer service as well as reliability. Australian Energy Operations delivered stable performance and has undertaken preliminary work for the potential expansion of its operations by connecting additional wind farms to its terminal station. The DUET acquisition in Australia enriches our existing electricity and gas infrastructure portfolio and consolidates our position in the market.

A new era in electricity provision

We are gratified by the signing of the new Scheme of Control Agreement (SCA) that will regulate HK Electric's business for the 15 years from 2019 to 2033. The longer duration of the new SCA offers HK Electric the stability to make major investments in gas-generating facilities to significantly reduce carbon emissions. Thanks to its long-term strategies for capital investment and higher operating efficiencies, we are confident that HK Electric will deliver sustainable long term growth in shareholder value despite the lower permitted rate of return of 8%.

In order to increase its generation of cleaner electricity, the company is constructing two new gas-fired generating units, L10 and L11, at Lamma Power Station and the progress is on schedule. The two units will take the proportion of gas-fired electricity generation to 50% by 2020 and 55% by 2022. To improve security of gas supply the company is partnering with CLP Power to build an offshore terminal for liquefied natural gas in Hong Kong waters using a floating storage and regasification unit (FSRU).

The Canadian energy market is being transformed with more stringent carbon emissions targets and the increased availability of distributed generation at both individual and commercial scale. Our businesses are making the appropriate investments to operate successfully through these transitions, accommodating energy from renewables where possible without any impact on reliability. Canadian Power Holdings delivered high availability and Husky Midstream progressed with the implementation of major pipeline projects that are scheduled for completion in 2018.

In the Netherlands, AVR expanded its portfolio to include waste separation to better service customer needs. AVR's carbon capture trial, where carbon dioxide emissions are harnessed for greenhouse cultivation, is one of the world's most advanced projects illustrating carbon capture in usage.

Our operations in Thailand, mainland China, Portugal and New Zealand also delivered strong operational performance and high levels of customer satisfaction.

Transforming to deliver future value

Looking ahead, we believe that the metamorphosis of the energy sector will be far-reaching, leaving no business untouched. Our diversified operations and geographic footprint in markets at different stages of evolution give us key advantages in terms of synergies, knowledge transfer and cross-training. Our companies look to each other for ideas and best practice to help them learn. We will work proactively, embracing all that technology can offer, to continue to deliver reliability and customer satisfaction while achieving the lowest emissions for the benefit of generations to come.

Our financial position remains strong after payment of special interim dividend which enables the Group to continue to seek out opportunities for growth through the acquisition of sound businesses that align with our core values.

I would like to express the gratitude of the Board to our shareholders for their loyal support over years as well as to our dedicated and skilled colleagues across all our operating businesses. Their efforts are central to our continued success.

Fok Kin Ning, Canning
Chairman
Hong Kong, 16 March 2018

YEAR AT A GLANCE

JAN – JUN

HK Electric enters into a new Scheme of Control Agreement with the Government effective for 15 years (from 1 January 2019 to 31 December 2033).

As part of the power infrastructure work required to support the significant property development taking place in the Battersea area, UKPN completes a 320-metre-long spur tunnel to carry essential electricity supplies to this £9 billion, 42-acre development on the banks of the River Thames in London.

WELL partners with a major energy retailer in New Zealand to install 30 residential solar and battery storage systems in Wellington. The trial of the new technology will help determine peak demand reduction and network resilience capability.

Canadian Power's Meridian successfully completes a planned outage during a site-wide maintenance exercise at its thermal host to improve efficiency.

AGN completes the construction of, and commissions, the Bundaberg Port Gas Pipeline in Queensland, which supplies natural gas to the new Knauf Plasterboard facility. It is expected that the new pipeline will also boost economic activity in the region.

The Siping Power Plant implements a comprehensive retrofit scheme for its cogeneration units to improve environmental performance, successfully reducing NO_x, SO_2 and particulate emissions to meet stringent new environmental requirements in mainland China.

UKPN is named among the *Top 30 Best Big Companies to work for* in a list released by the Sunday Times.

Power Assets completes acquisition of a 20% stake in the DUET Group. This organisation is an international owner and operator of energy utility assets.

Powercor successfully installs their first Rapid Earth Fault Current Limiters in Gisborne and Woodend in central Victoria, Australia. This advanced technology is designed to help reduce the risk of bushfires.

In Portugal Iberwind completes the repowering of Villa Lobos wind farm, which started operation in April 2017.

JUL – DEC

WWU becomes one of the first gas distribution networks to receive verification certification for helping customers in vulnerable situations following a successful audit to meet "British Standard 18477 – inclusive service provision. Requirements for identifying and responding to customer vulnerability", and is lauded by the regulator for the depth of passion shown in supporting this group of consumers.

In Australia, the team of CitiPower and Powercor install a tracker setup at the Hughenden Solar Farm. The site will supply power to approximately 8,000 to 10,000 homes.

In September 2017, NGN launches InTEGReL, Britain's first fully integrated energy research and demonstration site.

SAPN's regulated business has over 206,000 customers (nearly 1 in 4 customers) with solar PV in South Australia, with nearly 879 MW of solar PV capacity connected to the network.

HK Electric receives the Grand Award of the 2017 HKMA Quality Award, in recognition of the Company's commitment to developing and deploying total quality management.

Work advances on HMLP's LLB Direct pipeline, which will transport heavy oil from Alberta's heavy oil production facility to HMLP's terminal in Hardisty, Alberta, for blending and distribution.

EDL commences operation of the Coober Pedy Renewable Hybrid Project in Coober Pedy, South Australia, setting a global benchmark for renewables in MW scale isolated grids.

In Australia, SAPN is requested to facilitate the procurement, installation and operation of temporary generation as part of the Government's Energy Plan to increase available generation for the next two summers so as to avoid rotational load shedding.

In the Netherlands, AVR and partners launch in October 2017 the 'sustainable paving stone', which is constructed partly from treated residual waste from AVR's customers. The paving stone can be recycled endlessly.

In Australia, United Energy introduces a new technology that can automatically locate and isolate faults on high-voltage feeders, helping restore supply to customers quickly and safely.

Tsai Chao Chung, Charles
Chief Executive Officer

Power Assets is a global investor in energy companies that operate in the energy generation, transmission and distribution sectors across coal, gas, renewables and oil. Since our inception, we have focused on creating a diversified portfolio of assets that offers predictable, long-term revenue streams in stable and well-regulated markets. This enables us in turn to offer long-term growth to our investors in all market conditions.

Our operations span Asia, Australia, North America and Europe. The Group has more than 15 assets worldwide, which are each dedicated to their own strategies, and leverage their unique strengths to succeed. Together, they are united in the pursuit of excellence in customer services, operating efficiencies and environmental sustainability.

UNITED KINGDOM

- **UK Power Networks**
- **Northern Gas Networks**
- **Wales & West Utilities**
- **Seabank Power**
- **Energy Developments**

NETHERLANDS

- **Dutch Enviro Energy Holdings B.V.**

PORTUGAL

- **Iberwind**

HONG KONG

- **HK Electric**

MAINLAND CHINA

- **Zhuhai Power**
- **Jinwan Power**
- **Siping Cogeneration**
- **Dali Wind Power**
- **Laoting Wind Power**

THAILAND

- **Ratchaburi Power**

AUSTRALIA

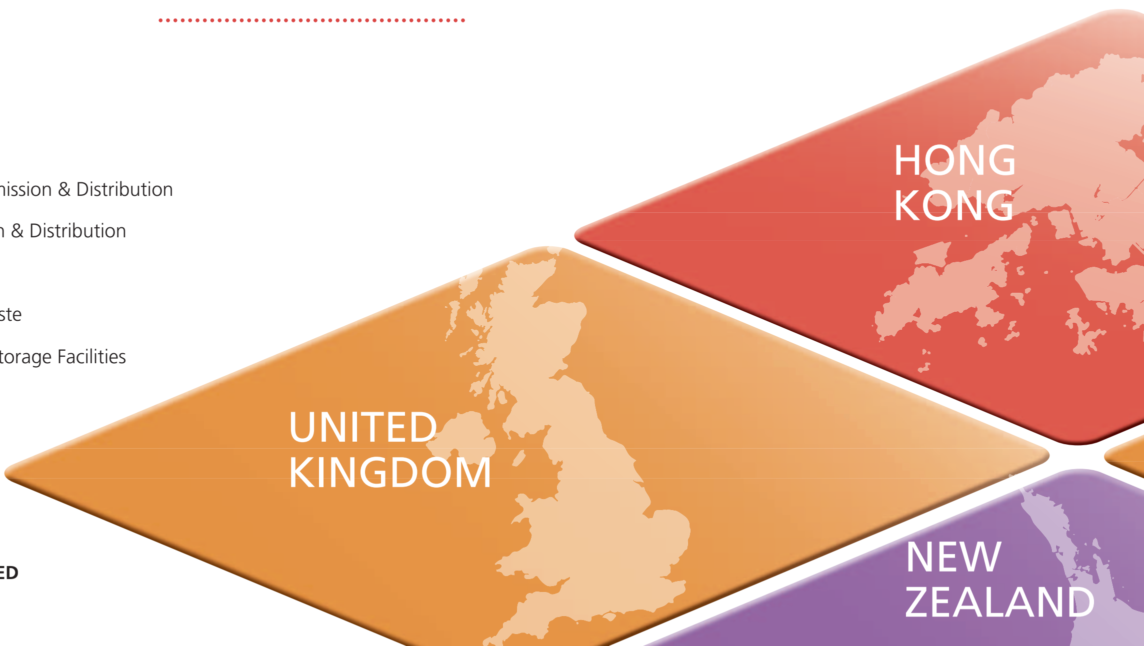
- **Australian Gas Networks**
- **SA Power Networks**
- **Victoria Power Networks**
- **Australian Energy Operations**
- **United Energy**
- **Dampier Bunbury Pipeline and DBP Development Group**
- **Multinet Gas**
- **Energy Developments**

NEW ZEALAND

- **Wellington Electricity Lines**

Legends

- Generation
- Electricity Transmission & Distribution
- Gas Transmission & Distribution
- Renewables
- Energy-from-waste
- Oil Pipelines & Storage Facilities



In 2017, we acquired a 20% stake in the DUET Group (DUET), an owner and operator of energy assets in Australia and other markets. The transaction was completed in partnership with CK Infrastructure Holdings Limited and CK Asset Holdings Limited which acquired the remaining 80% of DUET.

Three of DUET's four companies operate in electricity and gas transmission and distribution, making them a good fit for our core business. DUET is also in the alternative and very low-emission energy generation business, including energy-from-landfill gas, energy-from-coal mine gas, renewables and remote energy generation solutions. DUET's income is mostly governed by long-term contracts, offering stable revenue streams for the Group. In addition, through one of its operating companies, it has technical know-how in the specialised area of energy-from-waste that will be valuable for other companies in the Group.

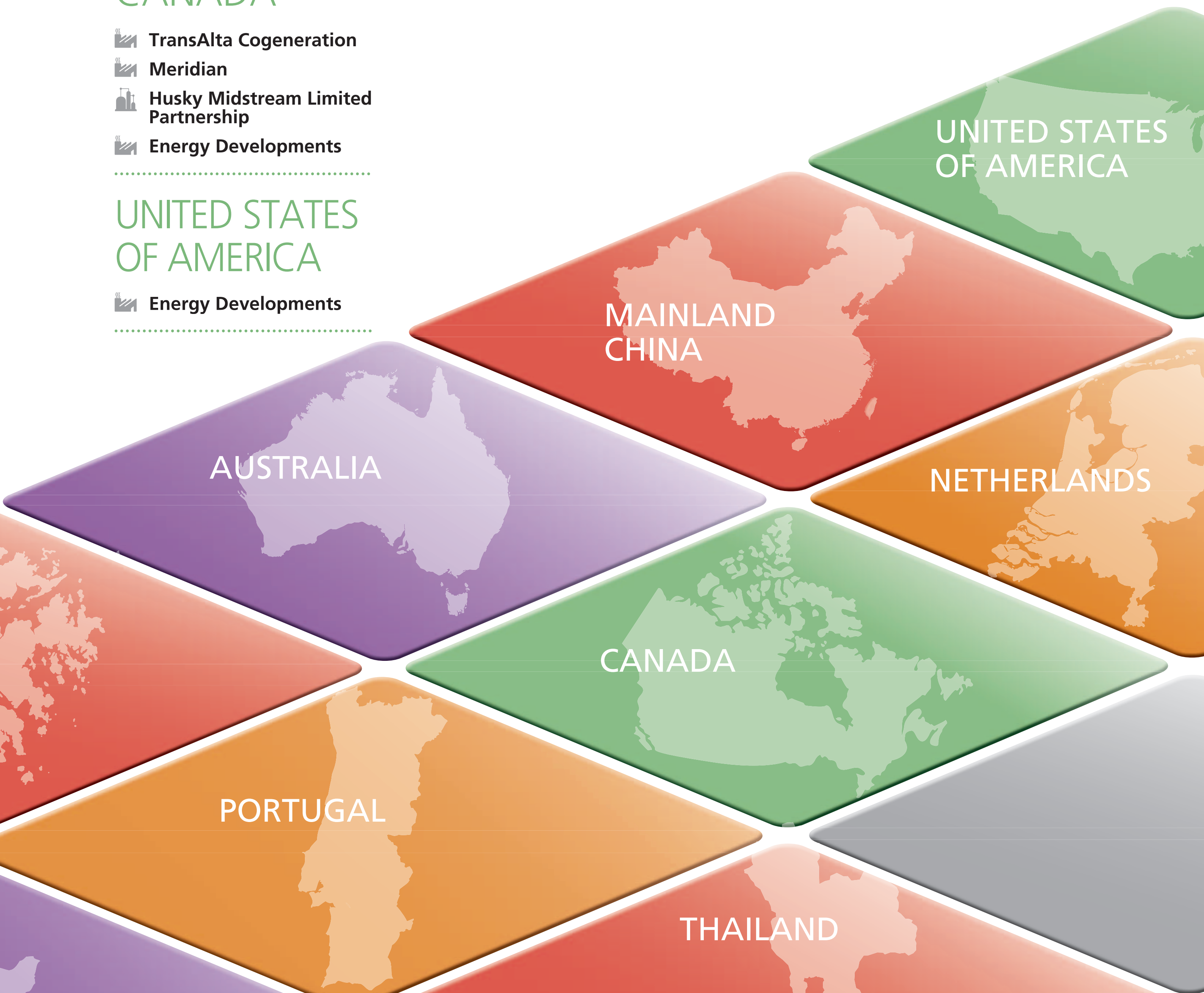
Governments across the world are establishing stringent new carbon emission targets in order to achieve the goals of the Paris UN Climate Change Conference (COP 21) agreement. As a Group, we believe that it is only through innovation and the adoption of the latest technologies that the sector as a whole can support the move to a low-carbon future. From blending hydrogen with natural gas to reduce emissions and using carbon dioxide emissions for greenhouse cultivation, to supporting the use of electric vehicles and accepting distributed solar generation into the network, our companies are at the forefront of innovation to develop energy while minimising emissions.

CANADA

- **TransAlta Cogeneration**
- **Meridian**
- **Husky Midstream Limited Partnership**
- **Energy Developments**

UNITED STATES OF AMERICA

- **Energy Developments**



UNITED KINGDOM

WWU's pipelines enable it to keep more than 2.5 million customers safe and warm.

The UK is the Group's largest market. With a presence in the geography since 2005, today we have four companies spanning the electricity generation, electricity and gas distribution sectors. They have a combined domestic, commercial and industrial customer base of over 13 million, generation capacity of 1,150 MW, and a combined electricity network length of 188,000 km and gas pipeline length of 71,100 km in the country.

Notwithstanding the uncertainties associated with ongoing Brexit negotiations, all four Group companies achieved good operating results during the year as they are mostly regulated with tariffs indexed to the retail price index. The companies led their respective sectors in reliability and customer satisfaction, qualifying for incentive payments from the UK regulator Ofgem in most cases.

Through the third carbon budget of the Climate Change Act 2008, the UK Government is committed to cutting greenhouse gas emissions by 37% by 2020 compared to 1990 levels. We fully support the Government in these aspirations and over the last year our companies have invested significantly in research and innovation to reduce carbon emissions both in day-to-day operations and at a more strategic level.

UK Power Networks

UK Power Networks (UKPN) owns, operates and manages three of the 14 regulated electricity distribution networks in the UK. It is one of the largest electricity distribution network owners in the UK covering an area of approximately 30,000 km^2. UKPN also operates a number of private networks on behalf of clients including the British Airports Authority and the Ministry of Defence. The Group owns 40% of the company since 2010.

UKPN offers extensive technical training to all engineers to ensure the highest standards are maintained.

Hydrogenisation to improve carbon performance of gas networks

Blending hydrogen with natural gas significantly reduces carbon emissions on combustion, as the by-product of hydrogen upon combustion is harmless water vapour. In the UK city of Leeds, NGN is conducting a major study on the feasibility and logistical challenges involved in converting the entire city to an all-hydrogen network. NGN's study is highly significant in expanding the body of knowledge available to the industry as a whole.

In 2017, UKPN distributed 79,114 GWh of power, a 1.2% decrease compared to 2016 levels. UKPN ended the year with 8.28 million (2016: 8.25 million) customers. The company had a particularly strong year with respect to efficiency and continues to have the lowest 'use of system' charges of any distribution network operator in the UK.

UKPN upheld its strong track record in customer service, securing its highest ever score of 87.5% in the annual customer satisfaction survey conducted by Ofgem in 2017. UKPN has consistently improved on its own customer satisfaction ratings every year since 2010.

The company invested more than £620 million (2016: £570 million) to conduct proactive maintenance and upgrade works on its networks. Network reliability improved with customer interruptions (CIs) and customer minutes lost (CMLs) standing at 37 and 32 respectively (2016: CIs 41, CMLs 33). UKPN once again secured significant incentive revenues from Ofgem for supply reliability.

In 2016, UKPN established the ED1SON Alliance, a formal alliance arrangement involving experts from the company and four of its major contractor partners to undertake major capital projects. The Alliance offers a significant pool of skilled resources with respect to delivery of capital projects.

The ED1SON alliance has been contracted to supply power to the redevelopment of the 42-acre Battersea Power Station site, one of the largest ongoing urban regeneration projects in London. Construction works progressed during the year with the completion of a 320-metre-long spur tunnel in April 2017.

Northern Gas Networks

Northern Gas Networks (NGN) has been with the Group since 2005. It operates one of the eight gas distribution networks in the UK, transporting more than 13% of the UK's gas over 36,100 km of gas distribution pipelines. It also conducts maintenance of distribution and gas mains and provides essential gas connections and gas emergency services.

NGN's total gas throughput for 2017 was 68,974 GWh (2016: 71,852 GWh). The number of customers was stable at 2.7 million.

An NGN Customer Care Officer brings a customer up to speed with planned replacement work in his neighbourhood to ensure good community relations.

NGN's efficiency and customer satisfaction levels were very strong. The company received an average rating of 9.2 out of 10 in the Ofgem benchmark customer satisfaction surveys. It also retained its rank as a top two UK gas distribution network and was named by the regulator as the most efficient of the UK's eight gas distribution networks.

Network improvement and replacement to improve system efficiency, safety and reliability is an ongoing priority for NGN. Over 580 km of old iron mains were decommissioned during the year as part of this effort, while progress was made on an ongoing network extension programme to alleviate fuel poverty. About £3.9 million was invested in these projects as well as in upgrades to IT infrastructure of £21.3 million.

NGN engineers carry out works on a gas main in Bradford to maintain network reliability.

Wales & West Utilities

Wales & West Utilities (WWU) has been a member of the Power Assets Group since 2012. WWU is a gas distribution business operating 35,000 km of gas pipelines in Wales and the South West of England, covering 17% of the UK's surface area.

In 2017, WWU distributed 62,009 GWh of gas to 2.53 million supply points, a decrease in throughput of 4% over 2016. The company achieved or exceeded all its regulatory target outputs and met all its guaranteed standards of performance during the year, improving safety and operating performance. WWU upheld the Group's standards of excellence in customer satisfaction, scoring 9.17 in the most recent Ofgem survey.

A WWU engineer at a customer's premises. WWU is lauded for its commitment to supporting vulnerable groups in the community.

In order to uphold network reliability and safety, the company laid 425 km of new mains and removed 485 km of iron mains off risk during the regulatory year ended 31 March 2017.

WWU is committed to the development of low-carbon heating networks, and has been working to reduce emissions by connecting biomethane and other green gas contributions to the gas network. Cumulatively, WWU has connected 17 biomethane producers to the network, which equates to 1.5 GWh. It also collaborated with the Government, regulators and industry to develop policies and regulations governing connection of green gases to the network.

WWU's extensive and complex networks are at the core of its operations.

WWU's process transformation programme is a significant company-wide initiative that will upgrade customer services and future proof work processes for the longer term. Work continued in 2017 on upgrading IT systems, including capabilities like real time management information reporting.

As the only independent gas network that was awarded contract work on smart meter installation, one of the biggest nationwide projects in the sector, WWU entered the rollout stage and installed 5,241 smart meters during the year.

Seabank Power

Seabank Power (SPL) is the Group's UK generation business and has been a part of Power Assets since 2010. The Seabank power station is located in South Western England and has two combined-cycle gas turbine generating units with a total capacity of 1,150 MW. SPL's output is governed by a multi-year power purchase agreement based on plant availability.

SPL exceeded budget for availability, thermal efficiency, forced outage, starting performance and plant trips during 2017. The plant generated 5,786 GWh of electricity, against a budget of 4,243 GWh.

SPL delivered satisfactory results during the year, maintaining emissions levels, delivering operating efficiencies and achieving continued compliance with all relevant regulations. Positive relationships were maintained with its sole customer.

Research to create low carbon homes

WWU has conducted ground-breaking research into the future role of gas from a consumer's perspective, building a computer model that enables low carbon alternatives to be evaluated at the individual property level. It has also built an investment model assessing the impact of new technologies such as hybrid heating systems on the network. The data received to date from these models is encouraging and suggests that by using renewable energy when available, households can reduce carbon emissions by around 80% at a comparatively low cost. The Director of Asset Management at WWU received a Gold Award from the Institution of Gas Engineers and Managers for the development of this model.

HK Electric's Lamma Power Station is in the process of renewing its infrastructure to increase gas-fired generation.

The Hongkong Electric Company

The Hongkong Electric Company (HK Electric) is the Group's flagship company, established in Hong Kong in 1889. It generates and supplies power to the Hong Kong SAR's Hong Kong and Lamma Islands through a 6,400 km electricity network. With installed generation capacity of 3,487 MW, HK Electric is one of the world's most reliable electricity suppliers.

In 2017, HK Electric's customer base increased to 577,000 from 575,000, driven by growth in the residential sector. Electricity sales met budgets at 10,615 GWh, with per-capita electricity consumption in Hong Kong showing a downward trend due to a dry spring season, milder weather in the first half of 2017, and continual energy efficiency and conservation initiatives undertaken by the public and private sectors.

The signing of the new Scheme of Control Agreement (SCA), the regulatory contract that will shape the sector from 2019 onwards, marked an important milestone for HK Electric during the year, and the culmination of months of negotiation and discussion with the Government and stakeholders. The new SCA sets the permitted rate of return at 8% and will be effective for 15 years from 1 January 2019. This will allow customers to continue enjoying world-class service at affordable prices while investors will remain assured of long-term value. The stability provided by the new SCA is particularly vital to HK Electric as it progresses with the investments needed to achieve the objectives of the energy and environmental policy, and the targets of aggressive carbon reduction, as set out by the Government.

HK Electric is presently working closely with the Government to finalise the implementation details of the new SCA, including on items such as the introduction of feed-in-tariffs and renewable energy certificates.

The construction of two new gas-fired generating units, L10 and L11, at Lamma Power Station progressed on schedule, and the units are on track for commissioning in 2020 and 2022 respectively. Together, the two units will increase the proportion of the company's gas-fired generation to 55% from the present 34%. While one coal-fired unit L1 has retired, another unit L2 has undergone a major upgrade to extend its operating life by five years to 2022.

HK Electric signs the new Scheme of Control Agreement with the Government, effective for 15 years.

HK Electric receives the HKMA Grand Award for quality

The Hong Kong Management Association (HKMA) presented HK Electric with its coveted Quality Award in recognition of the company's commitment to total quality management. HKMA commended HK Electric's management team for communicating the company's corporate vision, mission and core values clearly to all its employees. HKMA also complimented the company for its organisational agility and operational flexibility in adapting to changing circumstances in the strategic planning process, as well as on its customer-centric approach.

In order to enhance the security of natural gas supply and our negotiating power with gas suppliers, the company is planning to develop an offshore liquefied natural gas terminal using floating storage and regasification unit technology. The environmental impact assessment report for the project was submitted to the Government in February 2018. The unit is expected to be commissioned by 2020/21 if approvals are received on time.

HK Electric continued to meet the tightening stipulated emissions allowances in all categories through ongoing investment in advanced equipment and efficiency management. The company also worked with the Government to agree on new and more stringent emissions allowances from 2022 onwards. Under the new regulations, the emissions allowances have been further reduced by 23% for sulphur dioxide (SO_2), 21% for nitrogen oxides (NO_x) and 8% for respirable suspended particulates (RSP) as compared to the levels for 2021.

Despite a number of extreme weather events in August 2017, HK Electric once again achieved a world-leading supply reliability level in excess of 99.999%, exceeding its pledged standard for the 21st consecutive year. Customer satisfaction remained high with the company meeting or surpassing all its pledged service standards once again and qualifying for financial incentives from the regulator.

To help improve the quality of roadside air, HK Electric continued to support the adoption of electric vehicles (EV) in Hong Kong, by expanding the network of charging facilities available across the city in public and private spaces. The company now operates 13 public EV charging stations offering free charging until the end of 2018. It also provided technical consultancy services to residential and commercial building operators interested in installing EV charging facilities on their premises.

A pilot exercise was initiated during the year to evaluate the effectiveness of smart meters and Advanced Metering Infrastructure (AMI) technology in the Hong Kong environment for different customer demographics. More than 2,300 new smart meters were installed. The experience gained will be valuable for supporting larger deployments in the future for modernisation of customer services and network operations.

The Smart Power Fund, designed to help aged residential buildings improve energy efficiency, doubled the size of its subsidy for project upgrades. The Fund supported 20 projects during the year, including replacements of lift motors and control systems, public lighting and air conditioners, with more energy efficient models.

HK Electric honoured its 2013 pledge to freeze net tariffs for five years. Overall tariffs were reduced significantly in 2017. A small upward adjustment was made from 1 January 2018; however tariffs for 2018 remain much lower than those that prevailed from 2013 to 2016.

AUSTRALIA

Australian Energy Operations operates the Elaine terminal station to connect the Ararat wind farm to the state grid.

Australia is a key market for the Group. Since entering the market in 2000, we have steadily increased our presence across generation, transmission and distribution and our five operating companies serve approximately 4.6 million households and businesses. The acquisition of DUET during the year under review has also positioned us to participate in the growing energy-from-waste and biogas sectors in Australia.

The fast-increasing uptake of distributed energy generation via rooftop solar panels and battery storage is dramatically reshaping the Australian electricity sector. Our Australian businesses are working proactively to understand new generation and consumption patterns, and determining how our networks must be re-engineered to accommodate for two-way electricity flow and other new trends.

The Australian energy market is facing a number of important legislative and regulatory changes that are intended to reduce emissions, make energy more affordable and improve the reliability and security of energy provision. These include implementing the recommendations of the report on Australia's National Electricity Market by Dr. Alan Finkel, Australia's Chief Scientist. We support and endorse the Government's goals and our companies are working alongside the Australian Energy Regulator (AER) to innovate and make the appropriate investments in systems, networks and processes to realise this vision.

DUET

This is DUET's inaugural year as part of the Power Assets Group. DUET owns and operates four energy companies – Dampier Bunbury Pipeline and DBP Development Group (collectively known as "DBP"), Energy Developments Pty Ltd (EDL), Multinet Gas (MG) and United Energy (UE). The four businesses combined operate 12,500 km of gas pipelines and 12,900 km of electricity network in Australia and have 983 MW generation capacity in Australia, North America and Europe.

DBP owns and operates gas transmission pipelines in Western Australia, delivering 339 million GJ of gas during the year. System availability was high at 100%. The company spent A$71.8 million in capital works to enhance network safety and reliability.

The DUET acquisition offers synergies with and access to new energy sectors in Australia.

Creating a more reliable gas supply for Western Australia

In September 2017, DBP completed the construction and commissioning of a 42 million GJ underground gas storage facility in Western Australia. The facility, representing A$74.2 million in capital expenditure in total, is the largest gas storage facility in Western Australia and received approximately 5 million GJ of gas in 2017. It will help improve storage services for natural gas shippers, while also improving supply security and reliability in the region.

EDL focusses on the generation of clean energy and remote energy in Australia, North America and Europe. During the year, EDL expanded into the highly specialised landfill-gas-to-energy generation sector in North America with the acquisition of Lidya Energy LP and Lidya Energy Inc in Canada, and Granger Energy Services in the USA. The acquisitions take EDL's North American clean generation capacity to 204 MW, making it one of the top three landfill-gas-to-energy businesses in the region. It also expanded its production of wind energy in Australia with the acquisition of the 12 MW Wonthaggi wind farm. EDL's generation output grew by 7% during the year due to expanded operations through these acquisitions and the expansion of existing sites.

United Energy deploys advanced network infrastructure.

MG is a gas distributor in Victoria, serving 705,000 customers throughout Melbourne's inner and outer east areas, the Yarra Ranges and South Gippsland. In 2017, the company delivered 56.4 million GJ of gas. It invested A$42 million in its ongoing mains replacement programme to enhance network safety and efficiency. Customer satisfaction levels were good at 83%.

UE is an electricity distribution business in Victoria with a customer base of 677,000 connections. During the year UE sold 7,833 GWh of electricity. It secured a capital grant from the regulator to deploy dynamic voltage management capabilities across its network to help manage electricity supply during peak utilisation. UE was the only Australian electricity distribution business to be awarded funding under this initiative.

UE introduced a new technology that can automatically locate and isolate faults on high voltage feeders, restoring supply to customers quickly and safely. It is the first organisation in Australia (and the second in the world) to use this Fault Location, Isolation and Service Restoration (FLISR) technology. Following rollout last year, FLISR saved the business more than A$200,000 by restoring supply to customers in less than 60 seconds.

Embracing temporary generation to increase capacity

On behalf of the South Australian Government, SAPN has completed a project to create temporary generation capacity in the region. The project is aimed to avoid rotational load shedding over the next two summers. The company installed and operated nine turbines and six transformers with an aggregate capacity of 276 MW. The Government intends to purchase the generators and move them to a long-term site by 2020. The temporary infrastructure was commissioned in December 2017.

Australian Gas Networks

Australian Gas Networks (AGN) is one of Australia's leading distributors of natural gas and the Group has owned 27.51% of the company since 2014. AGN operates 25,400 km of gas distribution pipelines, transporting over 25% of the natural gas used by residential and commercial customers in Australia annually.

In 2017, AGN delivered 103.6 million GJ, an increase from the 2016 performance of 101.3 million GJ. The company grew its customer base by 2% over 2016 to 1.272 million households and businesses, driven primarily by an increase in domestic customers.

AGN outperformed on key performance targets and bettered its own 2016 performance on the customer service front, including responding to 99% of public leak reports within two hours and exceeding performance target levels for class 1 and 2 leak repairs. Response times for both emergency and customer calls were also ahead of target at 92% within 10 seconds and 85% within 30 seconds respectively. The company's mains replacement programme upgraded 329 km of pipelines.

AGN played a leading role in the production of the Gas 2050 Vision which was released in March 2017 by Energy Networks Australia (ENA) together with four other apex bodies representing the gas industry. The vision highlights both the critical importance of gas in Australia's energy mix and the picture for a decarbonisation pathway for gas through to 2050 and beyond. Work has commenced on the implementation of the vision, with the ENA having publicly released its scoping study on the broad approach to decarbonising gas networks across Australia.

AGN completed construction of a gas pipeline to the Port of Bundaberg in Queensland, a project that supplies natural gas to a new plasterboard factory and which is also expected to contribute to the economic growth of the whole region. The contract for construction work on the critical Murarrie Looping project has been awarded with work to commence in the second half of 2018. This project includes the installation of a second Brisbane River gas pipe crossing, aimed at eliminating the single asset gas pipeline risk currently faced by Brisbane customers.

SA Power Networks

SA Power Networks (SAPN) has been part of the Group since 2000 and is the sole electricity distributor in the state of South Australia. It operates 89,200 km of electricity distribution pipelines.

SAPN sold 10,205 GWh of electricity to 865,000 customers during the year, as compared to 10,188 GWh to 856,000 customers in 2016. Efficiency performance was outstanding and the company was named the most efficient distributor in Australia on a state wide basis by AER for the third year running. By the end of 2017, SAPN had connected 879 MW of distributed solar generation capacity to the network.

Reliability and customer service performance were above statutory targets, qualifying SAPN for a financial incentive from the regulator. 'Annual minutes without supply' per customer for 2017 stood at 140 minutes compared to the annual target of 168 minutes. 77% of faults and emergency calls were answered within 30 seconds against a target of 67.8%.

SAPN experienced a 100% increase in enquiries to connect distributed generation at the commercial size (30 kW and above) to the network, and completed connections for approximately 80% of these projects. The company is closely monitoring this trend and has already established defined processes and governance for dealing with this type of connection.

In September 2017, SAPN launched the 'Enerven' business to handle non-regulated activities such as construction and maintenance services as well as energy solutions. Enerven has won a number of major contracts, including transmission construction and maintenance, the buildout of the new high-speed 'NBN' broadband network, network connection for Bungala Solar Farm, solar installations for commercial customers, and the installation of 30,000 new LED lights for three major councils.

Victoria Power Networks

Victoria Power Networks (VPN) comprises the CitiPower and Powercor electricity distribution businesses. The Group has owned 27.93% of both companies since 2002 and 2000 respectively. CitiPower and Powercor operate 95,300 km of electricity distribution pipelines in Victoria.

VPN distributed 16,689 GWh of electricity during the year, a 1% increase on 2016 levels. New customer connections were 12.3% above 2016 levels at 23,099 connections. Following systematic and proactive investment in the network and customer support, both reliability and customer satisfaction levels were at their highest levels across the two businesses. CitiPower and Powercor customers benefited from network availability of 100% & 99.97% respectively. Combined customer satisfaction was at the highest level to date at 86% and the businesses maintained the lowest rate of complaints compared with all distributors for the second year running.

Powercor opened three new depots across Victoria to guarantee safety and maintain customer service at the highest standards. The company also commissioned a new terminal station at Deer Park to expand supply to western Melbourne. The commissioning of the station is the culmination of eight years of preparations by Powercor, the Australian Energy Market Operator, and a number of other industry participants.

Beon Energy Solutions, a VPN undertaking, connected Victoria's largest, hyperscale data centre, Air Trunk. The 66/22KV substation with diverse high voltage power feed was delivered ahead of schedule. The data centre, located south west of Melbourne, has a total capacity of over 50MW.

VPN's rigorous maintenance programme keeps power lines safe and functioning optimally.

Australian Energy Operations

Australian Energy Operations (AEO) became a Group company in 2012. AEO built, owns and operates 42 km of electricity transmission lines and terminal stations that connect the Mt Mercer and Ararat wind farms to the national grid.

During the year under review, AEO delivered a stable income stream for the Group. The company's revenues from the two wind farms are on a fixed monthly basis irrespective of the volume of units transmitted.

Preliminary works were undertaken in the year to study the feasibility of connecting additional wind farms to AEO's Elaine terminal station, which will serve to expand AEO's revenue base.

MAINLAND CHINA

Jinwan Power Plant has increased steam output and plans to step up production even further.

The Power Assets Group has had a presence in mainland China since 2007. Today, the Group's presence consists of five power companies: two wind farms in Dali (Yunnan province) and Laoting (Hebei province), two coal-fired plants in Zhuhai and Jinwan (Guangdong province), and a cogeneration plant in Siping (Jilin province). The five units have a combined capacity of 2,898 MW.

The Chinese Government is transitioning away from providing subsidies for renewable energy and in July launched the trading of green certificates. Under this scheme, producers of solar and wind energy receive tradeable certificates that can be purchased by private enterprises in the open market. The Group is monitoring developments on an ongoing basis and will take appropriate action to comply with the Government directives.

Zhuhai, Jinwan and Siping power plants

The Group acquired a 45% share in the Zhuhai, Jinwan and Siping thermal generation power plants in 2009. The three plants together have seven coal-fired generating units and a combined capacity of 2,800 MW.

In the context of power sector reform and coal price movements in 2017, the three plants delivered satisfactory results. Total electricity sold stood at 11.99 billion kWh (an increase of 7.4% over 2016), while total heat sold was 4.99 million GJ (an increase of 12.9% over 2016). Both Zhuhai and Jinwan plants achieved the 'Close to Zero' emissions standard and qualified for tariff subsidies during the year.

Typhoon Hato hit Zhuhai in August, forcing temporary outages in the Zhuhai and Jinwan plants.

The Zhuhai power plant produced 6.53 billion kWh of power in 2017. The plant continued to complete its environmental upgrade program, installing the last wet electrostatic precipitator in Unit 1, one of its generating units.

The Jinwan power plant produced 4.65 billion kWh of electricity and 644,811 tons of steam, an increase of 32.4% and 40.4% respectively over 2016. This growth is attributable to an increasing demand for processing steam. Plans are under way to improve the plant's steam supply capability to meet the future growth in demand for steam.

The Siping power plant delivered acceptable performance in 2017, achieving power sent-out of 808.77 million kWh and heat sold of 3 million GJ, on par with 2016 levels. The plant has implemented a comprehensive retrofit scheme for its cogeneration units to improve environmental performance, reducing NO_x, SO_2 and particulate emissions to meet the stringent new emissions caps.

Dali and Laoting wind farms

The Group holds a 45% share in two wind farms in Dali (since 2007) and Laoting (since 2008), with a combined capacity of 97.5 MW.

In 2017, performance was stable with 192 GWh of electricity generated. The renewable energy generated by the two wind farms over the course of 2017, has cumulatively reduced carbon emissions by 200,600 tonnes within the respective provinces.

THAILAND

Ratchaburi Power Company

Ratchaburi power plant achieves all its operational parameters.

Ratchaburi Power Company (RPCL) has been a Group company since 2001. It is a generation company situated in the Ratchaburi province in southern Thailand, with an installed capacity of 1,400 MW. All power generated is sold to the Electricity Generating Authority of Thailand under a 25-year take-or-pay power purchase agreement.

RPCL's electricity generation output in 2017 of 8,749 GWh was in line with its production plan. The plant's generating units achieved availability of 90.1% and 92.6% for Blocks 1 and 2 respectively.

NEW ZEALAND

Wellington Electricity Lines

Wellington Electricity Lines (WELL) has been a Group company since 2008. WELL operates electricity distribution services in New Zealand's Capital City, Wellington, with 4,700 km of electricity distribution lines.

In 2017, WELL distributed 2,326 GWh of electricity to 167,000 customers across domestic, commercial and industrial sectors.

For the regulatory year ended 31 March 2017, the company remained one of New Zealand's most reliable networks, despite exceeding two key system reliability metrics as a result of storm conditions. WELL's system average interruption duration index (and system average interruption frequency index) exceeded the regulatory limits due to storm interruption and an earthquake event in November 2016.

EV adoption in New Zealand is accelerating with the Government seeking to have 64,000 electric vehicles on the roads by the end of 2021. To support this mandate, WELL is working with the Wellington City Council and transport providers to support charging to help the introduction of 10 electric buses to the Wellington area. The company has also undertaken a study to understand the impact EVs would have on the network and the role tariffs could play in influencing EV charging behaviour to manage reduction of peak network loads. This will lead to less demand congestion and more efficient network utilisation and performance.

Proactive network maintenance lies at the heart of WELL's reliability record.

WELL partnered with one of New Zealand's largest energy retailers to trial solar and battery energy storage solutions in the Wellington area. If successful, the trial will enable WELL to evaluate areas where expanded capacity can be provided without having to add to traditional infrastructure in the area. The trial will also enable the company to understand the consumption patterns of households in the area, in order to determine smart tariff structures, strategies to manage peak loads better, and reduce higher demand costs through the introduction of further value added customer services for managing new technology operations across the existing network.

CANADA

HMLP is in the process of expanding its pipeline systems to serve more customers.

The Power Assets Group has had a presence in Canada since 2007, which was further expanded in 2016. Our two operating companies, Canadian Power Holdings and Husky Midstream Limited Partnership, operate in the power generation as well as oil transmission and storage space and are spread across Saskatchewan, Ontario and Alberta.

The evolution of climate policies and energy technologies continued to play an important role in Canada's plans to transition to a lower carbon economy with an increasing emphasis on non-hydroelectric renewables and natural gas. In anticipation of further tightening of carbon limits, we are studying the feasibility of modifying our existing generation infrastructure to improve emissions performance and support distributed intermittent generation.

In this context, Canadian Power Holdings delivered ahead of budget on all operating parameters and achieved improved operating efficiencies compared to the previous year. Husky Midstream Limited Partnership performed well in 2017, with our investment yielding higher earnings and cash distributions than planned.

Canadian Power Holdings

Canadian Power Holdings (Canadian Power) has been a part of the Power Assets Group since 2007. Canadian Power is an electricity generation business which operates the Meridian Cogeneration gas-fired plant (Meridian) in Saskatchewan. The company also owns a 49.99% share of TransAlta Cogeneration, which operates five power plants in Ontario and Alberta. Meridian and TransAlta Cogeneration have capacity of 220 MW and 1,162 MW respectively.

In 2017, the Meridian plant generated 1,664 GWh of electricity and 1,490 kT of steam, compared to 1,762 GWh and 1,448 kT achieved in 2016. Steam was sold to Husky Energy under a long-term offtake contract. Availability performance was 93%, down from 98% in 2016, as a result of a planned outage in the second quarter of 2017. The plant successfully completed a planned outage during a site-wide maintenance turnaround at its thermal host to ensure ongoing reliability.

The five plants operated by TransAlta Cogeneration produced 3,192 GWh of electricity during the year, compared to 4,142 GWh achieved in 2016.

TransAlta Cogeneration's Windsor plant completed an outage to ensure reliable service under a new capacity-based contract with the Ontario Independent Electric System Operator (IESO). The Mississauga plant has been taken offline through an agreement with the IESO, with no associated negative financial impact, to allow the IESO to optimise the supply situation in the region.

Husky Midstream Limited Partnership

Husky Midstream Limited Partnership (HMLP) became part of the Group in 2016. It operates 1,900 km of oil pipelines and the Hardisty terminal (oil storage capacity of 4.1 million barrels) in Alberta and Saskatchewan. Its pipeline gathering system has a capacity of nearly 309,000 barrels per day and the Hardisty Terminal has a throughput of more than 630,000 barrels per day.

In 2017, HMLP served 12 customers on its pipeline system and 56 customers within the Hardisty terminal. With advantaged assets and long-term contracts with major Canadian producers, the investment in HMLP generates secure and predictable returns for the Group.

In 2017, work advanced significantly on the LLB Direct pipeline project. Upon completion in the second half of 2018, the pipeline will transport heavy oil production from Alberta to the Hardisty terminal for blending and distribution to third-party export pipelines. Work was initiated on the second phase of expansion of the Saskatchewan Gathering System, which will transport heavy oil from Saskatchewan to the Hardisty terminal. Additional connectivity projects are underway in Hardisty to provide customers with increased market flexibility for crude oil transportation.

Dutch Enviro Energy Holdings B.V.

Dutch Enviro Energy Holdings B.V., which in turn owns AVR-Afvalverwerking B.V. (AVR), is an energy-from-waste producer based in Rotterdam, that has been a member of the Group since 2013. AVR has a total installed electricity generation capacity of 145 MW and thermal capacity of 700 MWth (heat and steam), of which approximately 60% is classified as renewable energy.

In 2017, AVR continued their stable production process and energy output of steam, heat and electricity, generating 410 kT, 5,540 TJ and 527 GWh respectively. Plant availability remained strong and production performance was optimised.

AVR's biomass-fired power plant in Rozenburg underwent an upgrade with the installation of a condenser and associated pipeline connections. The modification enables the plant to expand its supply portfolio, offering power and heat to the Rotterdam district, as well as steam to industrial customers. The plant is expected to commence operations in combined heat and power mode from 2018, delivering approximately 370 GWh of renewable energy each year.

This year, AVR and its long-term partner, the Dutch Packaging Waste Fund, embarked on a plan to build municipal waste separation facilities at its plant in Rozenburg. This major initiative will enable AVR to separate and recycle plastics from residual municipal waste. It creates a new proposition for existing and future municipal clients and will lead to additional revenue streams going forward.

AVR's Rotterdam plant expands its supply of steam to industrial customers.

NETHERLANDS

In October 2017, AVR launched a sustainable paving stone in partnership with the recycling and concrete industries. The stone is made partly from residues of the incineration process of AVR, which are treated, cleaned and used to create a clean granulate that can be used in the concrete industry. The granulate is both strong and stable and an effective replacement for sand and gravel in the production of recyclable concrete.

Iberwind's ongoing wind farm repowering programme improves output and efficiency.

Iberwind

PORTUGAL

Iberwind, a member of the Power Assets Group since 2015, is a wind energy company based in Oeiras, Portugal, with 31 wind farms. With an installed capacity of 726 MW and 339 wind turbines, Iberwind is an important part of the Group's renewables portfolio and the third largest wind energy generator in Portugal.

During 2017, Iberwind produced 1,756 GWh of electricity, avoiding near 700,000 tonnes of CO_2 emissions.

Iberwind runs an ongoing repowering programme to modernise its wind farms, an exercise that improves efficiency and output. Repowering ensures wind turbines do not just remain productive, but perform better than ever. Following the successful repowering of the Lagoa Funda wind farm in 2011 that almost doubled capacity, Iberwind completed repowering the Villa Lobos wind farm and operations recommenced in April 2017.

SAPN's Stobie poles become art installations in a statewide community initiative.

This report provides an update of the environmental, social and governance (ESG) achievements and progress of Power Assets Holdings Limited ("Power Assets" or together with its subsidiaries, associates and joint ventures, the "Group") during the year ended 31 December 2017. It is prepared based on the ESG Reporting Guide under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

It covers the key businesses of the Group, including the generation of thermal and renewable power, the transmission of electricity, oil and gas, as well as the distribution of electricity and gas in the United Kingdom, Hong Kong, Australia, New Zealand, mainland China, the Netherlands, Canada, Thailand, and Portugal. The report summarises the key initiatives of our businesses and showcases how we deliver value to our stakeholders. The examples and initiatives selected have been presented in four chapters: environment, employment and labour practices, operating practices, and community investment.

Our Approach to ESG

Our strong belief in responsible and sustainable growth is embedded in the way we run our operations. Providing reliable infrastructure services and impeccable customer experience top our ESG priorities. We aspire to strike a balance between managing key ESG risks and unlocking opportunities to create long-term value for our stakeholders and our business.

The Board oversees the overall direction of our ESG strategies and practices in this regard and we manage our ESG performance with transparency and accountability. We manage ESG challenges and opportunities at the Group as well as at the business levels in a way that best suits the nature, scale, and geography of the specific company concerned.

Stakeholder Engagement and Materiality Assessment

As a business with diverse operations, we interact daily with a wide range of stakeholders, including employees, customers, suppliers, investors, regulators, non-governmental organisations and the community. We engage our stakeholders in on-going dialogues through various channels such as meetings, workshops, seminars, interviews and surveys. Listening to our stakeholders helps us identify their most pressing concerns, as well as their expectations on how we should address them. We have prioritised the material ESG issues based on inputs from our stakeholders in this report.

Environment

We place great importance on our responsibility to the environment. Each of the Group's operating businesses strives to lower its environmental footprint continuously, through emissions reduction initiatives and the efficient use of resources.

Emissions

We have a range of rigorous measures in place to minimise emissions as well as waste discharge.

Air and Greenhouse Gas (GHG) Emissions

Power generation is considered one of the key contributors to air and GHG emissions. Emissions control measures undertaken by HK Electric include the use of Selective Catalyst Reduction systems for two new gas-fired generating units under construction. By the time the second unit is commissioned in 2022, the emissions of sulphur dioxide, nitrogen oxide and respirable suspended particulates will be reduced by 75%-90% as compared to the levels in 2005.

Northern Gas Networks (NGN) has a target to reduce its business carbon footprint by 0.5% year-on-year. Programmes such as depot refurbishment and vehicle replacement are being implemented. Over the five year period of 2013 to 2017, carbon emissions associated with NGN's gas and electricity usage have been reduced by 8% and 6% respectively, while business mileage of fleet vehicles has been reduced by 18%, exceeding the set targets.

As part of an eight-year business plan ending 31 March 2021, Wales & West Utilities (WWU) continues to replace old metallic gas pipes and is making improvements in the management of gas pressure in the gas distribution network to reduce gas leakage and the associated emissions. Approximately 440 km of old metallic gas pipes are being replaced per annum. Fleet vehicles are also within the scope of the replacement programme; as of today, 95% of vehicles are Euro V or VI compliant.

UK Power Networks (UKPN) uses low-emission vehicles in its fleet to create a positive environmental impact. It has been replacing fleet vehicles since 2014. Currently, the average carbon factor of vehicles owned by UKPN is 36.7%, which is below average.

In addition to lowering emissions at source, our businesses also promote the use of renewable energy. Victoria Power Networks, an electricity distributor, has installed solar panels and rooftop solar generation units at most of its depots to reduce the use of fossil fuel and associated GHG emissions.

Solar panels installed on the roofs of Powercor's depots have cut carbon footprint and emissions.

Developing clean energy businesses is another way to contribute to environmental protection. The Group's renewable energy operations include the Iberwind wind

NGN's emissions reduction initiatives include fleet replacement.

energy business in Portugal, wind farms at Dali (Yunnan province) and Laoting (Hebei province) in mainland China, and wind and solar power facilities in Hong Kong.

Waste

We are extremely careful about managing waste generated from our operations, including the by-products of energy generation. Our collective efforts to reduce waste involve our employees, contractors, suppliers, regulators and other third parties. We advocate waste reduction from source and encourage the reuse and recycling of waste for other projects.

For example, NGN and WWU, both gas distribution networks, typically generate excavation spoil when conducting their operational activities. Both companies have set a target on limiting the amount of spoil being transported to landfill. Each year, NGN generates approximately 180,000 tonnes of excavation spoil while its annual target for spoil sent to landfill is no more than 13,000 tonnes. In the period 2015 to 2017, excavation spoil disposal to landfill by NGN and its supply chain reduced by 64% to 6,232 tonnes. However, WWU's target is more aggressive, as it aims to minimise waste to landfill through the use of alternative waste treatment methods.

HK Electric on the other hand, collects the gypsum and ash generated during power generation and reuses it for industrial purposes.

The Group handles wastewater with care, and actively seeks ways to reduce water consumption and minimise the impact on the surrounding land and environment.

AVR-Afvalverwerking B.V. (AVR) in the Netherlands reduces the level of antimony, a toxic heavy metal, in its process water, by applying enhanced antimony recovery measures.

Seabank Power Limited increases the concentration factor of its cooling water to reduce the purging of water and the use of makeup water. This has lowered the need for chemical treatment to the cooling water which in turn helps reduce wastewater generation.

Meridian Power station has adopted the closed-loop system at its Husky Upgrader project where no wastewater is discharged into the environment.

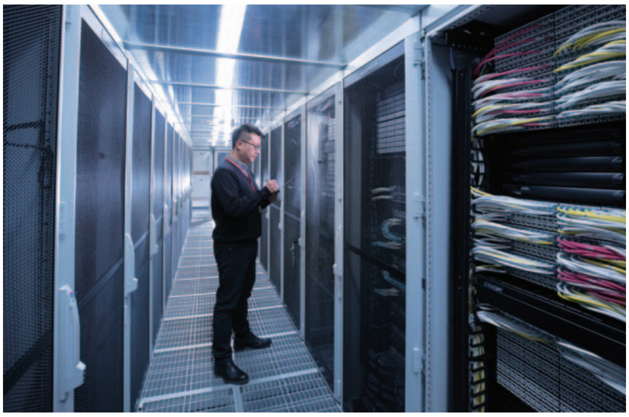
Use of Resources

Energy

The Group endeavours to reduce its resource consumption by striving for optimal resource use across its operations.

A wide range of energy efficiency programmes have been launched by businesses to this end. In WWU, approximately 80% of depots, offices and stores have been installed with LED lighting and active sensors. Electricity consumption for both operations and office use was reduced by 42% since March 2013. All operational pressure reduction stations at WWU have been refurbished, reducing energy usage by 60%.

Some of our offices are designed and constructed in line with sustainability standards. For example, HK Electric's new IT Service Operations Centre has obtained the LEED Platinum rating of the U.S. Green Building Council in April 2017.



HK Electric launches two new data centres equipped with robust, secure and energy efficient systems.

Iberwind's São Macário and Bornes wind farms implement wildlife monitoring to minimise impact on the local fauna.

Water

Water is one of the key resources used in the power generation process. Our water saving measures focus on reuse and recycling. At the Lamma Power Station, HK Electric collects and reuses rainwater and plant processing water which would have otherwise been discharged directly into the environment. This initiative saved about 112,000 m^3 of water in 2017.

Environment and Natural Resources

The Group is mindful about the impact of its actions on bio-diversity and local ecosystems. A range of environmental initiatives are carried out at its sites to protect the same.

For example, Iberwind works with an experienced environmental team that specialises in areas like landscape engineering, archaeology and biology. Different programmes and initiatives are implemented to avoid, minimise and compensate for the impact on local ecosystems resulting from wind farm construction and operations. Wetland management at Lagoa Funda wind farm and bird-of-prey impact mitigation are two of the most interesting measures adopted. Others include wildlife monitoring at wind farms like São Macário and Bornes.

Regulatory Compliance

During the reporting period, we were not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to air and GHG emissions, discharge into water and land, and generation of hazardous and non-hazardous wastes.

Employment and Labour Practices

Our philosophy is that a happy and motivated workforce is the driving factor for sustained success. We give top priority to employee management. Not only are we dedicated to cultivating a healthy and safe working culture, we are also invested in securing and nurturing talent through training and development programmes that help our employees achieve their potential.

Employment

Much of the Group's success is attributable to its highly qualified and dedicated team. Our businesses have been working actively to attract the best people and motivate them with a rewarding career, equipping them with the necessary skills and knowledge.

AVR, our energy-from-waste business owned by Dutch Enviro Energy Holdings B.V., encourages its people to develop their career with the company by supporting internal recruitment. New opportunities are first advertised to existing staff.

Our businesses recognise employees' contributions fairly and objectively by implementing equitable remuneration policies. To incentivise staff, our remuneration mechanisms are reviewed and re-adjusted regularly to remain competitive vis-a-vis the market.

The Iberwind wind energy business in Portugal engaged an independent third party to compare Iberwind's remuneration packages against prevailing market rates and the result confirmed that Iberwind is competitive.

WWU introduced a flexible benefits scheme in November 2015 that allows employees to choose alternative benefits alongside the standard benefits package.

We seek to protect the well-being of our staff by encouraging a healthy work-life balance. To ease work related stress, we offer a range of generous paid-leave entitlements and flexible work arrangements. AVR allows employees to work part-time in shifts. A series of "Be Fit" workshops and lifestyle programmes on topics like exercise, eating and stress management was hosted under the Sustainable Employability Programme to encourage healthier living.

We believe in the vast benefits and positivity that diversity brings to our corporate culture. A Diversity Committee comprising representatives from different business units has been established in United Energy to raise awareness on diversity among the workforce.

We strictly enforce an anti-discrimination policy and have zero tolerance for harassment in any form. All employees, irrespective of race, gender or religious beliefs, receive equal opportunities and our recruitment and promotion processes are based purely on performance.

Employees have numerous channels to express their concerns and communicate with the management. We regularly conduct surveys and hold seminars, workshops and forums to collect views from our people with the aim of improving our operational practices. These events also help accumulate innovative ideas that can stimulate business growth.

Smiles from the 2017 cohort of apprentices and graduates at WWU.

UKPN has increased its employee engagement level through its "Everybody Matters" framework developed by its Human Resources department. Monthly polling and an annual survey were carried out to assess the success of the programme.

UKPN's apprenticeship scheme provides on-the-job training like smart meter installation.

Development and Training

We invest heavily in training to keep our people abreast of the latest developments in the industry and to, help enhance their knowledge and performance. Our training programmes are developed by the respective business units so as to be most relevant to their specific needs. Energy Developments Pty Ltd has created a training portal which can be accessed by all employees at their convenience, enabling consistent and efficient delivery of a range of training and development modules.

Subsidies are provided for eligible external training courses to encourage all employees to further refine their skills and abilities, to help us achieve our goal of delivering excellent customer service. HK Electric has been sponsoring employees to pursue Bachelor Degrees since 2011 and in 2017 the scholarship was extended to the Master of Business Administration Degree as well.

Health and Safety

The Group believes that the safety of its employees is paramount. Many of our businesses have their safety management systems certified in accordance with local and international standards. Furthermore, effective occupational hazard controls have been implemented to safeguard our employees.

Wellington Electricity Lines engaged a nurse on a monthly basis, to review employees' health and perform work site assessments, with a mechanism to support occupational health and safety.

One of our priorities in promoting health and safety in the workplace is to encourage our employees to take ownership of improving safety awareness and practices.

HK Electric has initiated the Safety Summit for sharing good practices and promoting a culture of safety. Our nine major business partners were also invited to share their views on health and safety promotion, and related challenges. UKPN and AVR's efforts included raising awareness about safety hazards and safety lessons learned. This extended to external parties also, through Safety Days organised for schools and contractors.

Labour Standards

Stringent measures are taken to ensure adherence to international and local labour standards. Internal controls have been implemented to detect any use of child or forced labour in our operations along with procedures to respond to any unethical practices that may arise.

Regulatory Compliance

During the reporting period, we were not aware of any non-compliance with laws and regulations having a significant impact on the Group relating to employment and labour practices; and occupational health and safety. Nor did we identify any incidents relating to the use of child or forced labour.

Safety days like this one at AVR are used to enhance health and safety awareness across the company.

Operating Practices

The Group understands it is imperative to manage our relationships with our suppliers and customers in a responsible and sustainable manner. We are dedicated to delivering consistent and quality services to our customers and collaborating with our suppliers to create win-win outcomes. We actively seek customer feedback and adopt their suggestions wherever applicable, in order to upgrade our services and improve customer satisfaction.

Supply Chain Management

We are well aware of the environmental and social impacts that may ensue along the supply chain, and we are committed to minimising such risks in collaboration with our suppliers. ESG-related factors form an important part of the assessment process and have due weightage in our consideration of potential suppliers and contractors.

Regular monitoring, audits and evaluations are carried out to assess the performance of our suppliers. In addition, we work closely with our suppliers to ensure that our requirements and shared goals are understood. Through these regular conversations, we are able to maintain a mutually beneficial relationship.

Product Responsibility

We take pride in providing reliable services. Throughout our businesses, we utilise complex monitoring systems that can detect potential disturbances in near-real time, allowing us to prepare in advance and take precautionary measures. Our systems also allow us to pinpoint disruptions in our processes, where we can take swift, precise actions to resolve the problem and restore services to our customers. These controls help us maintain high service quality and reliability. For instance, HK Electric has maintained a world-class supply reliability of over 99.999% since 1997.

Customer Satisfaction

Regular communication with customers is essential to delivering a high level of customer satisfaction. We frequently interact with our customers through various means including telephone, SMS alerts and other modern technology platforms.

Additionally, our businesses conduct regular surveys to assess customer satisfaction with respect to different aspects of our services. Prompt follow up is ensured to address relevant issues.

Over 80% of queries received by WWU are resolved within one working day. Any queries not resolved within one working day are reviewed by the executive team.

WWU prioritises customer communications and aims to resolve all queries within one day.

Customer Data Privacy

We believe that protecting customer data is critical to building a trusting relationship between our companies and our customers. Data privacy policies implemented at the business level guide how we collect and use personal information. Access to customer data is restricted to authorised personnel strictly on a need-to-know, need-to-use basis. Systems and controls are in place and updated as required to assist in the prevention and detection of customer data loss. We emphasise the importance of protecting customer data privacy to all our employees through internal communication and training.

Anti-corruption

The Group has high expectations of its staff's integrity and honesty. Our management has zero-tolerance for corruption and fraud. Anti-bribery and anti-corruption standards have been incorporated in our policies and operating practices and these are communicated to our employees as well as external stakeholders. Power Assets has established a whistle-blowing mechanism to allow stakeholders to report suspected activities in a confidential manner. Reported cases are subject to independent investigations and proper follow up is ensured. Cases are reported by the Internal Audit Department to the Audit Committee and senior management.

Regulatory Compliance

We were not aware of any incidents of non-compliance with laws and regulations that have a significant impact on the Group concerning health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress during the year; nor were we aware of any breach of laws and regulations that have a significant impact on the Group relating to bribery, extortion, fraud and money laundering.

HK Electric's volunteers reach out to senior citizens through home visits and talks under the CAREnJOY programme.

Community Investment

Our philosophy is that running a successful business is about achieving economic viability and fulfilling social responsibility. Our businesses have made significant contributions to the socio-economic health of their communities by providing aid and education to the disadvantaged and taking on major roles in promoting environmental conservation and healthy living.

Supporting the Disadvantaged

As a business that provides essential support to many communities, we believe that businesses should play their part in tackling societal challenges. In line with the United Nations Sustainable Development Goals, our community efforts assist those in need.

To support the rapidly ageing population in Hong Kong, HK Electric continues to run the "CAREnJOY" programme to show care and concern to elderly singles. Under this programme, company volunteers team up with elderly ambassadors to visit old people living on their own and help them buy bulky necessities. In 2017, the programme was expanded to include community gatherings and electricity safety talks and it reached out to about 2,000 elderly.

Education and Lifelong Learning

The Group believes that education is the foundation of a knowledge-based, inclusive society. Our businesses collaborate with various organisations to promote lifelong learning.

Ratchaburi Power Company (RPCL) has supported a number of students through its scholarship programme. In 2017, a total of 1,100 scholarships were granted.

HK Electric continued to operate the U3A Network in Hong Kong, providing learning opportunities for active retirees. Over the last 11 years, the Network has conducted more than 780 courses for 14,000 participants.

Greener Living

We leverage our business strengths for community projects. One of our goals is to mobilise and collaborate with the local communities to explore ways of providing cleaner energy and enabling greener living.

Since 2003, the HK Electric Smart Power Campaign has been promoting energy saving and a low-carbon lifestyle, involving tens of thousands of people every year. In February 2017, the three outstanding "Happy Green Community Ambassadors" of 2016 worked as shadow Environmental Engineers with HK Electric and its Managing Director shared his success story. More than 50 secondary school students joined as Ambassadors in 2017 to receive training and acted as guides at roving exhibitions. The "Green Energy Dreams Come True" programme funded 12 projects by secondary school students to transform their green ideas into reality.

Dampier Bunbury Pipeline and DBP Development Group have entered a two-year partnership with Landcare Australia, a non-profit organisation leading both the promotion and provision of financial support to the national resource management programme in Australia. Projects that help improve bio-diversity and productivity on land adjacent to our facilities will be funded.

Health and Well-being

A community's health is key to its prosperity. Sporting events have extraordinary socio-economic and health values that can bring communities together. RPCL has continued its Mobile Clinic programme, providing free eye clinic services to the local community in Ratchaburi, Thailand. Over 1,300 villagers have benefited in 2017. HK Electric also arranged for free flu vaccinations to be given to its staff.

UKPN staff get involved in initiatives such as this charity bike ride to support the local community.

Environmental KPIs

	2017
NO_x emissions (tonne)	6,816
SO_x emissions (tonne)	1,292
Particulate matter emissions (tonne)	181
Total GHG emissions (tonne CO_2e)	12,195,081
Greenhouse gas emissions (Scope 1) (tonne CO_2e)	10,642,009
Greenhouse gas emissions (Scope 2) (tonne CO_2e)	1,553,072
Total hazardous waste produced (tonne)	66,649
Total non-hazardous waste produced (tonne)	648,508
Total energy consumption ('000 kWh)	39,500,509
Total energy consumption intensity (kWh/revenue in HK$)	1.49
Total direct energy consumption ('000 kWh)	36,505,422
Total direct energy consumption intensity (kWh/revenue in HK$)	1.38
Gasoline/Petrol ('000 kWh)	66,100
Diesel ('000 kWh)	265,295
Gas (exclude town gas and natural gas) ('000 kWh)	68
Natural gas ('000 kWh)	12,673,558
Other fuel ('000 kWh)	23,500,401
Total indirect energy consumption ('000 kWh)	2,995,087
Total indirect energy consumption intensity (kWh/revenue in HK$)	0.11
Electricity ('000 kWh)	2,995,087
Water consumption ('000 m^3)	7,430
Water consumption intensity (m^3/revenue in '000 HK$)	0.28
Total paper used for finished products (tonne)	8.48

Note: We have included the Group's share of the environmental KPIs for the year ended 31 December 2017 in this report.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors – Executive Directors

FOK Kin Ning, Canning *Chairman*

Aged 66. Appointed to the Board in 1985 and became the Chairman in 2005. He is a Director of certain subsidiaries of the Company. He is also the Chairman of HK Electric Investments Manager Limited ("HKEIML") which is the trustee-manager of HK Electric Investments ("HKEI"), HK Electric Investments Limited ("HKEIL") and its wholly-owned subsidiary, The Hongkong Electric Company, Limited ("HK Electric"). Mr. Fok is an Executive Director and Group Co-Managing Director of CK Hutchison Holdings Limited ("CK Hutchison"), and the Deputy Chairman of CK Infrastructure Holdings Limited ("CKI"). Mr. Fok is the Chairman of Hutchison Telecommunications (Australia) Limited ("HTAL"), Hutchison Telecommunications Hong Kong Holdings Limited and Hutchison Port Holdings Management Pte. Limited ("HPHMPL") which is the trustee-manager of Hutchison Port Holdings Trust ("HPH Trust"), and the Co-Chairman of Husky Energy Inc. ("Husky Energy"). All the companies mentioned above, except HKEIML, HK Electric and HPHMPL, are listed companies, and HPH Trust and HKEI are listed business trusts. Mr. Fok acts as a Director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). He holds a Bachelor of Arts degree and a Diploma in Financial Management, and is a Fellow of Chartered Accountants Australia and New Zealand.

TSAI Chao Chung, Charles *Chief Executive Officer*

Aged 60. Appointed to the Board and Chief Executive Officer in January 2014. He has been with the Group since June 1987. Mr. Tsai is the General Manager of Power Assets Investments Limited, a wholly-owned subsidiary of the Company. He is also a Director or Alternate Director of most of the subsidiaries and certain joint ventures of the Company. Mr. Tsai has been responsible for the Group's investments outside Hong Kong since 1997. He holds a Bachelor of Applied Science Degree in Mechanical Engineering, and is a Registered Professional Engineer and a Chartered Engineer.

CHAN Loi Shun

Aged 55. Appointed to the Board in June 2012. Mr. Chan is a Director of all the subsidiaries and certain joint ventures of the Company. He is also an Executive Director of HKEIML which is the trustee-manager of HKEI, and HKEIL, and a Director of HK Electric. Mr. Chan is an Executive Director and Chief Financial Officer of CKI, a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Chan joined Hutchison Whampoa Limited ("HWL") in January 1992 and has been with the Cheung Kong (Holdings) Limited ("CKH") Group since May 1994. All the companies mentioned above, except HKEIML, HK Electric, CKH and HWL, are listed companies, and HKEI is a listed business trust. He also holds directorships in certain substantial shareholders of the Company. Mr. Chan is a fellow of the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Association of Chartered Certified Accountants, and is also a member of the Institute of Certified Management Accountants (Australia).

Andrew John HUNTER

Aged 59. Appointed to the Board in 1999, prior to which he was Finance Director of the Hutchison Property Group. Mr. Hunter was Group Finance Director from 1999 to January 2006, and is a Director of certain joint ventures of the Company. Mr. Hunter is currently Deputy Managing Director of CKI, a listed company and a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Hunter also holds directorships in certain companies controlled by certain substantial shareholders of the Company. Mr. Hunter holds a Master of Arts degree and a Master's degree in Business Administration and is a member of the Institute of Chartered Accountants of Scotland and of the HKICPA. He has over 35 years of experience in accounting and financial management.

Board of Directors – Non-executive Director

Neil Douglas MCGEE

Aged 66. Appointed to the Board in 2005 as an Executive Director, and re-designated as a Non-executive Director in August 2012 and as an Executive Director in January 2014. He was Group Finance Director from February 2006 to August 2012. Mr. McGee has held various legal, corporate secretarial and finance positions with the Group and the CK Hutchison Group. He is also a Director or Alternate Director of a subsidiary and certain joint ventures of the Company. Mr. McGee is currently the Managing Director of Hutchison Whampoa Europe Investments S.à r.l. and a Director of Husky Energy, a listed company. Mr. McGee holds a Bachelor of Arts degree and a Bachelor of Laws degree.

WAN Chi Tin

Aged 67. Appointed to the Board in 2005. He was Group Managing Director from January 2013 to January 2014. Mr. Wan is also a Director of most of the subsidiaries and certain joint ventures of the Company. He is also the Chief Executive Officer and an Executive Director of HKEIL, a company listed together with HKEI, an Executive Director of HKEIML which is the trustee-manager of HKEI and the Managing Director of HK Electric. He has worked for the Group since 1978, holding various positions including Director of Engineering (Planning & Development), Chief Executive Officer of Powercor Australia Limited and CitiPower Pty., associate companies of the Group in Australia. Mr. Wan holds a Bachelor of Science degree in Electrical Engineering and is also a Chartered Engineer. He is an Honorary Fellow of the Energy Institute, a Fellow of the Institution of Engineering and Technology and a Fellow of The Hong Kong Institution of Engineers. He is the Vice Chairman of the Engineers Registration Board of Hong Kong and a member of the Audit Committee of The University of Hong Kong.

LI Tzar Kuoi, Victor

Aged 53. Appointed to the Board in 1994 and re-designated from an Executive Director to a Non-executive Director in January 2014. He is also a Director of a joint venture of the Company. He is an Executive Director, Group Co-Managing Director and Deputy Chairman of CK Hutchison. Mr. Li is an Executive Director, Managing Director and Deputy Chairman, and the Chairman of the Executive Committee of CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited). Mr. Li is the Chairman of CKI and CK Life Sciences Int'l., (Holdings) Inc. and the Co-Chairman of Husky Energy. Mr. Li is also a Non-executive Director of HKEIML which is the trustee-manager of HKEI, a Non-executive Director and the Deputy Chairman of HKEIL and a Director of HK Electric. All the companies mentioned above, except HKEIML and HK Electric, are listed companies, and HKEI is a listed business trust. He is also the Deputy Chairman of Li Ka Shing Foundation Limited, Li Ka Shing (Overseas) Foundation and Li Ka Shing (Canada) Foundation, and a Director of The Hongkong and Shanghai Banking Corporation Limited. Mr. Li serves as a member of the Standing Committee of the 13th National Committee of the Chinese People's Political Consultative Conference of the People's Republic of China. He is also a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development of the Hong Kong Special Administrative Region, and Vice Chairman of the Hong Kong General Chamber of Commerce (the "Chamber"). Mr. Li is also the Honorary Consul of Barbados in Hong Kong. He acts as a Director of certain substantial shareholders of the Company within the meaning of Part XV of the SFO, and a Director of certain companies controlled by certain substantial shareholders of the Company. He holds a Bachelor of Science degree in Civil Engineering, a Master of Science degree in Civil Engineering and an honorary degree, Doctor of Laws, honoris causa (LL.D.).

Board of Directors – Independent Non-executive Directors

IP Yuk-keung, Albert

Aged 65. Appointed to the Board in January 2014. Mr. Ip is an international banking and real estate professional with over 30 years of banking experience in United States, Asia and Hong Kong. He was formerly Managing Director of Citigroup and Managing Director of Investments at Merrill Lynch (Asia Pacific). Mr. Ip is Adjunct Professor of and advisor to a number of universities in Hong Kong, United States and Macau. He is a Council Member of The Hong Kong University of Science and Technology and a Trustee of the Board of Trustees of Washington University in St. Louis. Mr. Ip is an Honorary Fellow of Vocational Training Council and a Beta Gamma Sigma Honoree at City University of Hong Kong and The Hong Kong University of Science and Technology. Mr. Ip is the Executive Director and Chief Executive Officer of LHIL Manager Limited which is the trustee-manager of Langham Hospitality Investments, and Langham Hospitality Investments Limited, and a Non-executive Director of Eagle Asset Management (CP) Limited which is the manager of Champion Real Estate Investment Trust. He is also an Independent Non-executive Director of Hopewell Highway Infrastructure Limited, Hopewell Holdings Limited, TOM Group Limited and Lifestyle International Holdings Limited. All the companies mentioned above except for LHIL Manager Limited and Eagle Asset Management (CP) Limited are listed companies, and Langham Hospitality Investments is a listed fixed single investment trust and Champion Real Estate Investment Trust is a listed real estate investment trust. Mr. Ip was formerly an Independent Non-executive Director of AEON Credit Service (Asia) Company Limited and New World China Land Limited. Mr. Ip holds a Bachelor of Science degree in Applied Mathematics and Computer Science, a Master of Science in Applied Mathematics and a Master of Science in Accounting and Finance.

Ralph Raymond SHEA

Aged 84. Appointed to the Board in 1985. Mr. Shea has been an Independent Non-executive Director of HKEIML which is the trustee-manager of HKEI, and HKEIL which is a company listed together with HKEI, and a Director of HK Electric, since October 2015. Mr. Shea is a solicitor of England and Wales and of Hong Kong.

WONG Chung Hin

Aged 84. Appointed to the Board in 1985. He is an Independent Non-executive Director of CK Hutchison, a listed company and a substantial shareholder of the Company within the meaning of Part XV of the SFO. Mr. Wong was previously a Director of HWL and an independent non-executive director of The Bank of East Asia, Limited (a listed company). Mr. Wong is a solicitor.

WU Ting Yuk, Anthony

Aged 63. Appointed to the Board in June 2014. He is a member of Standing Committee of the Chinese People's Political Consultative Conference National Committee. Mr. Wu was formerly the chairman of the Hong Kong Hospital Authority, the chairman of the Bauhinia Foundation Research Centre, and an independent non-executive director of Fidelity Funds and Agricultural Bank of China Limited. He also served as the chairman, and is currently a member of the General Committee, of the Chamber. Mr. Wu is a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and a member of the Task Force on Land Supply of the Hong Kong Special Administrative Region. Mr. Wu is a member of the People's Republic of China State Council's Medical Reform Leadership Advisory Committee, an advisor of the Public Policy Advisory Committee of the National Health and Family Planning Commission of the People's Republic of China, the Principal Advisor to the State Administration of Traditional Chinese Medicine of the People's Republic of China and a member of the Chinese Medicine Reform and Development Advisory Committee of the People's Republic of China. He is also the Chief Advisor to the Bank of Tokyo-Mitsubishi UFJ, Ltd., the Chairman of the China Oxford Scholarship Fund and an Honorary Professor of Faculty of Medicine of the Chinese University of Hong Kong and Peking Union Medical College Hospital. Mr. Wu is the Deputy Chairman and executive director of Sincere Watch (Hong Kong) Limited, and an independent non-executive director of Guangdong Investment Limited and China Taiping Insurance Holdings Company Limited, all of which are listed companies. Mr. Wu is an Honorary Fellow of Hong Kong College of Community Medicine. He is a Fellow of the HKICPA and the Institute of Chartered Accountants in England and Wales, and an Honorary Chairman of The Institute of Certified Management Accountants (Australia) Hong Kong Branch.

Senior Management

CHAN Kee Ham, Ivan

Aged 55. Chief Financial Officer, has been with the Group since May 2012. He is also the Chief Planning and Investment Officer of CK Infrastructure Holdings Limited. He has over 30 years of experience in investment, banking and finance. He holds a Bachelor's degree in Science, a Bachelor's degree in Chinese Law and a Master's degree in Business Administration.

FUNG Siu Tong, Thomas

Aged 49. Assistant General Manager (Business Development), has been with the Group since September 1990. He is responsible for business development activities which include both acquisition and greenfield development globally. He holds a Bachelor of Science degree in Mechanical Engineering.

Jeffrey KWOK

Aged 60. Senior Manager (Business Development), has been with the Group since September 1981. He is responsible for both greenfield development and acquisition activities in various countries and assumes active management role in some of the Group's investments. He holds a Master of Science degree in Engineering and is a Chartered Engineer in the United Kingdom, a member of The Hong Kong Institution of Engineers and the Institution of Mechanical Engineers in the United Kingdom.

NG Wai Cheong, Alex

Aged 48. Group Legal Counsel and Company Secretary, has been with the Group since November 2008. Mr. Ng is also the Group Legal Counsel and Company Secretary of HK Electric Investments Manager Limited (the trustee-manager of HK Electric Investments) and HK Electric Investments Limited. He has over 15 years of experience in legal, regulatory and compliance fields. Mr. Ng holds a Bachelor's degree in Science and a Bachelor's degree in Laws. He was admitted as a solicitor in Hong Kong and in England and Wales.

PAK Tak Kei, Keith

Aged 53. Senior Manager (Business Development), has been with the Group since December 1993. He is responsible for initiation of the Group's investments globally. He holds a Bachelor of Engineering degree in Mechanical Engineering, a Master of Science degree in Building Services Engineering and a Master of Business Administration degree. He is a Chartered Engineer in the United Kingdom, a member of The Hong Kong Institution of Engineers and the Institution of Mechanical Engineers in the United Kingdom.

YU Ka Man, Jenny

Aged 45. Senior Manager (International Business), joined the Group in September 2016 and has over 15 years of experience in energy industry with international business exposure. She is responsible for asset management of the Group's investments globally, and assumes active role in new energy development projects. Miss Yu holds a Master of Business Administration degree and is a fellow of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Company recognises that sound and effective corporate governance practices are fundamental to the smooth, effective and transparent operation of a company and its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholder value. The Group's corporate governance policy is designed to achieve these objectives and is maintained through a framework of processes, policies and guidelines.

The Board delegates its responsibility for performing corporate governance duties to the Audit Committee. At its meetings held in March and July 2017, the Audit Committee reviewed the governance structure of the Group, the records of continuous professional development activities of Directors and senior managers in 2016 and the half year to 30 June 2017, the compliance status of the Corporate Governance Code for the year 2016 and the first six months of 2017, and the corporate governance disclosure in the 2016 Corporate Governance Report and the interim report 2017. The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2017, except as noted hereunder.

Board of Directors

The Board, led by the Chairman, is responsible for the approval and monitoring of Group-wide strategies and policies, approval of annual budgets and business plans, evaluation of the performance of the Group, and oversight of management. Management is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

During 2017, the Board comprised the following Directors and the record of attendance of meetings in 2017 of each Director is as follows:

Directors	Board Meetings	Audit Committee Meetings	Remuneration Committee Meeting	Meetings between Chairman and Non-executive Directors	General Meeting held on 14 March 2017	Annual General Meeting held on 10 May 2017
Executive Directors						
Fok Kin Ning, Canning (Chairman)	3/4	–	0/1	1/1	√	√
Tsai Chao Chung, Charles (Chief Executive Officer)	4/4	–	–	–	√	√
Chan Loi Shun	4/4	–	–	–	√	√
Andrew John Hunter	4/4	–	–	–	√	√
Neil Douglas McGee	4/4	–	–	–	√	√
Wan Chi Tin	4/4	–	–	–	√	√
Non-executive Director						
Li Tzar Kuoi, Victor	4/4	–	–	1/1	√	√
Independent Non-executive Directors						
Ip Yuk-keung, Albert	4/4	3/3	–	1/1	x	√
Ralph Raymond Shea	4/4	3/3	1/1	1/1	√	√
Wong Chung Hin	3/4	3/3	1/1	1/1	√	√
Wu Ting Yuk, Anthony	4/4	–	–	1/1	√	√

Biographical details of the current Directors are set out in the "Board of Directors and Senior Management" section on pages 32 to 35 of the Annual Report. An updated list of Directors containing biographical information and identifying the Independent Non-executive Directors is maintained on the website of the Company. The names of all Directors and their role and function are posted on the website of Hong Kong Exchanges and Clearing Limited ("HKEX").

The Board meets at least four times a year. Additional board meetings will be held when warranted. Regular meetings of a year are scheduled during the last quarter of the preceding year providing Directors with adequate time to plan their schedules to attend. The Directors may attend meetings in person, by telephone or other electronic means in accordance with the Company's articles of association. Throughout the year, the Directors also participate in the consideration and approval of matters by way of written resolutions, which are circulated to Directors together with supporting explanatory write-up and coupled with briefings from the Chief Executive Officer or the Company Secretary as required. Directors are required to declare their interests, if any, in the matters to be considered by them during board meetings and in the circular resolutions. During the year, the Board held four meetings, and the Chairman had a meeting with the Non-executive Directors without the presence of the Executive Directors.

Directors at all times have full and timely access to information of the Group. A financial summary outlining the Group's financial position and performance and containing the actual and budgeted results from different operations, with major variances explained, is sent to Directors each month for their information. Directors also have independent access to senior management for information on the Group and unrestricted access to the services of the Company Secretary. The Company Secretary advises the Board on governance matters and board procedures. There is a procedure for Directors to seek independent professional advice whenever deemed necessary by them at the expense of the Company, as appropriate.

Directors receive at least fourteen days prior written notice of a regular meeting and may propose matters for discussion to be included in the agenda. An agenda with supporting board papers is sent to Directors no less than three days prior to a regular meeting. The Company Secretary assists the Chairman in seeing that Directors receive adequate information on each matter set out in the agenda and acts as co-ordinator for management in providing clarification sought by Directors. The minutes of Board meetings are prepared by the Company Secretary with details of the decisions reached, any concerns raised and dissenting views expressed. The draft minutes are sent to all Directors within a reasonable time after each meeting for their comments before being formally signed by the chairman of the meeting. Copies of the final versions of Board minutes are sent to Directors for their information and records. The signed minutes are kept in safe custody by the Company Secretary and are available for inspection by Directors.

All Directors have been appointed on annual twelve-month basis, subject to retirement from office by rotation and re-election by shareholders at the annual general meeting once every three years pursuant to the articles of association of the Company. Directors retiring by rotation and offering themselves for re-election at the forthcoming annual general meeting are Mr. Neil Douglas McGee, Mr. Ralph Raymond Shea, Mr. Wan Chi Tin, Mr. Wong Chung Hin and Mr. Wu Ting Yuk, Anthony. Information relating to the Directors offering themselves for re-election which is required to be disclosed under the Listing Rules is contained in the circular to shareholders dated 4 April 2018. None of the said Directors has a service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

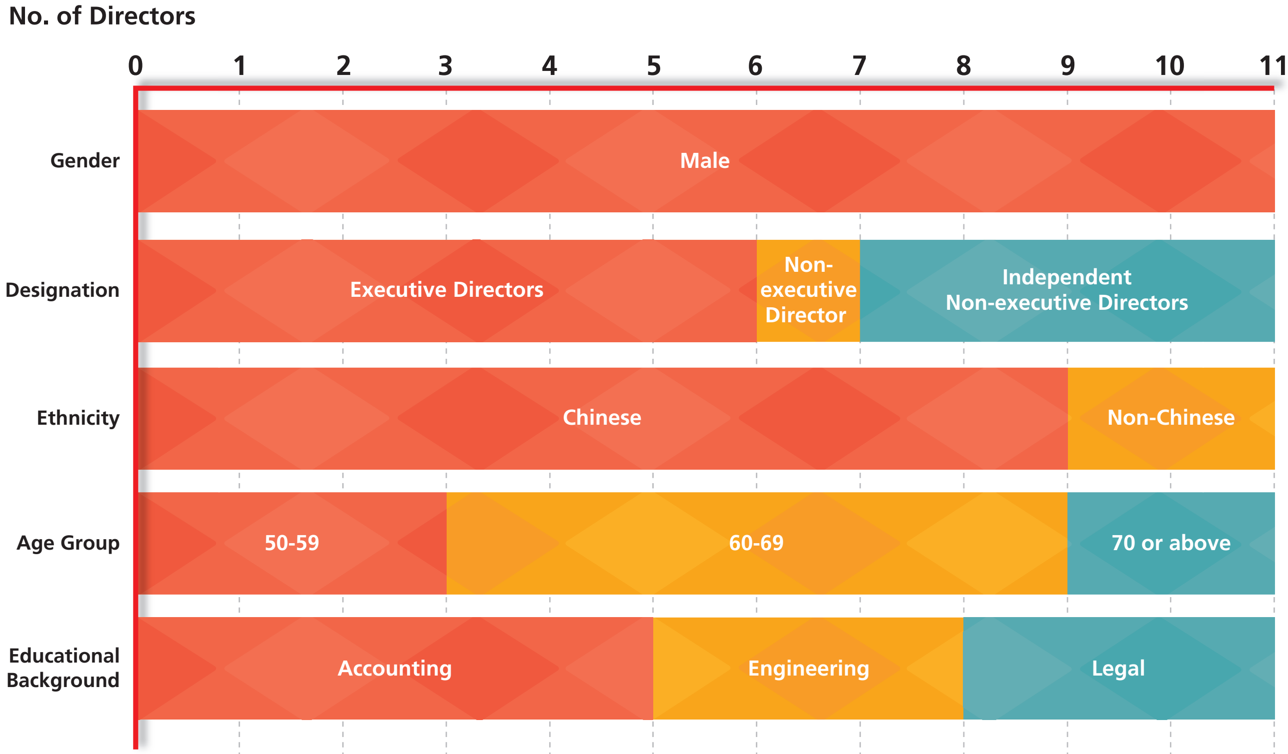
Insurance coverage in respect of Directors' liability has been arranged by the Company.

The Company does not have a nomination committee as provided for in the Corporate Governance Code. At present, the Company does not consider it necessary to have a nomination committee as the full Board is responsible for reviewing the structure, size and composition of the Board and the appointment of new Directors from time to time. The Board as a whole is also responsible for reviewing the succession plan for the Directors, in particular the Chairman and the Chief Executive Officer. The Chairman and the Chief Executive Officer may recommend candidates for election to the Board. The principal consideration is to build an effective and complementary board with the expertise, skills and experience appropriate for the requirements of the businesses of the Group with due regard to the benefits of diversity on the Board laid down in the Group's board diversity policy which sets out the approach to achieving board diversity, recognising that board appointment should be based on merit that complements and expands the skills, experience and expertise of the Board as a whole, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the board might consider relevant and applicable from time to time towards achieving board diversity. The policy is available on the website of the Company. Potential candidates for Independent Non-executive Directors will also be reviewed to determine whether they are independent according to the requirements of the Listing Rules, and are able to devote sufficient time to Board and committee meetings. Credentials of candidates are put forward to the Board for consideration in respect of any proposed appointment of a new director or any proposed appointment of a director to an executive office, and the appointment is subject to the approval of the Board.

Any newly appointed director will be subject to retirement and re-election pursuant to the articles of association of the Company at the next general meeting (in the case of filling a casual vacancy) and at the next annual general meeting (in the case of an addition to the Board).

The diversity profile of the Board as at 31 December 2017 is as follows:

Board Diversity



Newly appointed Directors receive briefings and a package of orientation materials on the operations and businesses of the Group, together with information relating to duties and responsibilities of directors under statutory regulations and the Listing Rules. The Company Secretary updates Directors on the latest developments and changes to the Listing Rules and the applicable legal and regulatory requirements regarding subjects necessary in the discharge of their duties.

Directors' Training and Commitment

The Company arranges and provides continuous professional development training and relevant materials to Directors to help ensure they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its business and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. In addition, attendances at external forums or briefing sessions on the relevant topics also count towards continuous professional development training. The Directors have provided to the Company their records of continuous professional development training during 2017, and they have participated in training activities in the following manner:

1. Reading materials and seminars on directors' duties, compliance issues for listed companies and/or legal and regulatory requirements

2. Reading materials and seminars on corporate governance and financial reporting

3. Reading materials and seminars on risk management, internal control and sustainable growth

	1	2	3
Executive Directors			
Fok Kin Ning, Canning	√	√	√
Tsai Chao Chung, Charles	√	√	√
Chan Loi Shun	√	√	√
Andrew John Hunter	√	√	√
Neil Douglas McGee	√	√	√
Wan Chi Tin	√	√	√
Non-executive Director			
Li Tzar Kuoi, Victor	√	√	√
Independent Non-executive Directors			
Ip Yuk-keung, Albert	√	√	√
Ralph Raymond Shea	√	√	√
Wong Chung Hin	√	√	√
Wu Ting Yuk, Anthony	√	√	√

The Directors have each confirmed that he has allocated sufficient time and attention to the affairs of the Group, and have also disclosed their offices held in other public companies and organisations and updated the Company on any subsequent changes in a timely manner.

Directors' Securities Transactions

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors ("Model Code") set out in Appendix 10 of the Listing Rules as the Group's code of conduct regulating directors' securities transactions. All Directors have confirmed following specific enquiry that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2017.

Senior managers, and other nominated managers and staff who, because of their respective positions in the Company, are likely to possess unpublished inside information regarding the Company and its securities are also required to comply with the Model Code.

Reminders are sent during each year to Directors, senior managers and other nominated managers and staff that they should not deal in the securities of the Company during the "black-out period" specified in the Model Code.

The Company has established a policy relating to inside information and securities dealing which is applicable to all its staff. The policy explains the meaning of unpublished inside information and the illegality of insider dealing, and sets out restrictions, controls and reporting mechanism for dealing with securities of the Company.

Directors' Responsibility for Financial Reporting and Disclosure

Annual and Interim Reports and Financial Statements

The Directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Company and the Group. The annual and interim results of the Company are published in a timely manner within the limits of three months and two months respectively after the end of the relevant periods.

Accounting Policies

The Directors consider that in preparing financial statements, the Group ensures statutory requirements are met and applies appropriate accounting policies that are consistently adopted and makes judgments and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

Accounting Records

The Directors are responsible for ensuring the Group keeps proper accounting records which disclose at any time the financial position of the Group from which, the financial statements of the Group could be prepared in accordance with statutory requirements and the Group's accounting policies.

Safeguarding Assets

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities within the Group.

Going Concern

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Group's financial statements have accordingly been prepared on a going concern basis.

Disclosure

The Board is aware of the requirements under the applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures and authorises their publication as and when required.

Chairman and Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer are held by separate individuals. During 2017, the Chairman of the Board was Mr. Fok Kin Ning, Canning and the Chief Executive Officer was Mr. Tsai Chao Chung, Charles.

The Chairman is elected by members of the Board for a term of one year until the conclusion of each annual general meeting whereupon the Chairman is subject to re-election. Both the Chairman and the Chief Executive Officer are subject to retirement from their directorship by rotation and re-election by shareholders every three years at the annual general meeting.

The Chairman is responsible for providing leadership to, and overseeing the functioning and effective running of, the Board to ensure that the Board acts in the best interests of the Group. The Chairman approves board meeting agendas and ensures that meetings of the Board are planned and conducted effectively and that all Directors are properly briefed on issues arising at board meetings. In addition to board meetings, the Chairman holds meeting(s) annually with Non-executive Directors without the presence of Executive Directors. The Chairman also acts in an advisory capacity to the Chief Executive Officer in all matters covering the interests and management of the Group.

The Chief Executive Officer, working with the executive management team, is responsible for managing the businesses of the Group, attending to the formulation and successful implementation of Group policies and assuming full accountability to the Board for all Group operations. The Chief Executive Officer attends to developing strategic operating plans and is directly responsible for maintaining the operational performance of the Group. Working with other Executive Directors and the general managers, he ensures that the funding requirements of the businesses are met and closely monitors the operating and financial results of the businesses against plans and budgets, taking remedial action when necessary. He maintains an ongoing dialogue with the Chairman and all other Directors to keep them informed of all major business development and issues. He is also responsible for building and maintaining an effective team to support him in his role.

Independent Non-executive Directors

The Board must be satisfied itself that an Independent Non-executive Director does not have any material relationship with the Group. The Board is guided by the criteria of independence as set out in the Listing Rules in determining the independence of Directors.

Mr. Ip Yuk-keung, Albert, Mr. Ralph Raymond Shea, Mr. Wong Chung Hin and Mr. Wu Ting Yuk, Anthony, Independent Non-executive Directors of the Company, have each provided a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board continues to consider these Directors to be independent.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2017, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Shares of the Company

Name of Director	Capacity	Nature of Interests	Number of Shares Held	Approximate % of Shareholding
Tsai Chao Chung, Charles	Beneficial owner	Personal	4,022	≃ 0%

Long Positions in Shares of Associated Corporation

HK Electric Investments and HK Electric Investments Limited

Name of Director	Capacity	Nature of Interests	Number of Share Stapled Units Held	Approximate % of Issued Share Stapled Units
Li Tzar Kuoi, Victor	Interest of controlled corporations	Corporate	7,870,000 *(Note 1)*	0.08%
Fok Kin Ning, Canning	Interest of controlled corporation	Corporate	2,000,000 *(Note 2)*	0.02%
Tsai Chao Chung, Charles	Beneficial owner	Personal	880	≃ 0%

Notes:

(1) Such share stapled units of HK Electric Investments and HK Electric Investments Limited ("HKEI") comprise:

(a) 2,700,000 share stapled units of HKEI held by Lankford Profits Limited, a wholly-owned subsidiary of Li Ka Shing (Overseas) Foundation ("LKSOF"). By virtue of the terms of the constituent documents of LKSOF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSOF; and

(b) 5,170,000 share stapled units of HKEI held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr. Li Tzar Kuoi, Victor may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at general meetings of LKSF.

(2) Such share stapled units of HKEI are held by a company which is equally owned by Mr. Fok Kin Ning, Canning and his wife.

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Interests in Competing Business

In 2017, the interests of Directors in businesses which may compete with the Group's business of development, investment and operation of power generation, transmission and distribution and other energy related infrastructure facilities ("Business") were as follows:

Name of Director	Name of Company	Nature of Interests
Fok Kin Ning, Canning	CK Hutchison Holdings Limited	Group Co-Managing Director
	CK Infrastructure Holdings Limited	Deputy Chairman
	Husky Energy Inc.	Co-Chairman
Chan Loi Shun	CK Infrastructure Holdings Limited	Executive Director and Chief Financial Officer
Andrew John Hunter	CK Infrastructure Holdings Limited	Deputy Managing Director
Li Tzar Kuoi, Victor	CK Asset Holdings Limited	Managing Director and Deputy Chairman
	CK Hutchison Holdings Limited	Group Co-Managing Director and Deputy Chairman
	CK Infrastructure Holdings Limited	Chairman
	Husky Energy Inc.	Co-Chairman
Neil Douglas McGee	Husky Energy Inc.	Director

The Board is of the view that the Group is capable of carrying on the Business independent of, and at arm's length from the businesses of the above companies. When making decisions on the Business, the above Directors, in the performance of their duties as Directors of the Company, have acted and will continue to act in the commercial best interest of the Group and all its shareholders.

Remuneration Committee

The Remuneration Committee is chaired by Mr. Wong Chung Hin (an Independent Non-executive Director), and the other members are Mr. Fok Kin Ning, Canning (the Chairman) and Mr. Ralph Raymond Shea (an Independent Non-executive Director).

The Remuneration Committee's principal responsibilities include the review and consideration of the Company's policy for remuneration of Directors and senior management, and the determination of their individual remuneration packages. It reports to the Board at the next board meeting after decisions and recommendations have been made. Committee members may seek independent professional advice at the expense of the Company to discharge their duties as members of the Committee. The terms of reference of the Remuneration Committee are published on the Company's website and the HKEX's website.

The Remuneration Committee receives and considers relevant remuneration data and market conditions. The remuneration of Executive Directors and senior management is determined with reference to the Company's performance and profitability, industry remuneration benchmarks and prevailing market conditions. Remuneration is performance-based and, coupled with an incentive system, is competitive to attract and retain talented employees.

The Committee held a meeting in December 2017, in which it assessed the performance of the full time Executive Directors and senior management of the Group and considered and determined the performance-based bonus payable to them in respect of the 2017 financial year and their remuneration for the next year. None of the Directors and senior management participated in the determination of their own remuneration. The Committee, authorised by the Board, also reviewed and approved the 2018 wage and salary review proposal.

The emoluments paid to each Director for the 2017 financial year are shown in note 10 to the financial statements on page 89 of the Annual Report. The remuneration paid to members of the senior management for the 2017 financial year is disclosed by bands also in note 10 on page 90 of the Annual Report.

Audit Committee

The Audit Committee is chaired by Mr. Wong Chung Hin and the other members are Mr. Ip Yuk-keung, Albert and Mr. Ralph Raymond Shea. All the three Committee members are Independent Non-executive Directors, and none of them is a partner or former partner of KPMG, the Group's external auditor. The Company Secretary acts as secretary to the Audit Committee.

The Audit Committee reports directly to the Board of Directors and its principal responsibilities include the review of the Group's financial reporting, risk management and internal control systems, the interim and annual financial statements, and corporate and compliance issues. The Committee also acts as the key representative body for overseeing the Company's relations with the external auditor, reviewing the whistle-blowing procedure under which employees and external parties can use in confidence to raise concerns about improprieties in financial reporting, internal control and other matters, and undertaking duties relating to the corporate governance function delegated by the Board. The Committee also meets regularly with KPMG to discuss the audit process and accounting issues. The chairman of the Committee summarises the subjects discussed and decisions or recommendations made in a written report to the Board after each meeting. Committee members may seek independent professional advice at the expense of the Company to discharge their duties as members of the Committee. The terms of reference of the Audit Committee are published on the Company's website and the HKEX's website.

The Audit Committee held three meetings in 2017. During the meetings, the Audit Committee reviewed and considered matters including the Group financial statements and Annual Report for the year ended 31 December 2016, the audit fee and auditor engagement letter for the 2016 Group financial statements, the re-appointment of auditor, the report of the auditor to the Audit Committee in relation to the audit of the 2016 Group financial statements, the non-audit services provided by KPMG in the year 2016, the Group's risk management report as of December 2016 and June 2017, the assessment and declaration in respect of the effectiveness of risk management and internal control systems of the Group for the year 2016 and for the half year to 30 June 2017, the internal audit plan for 2017, the 3-year cycle internal audit plan for 2017 to 2019, the financial statements for the six months ended 30 June 2017, the statistics on bribery activities and illegal or unethical behaviour of the Group and its major associates for the year 2016 and for the half year to 30 June 2017, the Group's outstanding litigation and claims as at 31 December 2016 and 30 June 2017, the Group's corporate governance structure, the compliance of the Corporate Governance Code by the Company, the disclosure in the 2016 Corporate Governance Report, the corporate governance disclosure in the interim report 2017, the compliance review of the Deed of Non-competition with HK Electric Investments Limited, the environmental, social and governance reporting in the annual report 2016, the continuous professional development activities undertaken by Directors and senior managers during 2016 and the six months ended 30 June 2017, KPMG's audit plan for the 2017 Group results and all internal audit reports compiled during the year. Representatives from KPMG were invited to attend two of the meetings and they discussed the 2016 audited financial statements, the 2017 audit plan and various accounting issues with the Committee.

Company Secretary

The Company Secretary of the Company supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates induction and professional development of Directors.

The appointment and removal of the Company Secretary is subject to approval of the Board. Although the Company Secretary reports to the Chairman and the Chief Executive Officer, all Directors have access for advice and service of the Company Secretary. Mr. Alex Ng has been appointed as the Company Secretary of the Company since May 2013 and has day-to-day knowledge of the Group's affairs. During the year ended 31 December 2017, Mr. Ng has received no less than fifteen hours of relevant professional training to refresh his skills and knowledge.

Risk Management and Internal Control

Introduction

The Board has overall responsibility for evaluating and determining the nature and extent of the risks they are willing to take in achieving the Group's strategic objectives, overseeing the risk management and internal control systems including reviewing their effectiveness through the Audit Committee to ensure appropriate and effective risk management and internal control systems are in place.

The Audit Committee assists the Board in meeting its responsibility for maintaining effective systems of risk management and internal control. The Audit Committee reviews all significant aspects of risk management and internal control, including financial, operational and compliance controls; the adequacy of resources, qualifications and experience, training programmes and budgets of the staff of the Group's accounting, internal audit, and financial reporting functions. It reviews the process by which the Group evaluates its control environment and its risk assessment process, and the way in which business and control risks are managed. The Audit Committee reviews the effectiveness of the internal audit function and its annual work plans, and considers the reports of the Chief Executive Officer and an Executive Director on the effectiveness of the systems of risk management and internal control. These reviews and reports are considered by the Audit Committee before it makes its recommendation to the Board for approval of the annual consolidated financial statements.

At the meetings held in March and July 2017, the Audit Committee has reviewed the effectiveness of the risk management and internal control systems of the Group for the year 2016 and for the half year ended 30 June 2017 respectively and considered the systems are effective and adequate.

Pursuant to an agreement dated 14 January 2014 between the Company and HK Electric Investments Limited for sharing of support services, HK Electric Investments Limited provides the relevant financial and accounting, treasury and internal audit services to the Company and to support its internal control functions.

Risk Management and Internal Control Environment

Effective risk management is fundamental to the achievement of the Group's strategic objectives, and an enterprise risk management framework is in place to provide top-down and bottom-up approaches to identify, assess, mitigate and monitor key risks at corporate and business unit levels in a pro-active and structured manner. More details are given in the Risk Management and Risk Factors on pages 56 to 60 of the Annual Report.

The Company's management encourages a risk aware and control conscious environment, setting objectives, performance targets or policies for the management of key risks including strategic planning, business operations, acquisitions, investments, legal and regulatory compliance, expenditure control, treasury, environment, health and safety, and customer service. The Company has a well-established organisational structure with defined levels of responsibility and authority and reporting procedures. There are inherent limitations in any systems of risk management and internal control and accordingly the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Executive Directors review operational and financial reports and key operating statistics and hold regular meetings with general managers to review their reports.

Executive Directors and senior executives are appointed to the boards and board committees of all major operating subsidiaries, associates and joint ventures for monitoring the operations of those companies. There is a comprehensive system for reporting information by those companies to the Company's management.

Budgets are prepared annually by the management and are subject to review and approval firstly by the Chief Executive Officer and then by the Board. Re-forecasts of operating results for the current year are prepared on a quarterly basis, reviewed for differences to the budget and for approval by the Executive Directors.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditure is subject to overall budget control, with approval levels being set by reference to the level of authority of each executive and officer. Capital expenditure is also subject to overall control within the approved budget of individual projects with more specific control and approval being required for overspending, unbudgeted expenditure and material expenditure within the approved budget. Monthly reports of actual versus budgeted and approved expenditure are also reviewed.

The treasury function, overseeing the Group's investment and funding activities, regularly reports to an Executive Director on the Group's cash and liquid investments, borrowings, outstanding contingent liabilities and financial derivatives commitments. The Board has approved and adopted a treasury policy governing the management of the financial risks of the Group (including interest rate risk, foreign exchange risk and liquidity risk) and the operational risks associated with such risk management activities. The treasury policy is reviewed by the Audit Committee from time to time.

The legal and company secretarial function reports to the Chief Executive Officer, and oversees, among other things, the Group's compliance of the Listing Rules and other legal and regulatory requirements.

The internal audit function reports to an Executive Director and the Audit Committee, and provides independent assurance as to the existence and effectiveness of the risk management activities and controls in the operations of the Group's business units. Staff members are from a wide range of disciplines including accounting, engineering and information technology. Using risk assessment methodology and taking into account the scope and nature of the Group's activities and changes in operating environment, Internal Audit prepares its yearly audit plan which is reviewed and approved by the Audit Committee. Internal Audit's reports on the Group's operations are also reviewed and considered by the Audit Committee. The scope of work on the Group's business units performed by Internal Audit includes financial and operations review, recurring and unscheduled audits, fraud investigation, productivity efficiency review and laws and regulations compliance review. Internal Audit follows up audit recommendations on implementation by the business units and the progress is reported to the Audit Committee.

With the assistance of Internal Audit, the Chief Executive Officer and an Executive Director review, among other things, the profile of the significant risks and how these risks have been identified, evaluated and managed, the changes since the last annual assessment in the nature and extent of significant risks, and the Group's ability to respond to changes in its business and the external environment, the scope and quality of management's ongoing monitoring of the risk management and internal control systems. In addition, they review the work of internal audit function and other assurance providers, the extent and frequency of communication of monitoring results to the Audit Committee which enables it to assess control of the Group and the effectiveness of risk management, any significant failing or weaknesses in internal control that have been reported, the necessary actions that are being taken promptly to remedy any significant failings or weaknesses, and the effectiveness of the Group's processes for financial reporting and Listing Rules compliance. They also review the results of the self-assessment on internal controls. The assessment of the effectiveness of entity-level controls is the first tier of the internal control self-assessment. Management of each business unit conduct surveys on entity-level controls self-assessment with reference to five components of internal control, namely, Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The second tier of internal control self-assessment at key business process level is also conducted to assess the effectiveness of controls over the operations within their areas of accountability and compliance with applicable laws and regulations. These assessments form part of the bases on which the Chief Executive Officer and an Executive Director formulate their opinion on risk management and internal control systems and report their findings to the Audit Committee and the Board.

The Chief Executive Officer and other Executive Directors also have the responsibility of developing and implementing risk mitigation strategies including the deployment of insurance to transfer the financial impact of risk. The insurance function of HK Electric Investments Limited supports the Group with appropriate insurance coverage.

Reports from the external auditor on material non-compliance with procedures and significant internal control weaknesses, if any, are presented to the Audit Committee. These reports are considered and reviewed and the appropriate action is to be taken if required.

Established guidelines where new businesses are being acquired including detailed appraisal and review procedures and due diligence processes are in place.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

Code of Conduct

The Group recognises the need to maintain a culture of corporate ethics and places great emphasis on employees' ethical standards and integrity in all aspects of its operations. The Group's Code of Conduct, applicable to all employees, aims to give guidance in dealing with ethical issues, provides mechanisms to report unethical conduct and helps to foster a culture of honesty and accountability. Employees of the Group are required to adhere to the standards set out in the Code of Conduct.

The Group prohibits any form of bribery or corruption. Accepting or offering advantages in any manner from or to clients, suppliers, or any person in connection with the Group's business is prohibited. An anti-bribery and anti-corruption control assessment is conducted biannually to evaluate the effectiveness of controls for managing bribery risks. A monitoring mechanism has been established to review compliance with anti-corruption laws and the Code of Conduct.

It is the responsibility of each Director and employee to avoid situations that may lead to or involve a conflict of interest. They should make full disclosure in case any of their dealings may have a conflict of interest with the activities of the Group. It is the responsibility of all Directors and employees who have access to and in control of the Group's information to provide adequate safeguard to prevent any abuse or misuse of that information. The Group strictly prohibits the use of inside information to secure personal advantage.

The Group promotes fair and open competition, and procurement of supplies and services are conducted in a manner of high ethical standards. There are procurement and tendering procedures in place to ensure impartial selection of suppliers and contractors, and that the hire of services and purchase of goods are based solely upon price, quality, suitability and need.

External Auditor

Independence

KPMG, the external auditor, have confirmed that they have been, for the year ended 31 December 2017, independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

Rotation of Engagement Partner

KPMG adopt a policy of rotating every seven years the engagement partner servicing their client companies. The last rotation in respect of the Group took place in the audit of the 2014 financial statements and the next rotation will take place in the audit of the 2021 financial statements.

Reporting Responsibility

The reporting responsibilities of KPMG are stated in the Independent Auditor's Report on pages 65 to 68 of the Annual Report.

Remuneration

An analysis of the fees of KPMG and other external auditors is shown in note 8 to the financial statements on page 87 of the Annual Report.

Re-appointment

A resolution for re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting. There has been no change in auditor in any of the preceding three years.

Shareholders

The Company has established a range of communication channels between itself and its shareholders and investors. These include the annual general meeting, the annual and interim reports, notices, letters, announcements and circulars, results highlights published in newspapers, news releases, the Company's website at www.powerassets.com and meetings with investors and analysts. All shareholders have the opportunity to put questions to the Board at general meetings, and at other times by e-mailing or writing to the Company.

Shareholders may at any time notify the Company by mail or email of any change in their choice of language (English or Chinese or both) or means of receiving (printed copies or through the Company's website) corporate communications from the Company.

The Company handles share registration and related matters for shareholders through Computershare Hong Kong Investor Services Limited, the Company's share registrar, whose contact details are set out on page 131 of the Annual Report.

Pursuant to section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders of the Company having a right to vote at general meetings may request for the convening of a general meeting. The request stating the general nature of the business to be dealt with at the meeting should be signed by the requisitionists and sent to the Company in hard copy form or in electronic form. Pursuant to sections 580 and 615 of the Companies Ordinance, shareholders qualified under sub-section (3) and sub-section (2) of the respective sections may request for the Company's circulation of statements with respect to proposed resolutions to be considered at a general meeting and the Company's giving of notice of a resolution intended to be moved at an annual general meeting. The request should be signed by the requisitionists and sent to the Company in hard copy form or in electronic form in accordance with the statutory provisions. Pursuant to article 122 of the articles of association of the Company, shareholders may propose a person other than a retiring director of the Company for election as a director of the Company at any general meeting, the procedures for which are posted on the Company's website.

The Board has adopted a communication policy which provided a framework to promote effective communication with shareholders. The policy is available on the website of the Company.

General Meeting

A general meeting to consider and approve the formation of a joint venture with CK Infrastructure Holdings Limited ("CKI") and CK Asset Holdings Limited ("CKA", formerly known as Cheung Kong Property Holdings Limited) (the "Joint Venture Transaction") in connection with the acquisition of the DUET Group, the stapled securities of which were listed on the Australian Securities Exchange, was held at Harbour Grand Kowloon on 14 March 2017. The notice of meeting and the circular containing information on the proposed Joint Venture Transaction were sent to shareholders on 22 February 2017 which was more than 10 clear business days (as defined in the Listing Rules) and more than 14 clear days (as required by the Company's articles of association) prior to the meeting. The chairman of the Independent Board Committee was available at the meeting to answer questions from the shareholders. There was only one resolution proposed by the Chairman for the approval of the connected transaction contemplated thereunder and voting on the resolution was conducted by way of a poll. The poll voting procedure was explained fully to shareholders during the meeting. Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolution proposed was passed by independent shareholders (being shareholders other than CKI and its associates) at the meeting, with 99.792614% of votes cast in favour of the resolution.

2017 Annual General Meeting

The annual general meeting is a main channel of communication between Directors and shareholders. The 2017 Annual General Meeting was held at Harbour Grand Kowloon on 10 May 2017. The notice of meeting, the annual report and the circular containing information on the proposed resolutions were sent to shareholders on 31 March 2017 which was more than 20 clear business days (as defined in the Listing Rules) and more than 21 clear days (as required by the Company's articles of association) prior to the meeting. The chairman and members of the Audit Committee and the Remuneration Committee respectively were available at the meeting to answer questions from the shareholders. Representatives from KPMG, the external auditor, also attended the meeting and were available to answer questions. A separate resolution was proposed by the Chairman in respect of each substantially separate issue, and voting on each resolution was conducted by way of a poll. The poll voting procedure was explained fully to shareholders during the meeting. Computershare Hong Kong Investor Services Limited, the Company's share registrar, was appointed as scrutineer to monitor and count the poll votes cast at the meeting. The resolutions proposed were passed by shareholders at the meeting and the percentage of votes cast in favour of each of them is set out below:

Ordinary resolutions

– Audited Financial Statement, Report of the Directors and the Independent Auditor's Report for the year ended 31 December 2016 (99.9944%);

– Declaration of a final dividend of HK$2.02 per share (99.9905%);

– Election of Mr. Fok Kin Ning, Canning (93.8029%), Mr. Andrew John Hunter (85.6330%), Mr. Ip Yuk-keung, Albert (96.2416%), Mr. Li Tzar Kuoi, Victor (87.0267%) and Mr. Tsai Chao Chung, Charles (97.9227%) as Directors;

– Re-appointment of KPMG as auditor and authorisation of Directors to fix their remuneration (99.6539%); and

– General mandates to Directors to issue and dispose of additional shares of the Company (63.6939%) and to repurchase shares of the Company (99.9564%), and extension of the general mandate to issue shares (64.9462%).

The results of the poll, which included the number of shares voted for and against each resolution, were posted on the Company's and HKEX's websites on the same day of the meeting.

Company's Website

The Company maintains a website at www.powerassets.com. It contains a wide range of information of interest to investors and other stakeholders. For the dissemination of published information, such information including financial results, notices of meetings, announcements required under the Listing Rules, circulars to shareholders, press releases and other necessary announcements were uploaded onto the Company's website.

Articles of Association

No changes were made to the articles of association of the Company during the year ended 31 December 2017. The current version of the articles of association of the Company is available on the Company's and HKEX's websites.

Key Dates	
Announcement of 2017 interim results	20 July 2017
Payment of 2017 interim dividends per share Interim : HK$0.77 Special Interim : HK$7.50	29 August 2017
Announcement of annual results for the year ended 31 December 2017	16 March 2018
Record date for 2017 special interim dividend (HK$6.00 per share)	4 April 2018
Payment of 2017 special interim dividend (HK$6.00 per share)	16 April 2018
Closure of register of members (annual general meeting)	4 May 2018 to 9 May 2018 (both days inclusive)
2018 annual general meeting	9 May 2018
Record date for 2017 final dividend	15 May 2018
Payment of 2017 final dividend (HK$2.03 per share)	29 May 2018

Interests and Short Positions of Shareholders

As at 31 December 2017, shareholders (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange were as follows:

Substantial Shareholders

Long Positions in Shares of the Company

Name	Capacity	Number of Shares Held	Approximate % of Shareholding
Interman Development Inc.	Beneficial owner	186,736,842 *(Note 1)*	8.75%
Venniton Development Inc.	Beneficial owner	197,597,511 *(Note 1)*	9.26%
Univest Equity S.A.	Beneficial owner	279,011,102 *(Note 1)*	13.07%
Monitor Equities S.A.	Beneficial owner & interest of controlled corporation	287,211,674 *(Note 1)*	13.46%
Hyford Limited	Interest of controlled corporations	829,599,612 *(Notes 2 and 4)*	38.87% *(Note 4)*
CK Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 *(Notes 2 and 4)*	38.87% *(Note 4)*
Hutchison Infrastructure Holdings Limited	Interest of controlled corporations	829,599,612 *(Notes 3 and 4)*	38.87% *(Note 4)*
CK Hutchison Global Investments Limited	Interest of controlled corporations	829,599,612 *(Notes 3 and 4)*	38.87% *(Note 4)*
CK Hutchison Holdings Limited	Interest of controlled corporations	829,599,612 *(Notes 3 and 4)*	38.87% *(Note 4)*

Other Persons

Long Positions in Shares of the Company

Name	Capacity	Number of Shares Held	Approximate % of Shareholding
Capital Research and Management Company	Investment Manager	149,357,800 *(Note 5)*	6.99%
The Capital Group Companies, Inc.	Investment Manager	149,357,800 *(Note 5)*	6.99%

Notes:

(1) These are direct or indirect wholly-owned subsidiaries of Hyford Limited ("Hyford") and their interests are duplicated in the same 829,599,612 shares of the Company held by Hyford described in Note (2) below.

(2) CK Infrastructure Holdings Limited ("CKI") is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (1) above as it holds more than one-third of the issued share capital of Hyford indirectly. Its interests are duplicated in the interest of CK Hutchison Holdings Limited ("CK Hutchison") in the Company described in Note (3) below.

(3) CK Hutchison is deemed to be interested in the 829,599,612 shares of the Company as referred to in Note (2) above as it holds more than one-third of the issued shares of CK Hutchison Global Investments Limited ("CKHGI"). Certain subsidiaries of CKHGI hold more than one-third of the issued voting shares of Hutchison Infrastructure Holdings Limited ("HIH") which in turn holds more than one-third of the issued share capital of CKI.

(4) Such disclosure of interest was made in the form of notice pursuant to Part XV of the SFO submitted by CK Hutchison to the Company on 8 June 2015. Subsequently, Hyford notified the Company that as of 31 December 2017, it is deemed to be interested in 811,299,612 shares of the Company which represented approximately 38.01% of the issued shares of the Company as at 31 December 2017, and accordingly CKI, HIH, CKHGI and CK Hutchison are deemed to be interested in the same 811,299,612 shares of the Company as at 31 December 2017 as described in Notes (2) and (3) above.

(5) Capital Research and Management Company ("CRMC") is a wholly-owned subsidiary of The Capital Group Companies, Inc. ("CGCI"). As such, the interests of CRMC are notified by CGCI and are duplicated in the same 149,357,800 shares of the Company notified by CGCI.

Save as disclosed above, as at 31 December 2017, there was no other person (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Public Float

According to information that is available to the Company and within the knowledge of the Directors, the percentage of the shares which are in the hands of the public exceeds 25% of the Company's total number of issued shares.

Connected Transaction in 2017

Formation of a joint venture for acquisition of DUET Group in Australia

On 14 January 2017, the Company, CKI and CKA (collectively, the "Consortium Members") entered into a consortium formation agreement ("Consortium Formation Agreement") in relation to the formation of a joint venture, namely CK William UK Holdings Limited ("JV Co"), for the acquisition of all the stapled securities of the DUET Group listed on the Australian Securities Exchange (the "Acquisition") by the JV Co's Group by way of schemes of arrangement and a trust scheme (the "Schemes") (as described in the announcement of the Company dated 16 January 2017) (the "Joint Venture Transaction"). The Acquisition and the Schemes were implemented according to the Scheme Implementation Agreement dated 14 January 2017 entered into between, among others, the Consortium Members and the DUET Group. Upon all the necessary independent shareholders' approval of the respective Consortium Members had been obtained and the Schemes had become effective on 26 April 2017, the Consortium Members, JV Co and their respective subsidiaries entered into a shareholders' agreement which sets out certain ongoing rights and obligations governing their relationship as direct or indirect shareholders of JV Co and the management and operation of JV Co and the DUET Group. DUET Group is an owner and operator of energy utility assets in Australia, the United States, the United Kingdom and Europe.

Pursuant to the Consortium Formation Agreement, the JV Co will be indirectly held by the Company, CKI and CKA as to 20%, 40% and 40% respectively and the maximum financial commitment of the Company was up to approximately AUD1,506 million.

As one or more of the applicable percentage ratios of the Company based on the maximum financial commitment of the Company under the Joint Venture Transaction exceeds 5% but is less than 25%, the Joint Venture Transaction constitutes a discloseable transaction for the Company, and is subject to the announcement and notification requirements under Chapter 14 of the Listing Rules but is exempt from the shareholders' approval requirement.

CKI is a substantial shareholder and therefore a connected person of the Company under the Listing Rules. Further, given that Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor (who is a Director of the Company) and the Trusts (as defined in the Company's circular dated 22 February 2017) have been deemed as a group of connected persons by the Stock Exchange and they directly and/or indirectly held an aggregate of approximately 30.62% of the issued share capital of CKA as at the Latest Practicable Date (as defined in the Company's circular dated 22 February 2017), CKA may also be regarded as a connected person of the Company under the Listing Rules. Accordingly, the Joint Venture Transaction also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios of the Company based on the maximum financial commitment of the Company under the Joint Venture Transaction exceeds 5%, the Joint Venture Transaction is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Mr. Li Tzar Kuoi, Victor, being a Director of the Company, has voluntarily abstained from voting on the board resolutions of the Company for approving the Joint Venture Transaction. The Company obtained approval for the connected transaction contemplated under the Consortium Formation Agreement from independent shareholders (being shareholders other than CKI and its associates) of the Company at a general meeting held on 14 March 2017.

Shareholders have been informed of the Joint Venture Transaction in the announcements posted on the respective websites of the Company and HKEX on 16 January 2017, 21 February 2017 and 14 March 2017 and the circular to shareholders dated 22 February 2017.

Continuing Connected Transactions during 2017

Services Agreements between HMGP and Husky Energy's affiliates

Pursuant to an investment agreement dated 25 April 2016 entered into between the Company, CKI and Husky Energy Inc. ("Husky Energy") and upon completion of transactions contemplated under the agreement, Husky Midstream General Partnership ("HMGP", a wholly-owned subsidiary of Husky Midstream Limited Partnership ("HMLP")) entered into the following services agreements (collectively, the "Services Agreements"), in each case subject to pre-agreed annual caps and with effect from 1 July 2016 and up to 31 December 2036:

Services Agreement *(Parties)*	Nature of Services	Payment
Management and Operating Services Agreement *(HMLP, HMGP, GPCo*, PipeCo*, HoldCo*, FinanceCo* and HOOL*)*	HOOL is engaged to provide operating services in respect of the pipeline and terminal system and any other assets owned by HMGP and management services to the relevant subsidiaries of HMLP, including but not limited to exercising and performing HMGP's rights and obligation under various Services Agreements, preparing and submitting various budgets, plans and proposals to GPCo and conducting businesses on its behalf.	HMLP and its relevant subsidiaries is required to pay their respective shares of all costs and expenses incurred by HOOL in the performance of its duties and responsibilities, including reasonable professional, legal, accounting and administrative costs and expenses, on at costs basis.
Construction Services Agreement *(HMGP and HOOL)*	HOOL is engaged as the contractor to provide engineering, procurement and construction services and to perform necessary works to complete certain specified projects of HMGP.	HMGP is required to reimburse HOOL for all costs and expenses incurred by HOOL in performing or completing any work or otherwise under the agreement, other than any construction capital incurred by HOOL in excess of the target costs for a project. If the actual construction capital incurred is less than the target cost, HOOL is entitled to the amount equal to the target cost for the project.
Blending Services Agreement *(HMGP and Blender GP*)*	Blender GP is provided with access to the HMGP system to carry out blending services on behalf of HMGP in respect of all procurement, administrative and other activities required relating to the blending of dry crude delivered by shippers with diluent to allow for transportation of blend on the HMGP system, and is granted the sole and exclusive right to conduct ancillary blending activities on the HMGP system on its sole account.	Blender GP is required to pay HMGP a pre-agreed annual fee (or a pro-rated amount for any contract year that is not an entire 12-month period).
Transportation and Terminalling Services Agreement *(HMGP and HEMP* (as shipper))*	HMGP provides transportation and terminalling services for HEMP, including the receipt, blending and commingling of products, provision of laboratory services and the facilitation of measurement of products.	HEMP is required to pay HMGP a pre-agreed annual revenue amount based on expected volume throughput and tariffs. If the revenue generated from/by HEMP's throughput and tariffs is less than such amount, HEMP is required to pay the pre-agreed amount and is entitled to receive credits to use for reducing the base tariff amount in any subsequent month where the revenue generated from HEMP's throughput is greater than the pre-agreed amount. If the amount paid by HEMP based on actual throughput and tariffs in a year less the total amount of all credits received by HEMP (due to throughput and tariffs in earlier months being less than the pre-agreed amount) exceeds the pre-agreed amount, HEMP is entitled to a rebate equal to 25% of the amount of such difference.
Storage Agreement *(HMGP and HEMP)*	HMGP provides storages services to HEMP, including but not limited to the receipt, delivery and transfer of products, making available capacity in the storage facilities owned or operated by HMGP (including designated storage tanks, on a sole and exclusive basis, and additional storage capacity in the non-dedicated facilities, on a non-exclusive basis).	HEMP is required to pay HMGP a pre-agreed fee for reservation and utilisation of storage capacity in storage tanks for HEMP's use regardless of the volume of product delivered into or withdrawn in a month, and agreed tolls in respect of non-dedicated storage facilities.

* *Husky Midstream General Partner Inc. ("GPCo") is the general partner of HMLP. LBX Pipeline Ltd. ("PipeCo"), Husky Midstream GP 1% Partner Ltd. ("HoldCo") and Husky Canada Group Finance Ltd. ("FinanceCo") are wholly-owned subsidiaries of HMLP. Husky Oil Operations Limited ("HOOL"), Husky Blend General Partnership ("Blender GP") and Husky Energy Marketing Partnership ("HEMP") are wholly owned by Husky Energy.*

As HMLP is considered as a material joint venture of the Company and Husky Energy is a connected person of the Company, the transactions under the Services Agreements constituted continuing connected transactions (the "HMGP Continuing Connected Transactions") for the Company under the Listing Rules.

For the year ended 31 December 2017, the annual caps applicable to the Management and Operating Services Agreement, the Construction Services Agreement, the Blending Services Agreement, the Transportation and Terminalling Services Agreement and the Storage Agreement were CAD118 million, CAD140 million, CAD30 million, CAD143 million and CAD27.6 million respectively, and the amount paid/received in respect of such year subject to annual review requirements under the Listing Rules were approximately CAD30.6 million, approximately CAD24.1 million, CAD30.0 million, approximately CAD137.3 million and approximately CAD26.1 million respectively.

Operation and Management Contract in respect of power plant investments in mainland China

Pursuant to an operation and management contract dated 2 April 2009 entered into between Outram Limited ("Outram"), an indirect wholly-owned subsidiary of the Company, and Cheung Kong China Infrastructure Limited ("CKCI"), as supplemented by notices issued by Outram to CKCI on 30 September 2011 and 30 September 2014 by which its term was extended to 1 April 2018 (the "Contract"), CKCI agreed to provide Outram with services in relation to the operation and management of Outram's power plant investments in mainland China. The fees payable to CKCI for the services are equivalent to CKCI's costs for provision of such services and are paid in cash on a monthly basis subject to a maximum of HK$35 million per year.

CKCI is an indirect wholly-owned subsidiary of CKI, a substantial shareholder of the Company, and therefore CKCI's provision of the services to Outram constituted continuing connected transactions (the "Outram Continuing Connected Transactions") for the Company under the Listing Rules. The aggregate amount paid for the year ended 31 December 2017 attributable to the Outram Continuing Connected Transactions subject to annual review requirements under the Listing Rules was approximately HK$32.1 million.

All the Independent Non-executive Directors have reviewed the HMGP Continuing Connected Transactions and the Outram Continuing Connected Transactions in the 2017 financial year and confirmed that those transactions had been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company have been engaged to report on the HMGP Continuing Connected Transactions and the Outram Continuing Connected Transactions in accordance with Hong Kong Standard of Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor have issued an unqualified letter to the Board containing their finding and conclusions in respect of the HMGP Continuing Connected Transactions and the Outram Continuing Connected Transactions, in which they have confirmed that nothing has come to their attention that caused them to believe that the continuing connected transactions in the 2017 financial year (i) had not been approved by the Board; (ii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and (iii) had exceeded the annual cap amount for the 2017 financial year.

Extension of the term of the Contract

On 29 September 2017, Outram issued a notice to CKCI to extend the term of the Contract for a period of three years from 2 April 2018 to 1 April 2021 on the same terms and for the same purposes contained in the Contract, save that the maximum annual aggregate fee payable to CKCI for the services in 2018, 2019 and 2020 shall be HK$33 million, HK$25 million and HK$20 million respectively (or a pro rata amount if the relevant period is less than a full calendar year).

Shareholders have been informed of the extension of the term of the Contract in an announcement posted on the respective websites of the Company and the HKEX on 29 September 2017.

Other Transactions

In connection with the spin-off and separate listing of the Group's electricity business in Hong Kong in January 2014 the Company entered into the following transactions:

Non-competition Deed with HK Electric Investments Limited

The Company entered into a deed of non-competition dated 14 January 2014 (the "Non-competition Deed") with HK Electric Investments Limited, pursuant to which the Company has undertaken that save for certain exceptions the Group will not on its own account or with each other or in conjunction with or on behalf of any person, firm or company, carry on, or be engaged in or interested in, directly or indirectly, whether as a shareholder, partner, agent or otherwise (other than through its holding of share stapled units in HKEI), the business of generation, transmission, distribution and supply of electricity in Hong Kong.

The Company has complied with the Non-competition Deed during 2017 and has, in accordance with the Non-competition Deed, provided HK Electric Investments Limited with its annual written confirmation.

Deed relating to investment opportunity in power projects with CK Infrastructure Holdings Limited

The Company entered into a deed relating to investment opportunity in power projects dated 10 January 2014 (the "Investment Opportunity Deed") with CKI to further enhance the delineation between the future business focus of the Company and CKI in power projects and projects other than power projects respectively. Pursuant to the Investment Opportunity Deed, CKI has undertaken that if it is offered an opportunity to invest in any power projects it will inform the Company and offer the opportunity to the Company, and CKI may only invest in any power project if (i) the Company (with the endorsement of its independent non-executive directors or a committee thereof) invites CKI to participate as a co-investor and (ii) the investment opportunity is in respect of a power project of an enterprise value exceeding HK$4 billion. Any co-investment by the Company and CKI will be subject to compliance with the applicable requirements of the Listing Rules, including independent shareholders' approval (if required).

The Investment Opportunity Deed also requires CKI and the Company to review the deed's implementation as part of its internal audit plan and the respective audit committee of CKI and the Company to review the deed's compliance.

In accordance with the Investment Opportunity Deed, a committee comprising all its independent non-executive directors has reviewed the compliance by CKI with the terms of the deed and any decision by the Group regarding any exercise of the rights under the deed. Having considered the Company's internal control framework of ensuring the deed's compliance, Internal Audit's compliance review report, CKI's annual compliance confirmation to the Company and other relevant documents, the committee has confirmed its view that during 2017, CKI complied with the terms of the Investment Opportunity Deed and the Group's decisions regarding any exercise of the rights under the deed are made in accordance with the requirements thereof.

RISK MANAGEMENT

Effective risk management and internal control systems are fundamental to the achievement of our strategic objectives.

Risk Management Framework

The Group has in place an Enterprise Risk Management (ERM) framework to effectively identify, assess, mitigate and monitor key business, financial, operational and compliance risks. The framework enables us to adopt a proactive and structured approach to identifying and managing risks across the organisation with on-going monitoring and review in place.

Governance & Oversight

The Group is committed to fostering a risk aware and control conscious environment. Responsibility for risk management resides at all levels within the organisation. The Board, through the Audit Committee, oversees the overall management of risks. The Risk Management Committee, supported by Internal Audit, assists the Board and Audit Committee to review and monitor key risks of the Group. Management is responsible for identifying and assessing risks of strategic nature. Business units are responsible for the identification and management of risks in their activities. The top-down and bottom-up approaches complement each other and enable us to identify and manage the Group's key risks in an effective manner, including material emerging risks at corporate and business unit levels.

Risk Management Framework Governance

Independent Assurance from Internal and External Auditors

"Top-down" Oversight by the Board / Audit Committee Assisted by Risk Management Committee and Management

Identify & Manage Risks at Corporate Level

"Bottom-up" Business Units

Identify, Manage & Report Risks at Business Unit Level

The Board (through Audit Committee)

The Board / Audit Committee Oversight
- Has overall responsibility for the Group's risk management and internal control systems
- Determine and evaluate the nature and extent of the risks that the Group is willing to accept in pursuit of the Group's strategic and business objectives
- Discuss the risk management and internal control systems with management to ensure management has performed its duty to have effective systems

Risk Management Committee (Chaired by the Chief Executive Officer)

Risk Review, Communication & Confirmation to Board / Audit Committee
- Oversee the Group's risk profile and assess if key risks are appropriately mitigated
- Ensure that an ongoing review of the effectiveness of the risk management and internal control systems have been conducted and provide such confirmation to the Board, via the Audit Committee

Management

Risk & Control Monitoring
- Responsible for designing, implementing and monitoring the risk management and internal control systems
- Identify and monitor key corporate risks
- Provide confirmation to the Risk Management Committee on the effectiveness of the systems

Business Units

Front-Line Risk & Control Ownership
- Design, implement and monitor risks at business unit level, escalate promptly on relevant risk issues
- Provide assurance to the Risk Management Committee on the effectiveness of risk management and internal control activities at business unit level
- Seek continuous process improvement and re-assessment

Risk Management Process

The risk management process is integrated into our day-to-day activities and is an ongoing process involving all parts of the Group from the Board down to individual employees.

The risk identification process takes into account internal and external factors including economic, political, social, technological, environmental and new or updated Group strategy and new regulations, as well as our stakeholders' expectations in these aspects. Risks are grouped into different categories to facilitate analysis. Each risk identified is analysed on the basis of likelihood and impact in accordance with the risk appetite set by the Board. Action plans are in place to manage risks. The risk assessment process also includes a review of the control mechanisms for each risk and a rating of the effectiveness of each control. The Group compiles a risk register, which is updated and monitored on an ongoing basis, taking into account emerging risks which may have a material impact on the Group.

A risk management report that highlights key corporate and business level risks and action plans is reviewed by the Risk Management Committee half-yearly and presented to the Audit Committee for reporting to the Board. Significant changes in key risks on a day-to-day basis are handled as they arise and reported to management.

Fundamental to the achievement of our business goals is how we can effectively manage existing and emerging risks in different economic, social and political environments. A description of the Group's risk factors is shown on pages 58 to 60 of this Annual Report. The Group works to continually improve its risk management framework in order to keep pace with the changing business environment.

RISK FACTORS

Risks and uncertainties can affect the Group's businesses, financial condition, operating results or growth prospects leading to a divergence from expected or historical results. Key risk factors affecting the Group are outlined below. In dealing with these, the Group remains in touch with its stakeholders with the aim of understanding and addressing their concerns.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

Global Economy and Macro-Economic Conditions

The global economy continues to strengthen with moderate expansion. The pace of US monetary policy normalisation, policy differences among major central banks and Brexit-related negotiations have, however, added uncertainties to the world economy and global financial market.

The Group is a global investor in energy and utility-related businesses, with interests in Hong Kong, the United Kingdom, Australia, mainland China, Thailand, the United States, Canada, New Zealand, Portugal and the Netherlands. The industries in which the Group invests are affected by the economic conditions, population growth, currency environment and interest rate cycles in these countries. Any combination of these factors or continuing adverse economic conditions in these countries may negatively affect the Group's financial position, potential income, asset value and liabilities.

To address macro-economic volatility, the Group's strategy is to pursue steady earnings growth via carefully selected investments in stable and well-regulated international markets. On this basis, the Group has built up a robust and diverse portfolio of assets that deliver predictable income streams.

Currency Markets and Interest Rates

The Group's currency exposure mainly arises from its investments outside Hong Kong.

The results of the Group are recorded in Hong Kong dollars, but its subsidiaries, associates and joint ventures may receive revenue and incur expenses in other currencies. Any currency fluctuations that occur during the process of translation of the results of these subsidiaries, associates and joint ventures, or during the repatriation of earnings, equity investments or loans, may have an impact on the Group's results.

The Group is also exposed to interest rate risk on its interest-bearing assets and liabilities. The US Federal Reserve has increased the federal funds rate three times in 2017 and is expected to further tighten its interest rate policy in 2018. Volatility in interest rate markets may adversely affect the Group's financial conditions and results of operations.

The Group's treasury policy guides the measures it undertakes to manage the above exposure. Details of the Group's current practices to manage currency and interest rate risks are in the Financial Review on pages 61 to 62.

Cyber Security

The Group's critical utility and information assets are exposed to attack, damage or unauthorised access in the cyber world, where cyber-attacks have become increasingly sophisticated, highly coordinated and targeted. Failure to protect the Group's critical assets from cyber-attacks can result in reputational damage, financial loss and disruptions in operations.

Each of the Group's investments has taken a risk-based and integrated approach to combating cyber security risks. They have established their own cyber security management framework or processes to proactively identify, prevent, detect, respond to and recover from cybersecurity attacks. Resources and development efforts are focused on people, processes and various cybersecurity technologies to ensure the confidentiality, integrity and availability of corporate information assets and critical infrastructure.

Health and Safety

The Group's investments, and the nature of its operations, expose it to a range of significant health and safety risks.

Major health and safety incidents resulting in fatalities or injuries to members of the public or to employees could have significant consequences. These may include widespread distress and harm or significant disruption to operations, and could result in regulatory action, legal liability, material costs and damage to the Group's reputation.

Each of the Group's investments has in place a health and safety management system to manage its exposure and protect its employees, customers, contractors and the public by conducting its business in a safe and socially responsible manner.

Mergers and Acquisitions

The Group has undertaken merger and acquisition activities in the past and may continue to look for appropriate acquisition opportunities in the market.

The Group is exposed to any hidden problems, potential liabilities and unresolved disputes that the target company may have. Valuations and analyses of the target company conducted by the Group and external professionals are based on numerous assumptions, which may become inappropriate over time due to new facts and circumstances that emerge. The inability to successfully integrate a target business into the Group may prevent synergies from the acquisition being achieved, leading to increases in cost, time and resources used.

In undertaking merger and acquisition activities, the Group may also be exposed to different and changing political, social, legal and regulatory requirements at the local, national and international level, as well as cultural issues. Some of these merger and acquisition activities are subject to complex regulatory approval processes in their respective countries.

To manage these risks, the Group undertakes a rigorous due diligence and analysis process covering operational, financial, legal and risk parameters before undertaking any merger or acquisition activity. The Group seeks growth in its areas of expertise within stable, well-structured international markets that either yield stable revenues under government regulation or are safeguarded by long-term power purchase agreements. The Group joins the management of new associate/joint venture companies to guide and oversee performance and shares best practice to ensure synergies and maximum efficiencies.

Infrastructure Market

The infrastructure investments of the Group globally are subject to local government policy, regulatory pricing and need to adhere strictly to the licence requirements or provisions of relevant legislation, as well as the codes and guidelines established by the relevant regulatory authorities. Failure to comply with the aforesaid requirements or rules and regulations may lead to penalties, or, in extreme circumstances, the amendment, suspension or cancellation of the relevant licences by the authorities. The Group closely monitors changes in regulations, government policies and markets, and conducts scenario and sensitivity studies to assess the impact of such changes.

Impact of Local, National and International Regulations

Local business risks specific to individual countries and cities where the Group's investments operate could have a material impact on its financial conditions, operating results and growth prospects. In addition, the Group's investments in different parts of the world are subject to local legal and regulatory requirements, and their activities are regulated through applicable operating licences.

With interests around the world, the Group is, and may increasingly become, exposed to different and changing political, social, legal, tax, regulatory, listing and environmental requirements at the local, national and international level. New policies or measures by governments, whether fiscal, tax, regulatory, environmental or competition-related, may lead to additional or unplanned increases in operating expenses and capital expenditures, pose a risk to the returns delivered by the Group's investments and may delay or prevent the commercial operation of an individual business, with a resulting loss in revenue and profit.

The Group follows a proactive approach to monitoring changes in government policies and legislation. Each investment maintains high awareness of the need to comply with applicable laws, regulations and licence requirements and does so through a variety of means including engaging external advisors, performing regular audits and complying with regulatory reporting obligations. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement.

Reliability of Supply

The Group's power and utilities-related investments can be exposed to supply interruptions. A severe earthquake, storm, lightning, flood, landslide, fire, sabotage, terrorist attack, cyberattack, failure of critical information and control systems that operate and protect the electricity and gas networks, or any other unplanned event could lead to a prolonged and extensive supply outage.

The loss of cash flow resulting from supply interruption, and the cost of recovery from network damage could be considerable. Such an incident could damage customer goodwill and lead to claims and litigation. Substantial increases in the number or duration of supply interruptions could result in increases in the costs associated with the operation of the supply networks, which could have an adverse effect on the business, financial condition and efficiency of operations as well as the reputation of the Group.

The Group's investments conduct regular maintenance and upgrades of the power and gas supply equipment, provide comprehensive training to operational staff, undertake reliability reviews, and operate sophisticated information technology control and asset management systems. They also have fully tested contingency plans to ensure supply reliability standards are maintained.

FINANCIAL REVIEW

Financial Performance

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

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

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

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

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

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

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

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

Financial Positions, Liquidity and Financial Resources

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

Treasury Policy, Financing Activities and Debt Structure

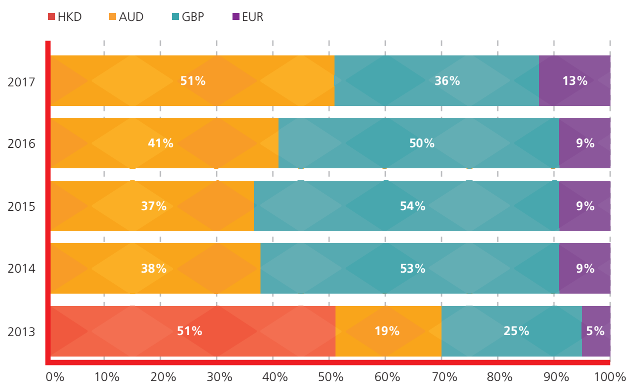
The Group manages its financial risks in accordance with guidelines laid down in its treasury policy, which is approved by the Board. The treasury policy is designed to manage the Group's currency, interest rate and counterparty risks. Surplus funds, which arise mainly from dividends and other repatriation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

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

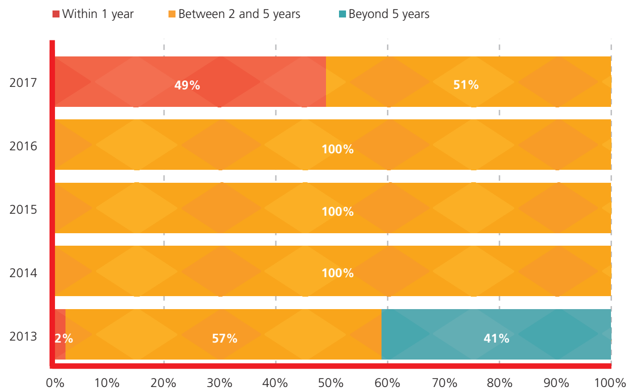
As at 31 December 2017, the net cash position of the Group was HK$18,184 million (2016: HK$53,196 million).

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

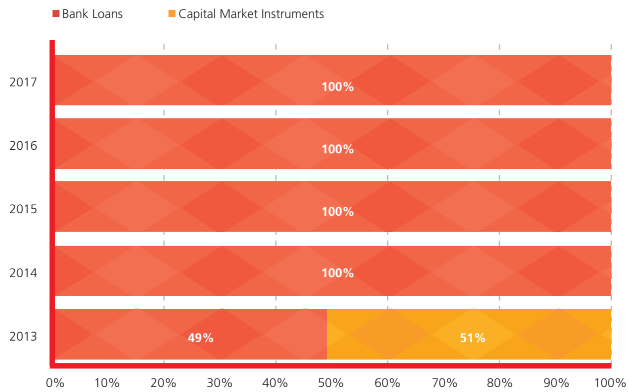
Debt Profile by Currency



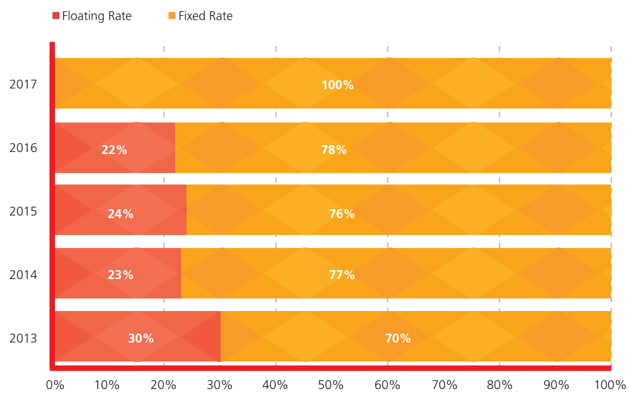
Debt Profile by Maturity



Debt Profile by Types of Borrowings



Debt Profile by Interest Rate Structure



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

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

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

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

Charges on Assets

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

Contingent Liabilities

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

Employees

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

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2017.

Principal Activities and Business Review

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are investment in energy and utility-related businesses. Particulars of the Company's principal subsidiaries as at 31 December 2017 are set out in Appendix 2 on pages 124 to 125 of the financial statements. Further discussion and analysis of the Group's activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Chairman's Statement on pages 4 to 5, CEO's Report on pages 8 to 23, Environmental, Social and Governance Report on pages 24 to 31, Risk Management and Risk Factors on pages 56 to 60 and Financial Review on pages 61 to 62 of this Annual Report.

A discussion on the Group's relationships with its key stakeholders, and environmental policies and performance is contained in the Environmental, Social and Governance Report on pages 24 to 31, whilst its compliance with the relevant laws and regulations that have a significant impact on the Group are included in Corporate Governance Report on pages 36 to 55 and Risk Factors on pages 58 to 60. These discussions form part of this directors' report.

Results

The results of the Group for the year ended 31 December 2017 and the financial positions of the Group as at that date are set out in the financial statements on pages 69 to 129.

Dividends

An interim dividend of $0.77 (2016: $0.70) per ordinary share and a one-off special interim dividend of $7.50 (2016: $5.00) per ordinary share were paid to shareholders on 29 August 2017. The Directors declare a one-off special interim dividend of $6.00 per ordinary share payable on 16 April 2018 to shareholders who are registered on the register of members on 4 April 2018 and recommend a final dividend of $2.03 (2016: $2.02) per ordinary share payable on 29 May 2018 to shareholders who are registered on the register of members on 15 May 2018.

Share Capital

Details of the share capital of the Company are set out in note 23(c) to the financial statements. There was no movement during the year.

Donations

Charitable and other donations made by the Group during the year amounted to $1 million (2016: $1 million).

Summary of Five-Year Financial Results

The summary of five-year financial results of the Group is set out on page 130.

Major Customers and Suppliers

Sales to the largest customer is 22.0% (2016: 25.2%) of the Group's total revenue, and sales to five largest customers combined is 67.3% (2016: 75.1%) of the Group's total revenue for the year ended 31 December 2017. The five largest customers for the year are the joint ventures or associates of the Company and the Company's substantial shareholder, CK Infrastructure Holdings Limited.

Purchases from the largest supplier is 22.8% (2016: 20.6%) of the Group's total purchases of revenue items, and purchases from the five largest suppliers combined is 60.8% (2016: 69.4%) of the Group's total purchases of revenue items for the year ended 31 December 2017.

Directors

The Directors in office during the year and up to the date of this report were Mr. Fok Kin Ning, Canning, Mr. Tsai Chao Chung, Charles, Mr. Chan Loi Shun, Mr. Andrew John Hunter, Mr. Ip Yuk-keung, Albert, Mr. Li Tzar Kuoi, Victor, Mr. Neil Douglas McGee, Mr. Ralph Raymond Shea, Mr. Wan Chi Tin, Mr. Wong Chung Hin and Mr. Wu Ting Yuk, Anthony.

The list of directors and alternate directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available under "Board of Directors" in "About Us" section on the Company's website at www.powerassets.com.

Permitted Indemnity

Pursuant to Article 182(A) of the Company's articles of association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no Director shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his office or in relation thereto.

A Directors Liability Insurance is currently in place, and was in place during the year, to protect the Directors of the Company and its subsidiaries against potential costs and liabilities arising from claims brought against them.

Directors' Material Interests in Significant Transactions, Arrangements or Contracts

Save as otherwise disclosed under the section headed "Connected Transaction in 2017" in the Corporate Governance Report, there were no other transactions, arrangements or contracts that are significant in relation to the businesses of the Company and its subsidiaries to which the Company or any of its subsidiary was a party and in which a Director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the year.

Management Contracts

During the year the Group shared general office administration and other support services (such as legal, company secretarial, financial, accounting, treasury, internal audit, human resources, public affairs services, information technology and administrative services) provided by HK Electric Investments Limited, an associate of the Company, pursuant to a support services agreement which was entered into on 14 January 2014 and came into effect on 29 January 2014, for an initial term of three years and thereafter automatic renewal for successive periods of three years, subject to compliance with the relevant requirements under the Listing Rules and termination at any time with six months' prior notice.

Save as disclosed above, there are no contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the year (2016: nil).

Arrangement to Purchase Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate (2016: nil).

Equity-linked Agreements

No equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.

Disclosure under Rule 13.22 of Chapter 13 of the Listing Rules

In relation to the provision of financial assistance by the Group to certain affiliated companies, a combined statement of financial position of the affiliated companies as at 31 December 2017 required to be disclosed under Rule 13.22 of Chapter 13 of the Listing Rules is set out below:

Combined statement of financial position of the affiliated companies as at 31 December 2017	$ million
Non-current assets	419,674
Current assets	21,457
Current liabilities	(41,417)
Non-current liabilities	(287,332)
Net assets	112,382
Share capital	52,817
Reserves	59,565
Capital and reserves	112,382

As at 31 December 2017, the consolidated attributable interest of the Group in these affiliated companies amounted to $57,710 million.

On behalf of the Board

Fok Kin Ning, Canning
Chairman
Hong Kong, 16 March 2018

KPMG

INDEPENDENT AUDITOR'S REPORT

To the members of Power Assets Holdings Limited
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Power Assets Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 69 to 129, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for interests in associates and joint ventures

Refer to notes 13 and 14 to the consolidated financial statements and the accounting policy 2(e).

The Key Audit Matter	How the matter was addressed in our audit
The Group's associates and joint ventures operate in Hong Kong and outside Hong Kong (including the United Kingdom, Australia, Thailand, the People's Republic of China, Canada, the Netherlands, Portugal, New Zealand and the United States). The Group's share of profits less losses of associates and joint ventures for the year ended 31 December 2017 and the Group's interests in associates and joint ventures at that date are significant in the context of the Group's consolidated financial statements. The financial information of associates and joint ventures with operations outside of Hong Kong is prepared in accordance with the prevailing accounting standards in each relevant jurisdiction which may differ in certain respects from HKFRSs. Converting the financial information of these entities into HKFRSs for the purpose of equity accounting involves management making a number of manual adjustments some of which are complex in nature. We identified the accounting for interests in associates and joint ventures as a key audit matter because of the material impact that these entities have on the consolidated financial statements and also because of the complex nature of certain adjustments made by management which we consider increases the inherent risk of error.	Our audit procedures to assess the accuracy of the accounting for interests in associates and joint ventures included the following: • performing an audit of the consolidated financial statements of the Hong Kong based associate, HK Electric Investments Limited, in accordance with the requirements of HKSAs; • evaluating the independence and competence of the auditors of associates and joint ventures outside Hong Kong; • participating in the risk assessment process undertaken by the auditors in respect of their audits of significant associates and joint ventures outside Hong Kong; • understanding the procedures planned to be performed by the auditors of significant associates and joint ventures outside Hong Kong to address the significant risks identified and considering whether the planned procedures were appropriate for the purpose of the audit of the Group's consolidated financial statements; • obtaining reporting from the component auditors of significant associates and joint ventures outside Hong Kong and discussing with these auditors matters of significance in their audits which could impact the Group's consolidated financial statements, the work performed thereon and their conclusions; • evaluating significant manual adjustments made in respect of associates and joint ventures outside Hong Kong to convert their financial information into HKFRSs by comparing the adjustments to underlying documentation or by re-performing the calculations on which the adjustments were based; • assessing whether the financial information of associates and joint ventures outside Hong Kong after the adjustments made by management was prepared in accordance with the Group's accounting policies.

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors have delegated the oversight of the Group's financial reporting process to the Audit Committee.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Ka Ming, Alice.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

16 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**2017 $ million**	2016 $ million
Revenue	4	**1,420**	1,288
Direct costs		**(1)**	(6)
		1,419	1,282
Other net income/(loss)	5	**1,663**	(221)
Other operating costs		**(525)**	(809)
Operating profit		**2,557**	252
Finance costs	7	**(295)**	(248)
Share of profits less losses of joint ventures		**4,421**	4,705
Share of profits less losses of associates		**1,733**	1,696
Profit before taxation	8	**8,416**	6,405
Income tax:	9		
Current		**(93)**	(7)
Deferred		**(4)**	19
		(97)	12
Profit for the year attributable to equity shareholders of the Company		**8,319**	6,417
Earnings per share			
Basic and diluted	11	**$3.90**	$3.01

The notes on pages 74 to 129 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 23(b).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	2017 $ million	2016 $ million
Profit for the year attributable to equity shareholders of the Company	**8,319**	6,417
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss		
Remeasurement of net defined benefit asset/liability	**29**	(3)
Share of other comprehensive income of joint ventures and associates	**32**	(1,418)
Income tax relating to items that will not be reclassified to profit or loss	**(9)**	242
	52	(1,179)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating operations outside Hong Kong, including joint ventures and associates	**4,111**	(5,738)
Net investment hedges	**(2,427)**	1,607
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(34)**	(33)
Share of other comprehensive income of joint ventures and associates	**(303)**	(546)
Income tax relating to items that may be reclassified subsequently to profit or loss	**83**	91
	1,430	(4,619)
	1,482	(5,798)
Total comprehensive income for the year attributable to equity shareholders of the Company	**9,801**	619

The notes on pages 74 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017
(Expressed in Hong Kong dollars)

	Note	2017 $ million	2016 $ million
Non-current assets			
Property, plant and equipment and leasehold land	12	**14**	29
Interest in joint ventures	13	**56,415**	42,739
Interest in associates	14	**24,589**	24,202
Other non-current financial assets	15	**67**	67
Derivative financial instruments	20	**316**	846
Deferred tax assets	22(b)	**21**	19
Employee retirement benefit assets	21(a)	**5**	4
		81,427	67,906
Current assets			
Trade and other receivables	16	**167**	161
Bank deposits and cash	17(a)	**25,407**	61,710
		25,574	61,871
Current liabilities			
Trade and other payables	18	**(3,197)**	(2,595)
Current portion of bank loans and other interest-bearing borrowings	19	**(3,544)**	–
Current tax payable	22(a)	**(91)**	(46)
		(6,832)	(2,641)
Net current assets		**18,742**	59,230
Total assets less current liabilities		**100,169**	127,136
Non-current liabilities			
Bank loans and other interest-bearing borrowings	19	**(3,679)**	(8,514)
Derivative financial instruments	20	**(789)**	(52)
Deferred tax liabilities	22(b)	**–**	(14)
Employee retirement benefit liabilities	21(a)	**(121)**	(145)
		(4,589)	(8,725)
Net assets		**95,580**	118,411
Capital and reserves			
Share capital	23(c)	**6,610**	6,610
Reserves		**88,970**	111,801
Total equity attributable to equity shareholders of the Company		**95,580**	118,411

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

Tsai Chao Chung, Charles
Director

Chan Loi Shun
Director

The notes on pages 74 to 129 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Attributable to equity shareholders of the Company					
$ million	Share capital (note 23(c))	Exchange reserve (note 23(d)(i))	Hedging reserve (note 23(d)(ii))	Revenue reserve (note 23(d)(iii))	Proposed/ declared dividend (note 23(b))	Total
Balance at 1 January 2016	6,610	(2,586)	(965)	116,227	4,311	123,597
Changes in equity for 2016:						
Profit for the year	–	–	–	6,417	–	6,417
Other comprehensive income	–	(4,131)	(488)	(1,179)	–	(5,798)
Total comprehensive income	–	(4,131)	(488)	5,238	–	619
Final dividend in respect of the previous year approved and paid (see note 23(b)(ii))	–	–	–	–	(4,311)	(4,311)
Interim dividend paid (see note 23(b)(i))	–	–	–	(1,494)	–	(1,494)
Special interim dividend declared and paid after the end of the reporting period (see note 23(b)(i))	–	–	–	(10,671)	10,671	–
Proposed final dividend (see note 23(b)(i))	–	–	–	(4,311)	4,311	–
Balance at 31 December 2016 and 1 January 2017	**6,610**	**(6,717)**	**(1,453)**	**104,989**	**14,982**	**118,411**
Changes in equity for 2017:						
Profit for the year	**–**	**–**	**–**	**8,319**	**–**	**8,319**
Other comprehensive income	**–**	**1,684**	**(254)**	**52**	**–**	**1,482**
Total comprehensive income	**–**	**1,684**	**(254)**	**8,371**	**–**	**9,801**
Special interim dividend in respect of the previous year declared and paid (see note 23(b)(ii))	**–**	**–**	**–**	**–**	**(10,671)**	**(10,671)**
Final dividend in respect of the previous year approved and paid (see note 23(b)(ii))	**–**	**–**	**–**	**–**	**(4,311)**	**(4,311)**
Interim dividend paid (see note 23(b)(i))	**–**	**–**	**–**	**(1,643)**	**–**	**(1,643)**
Special interim dividend paid (see note 23(b)(i))	**–**	**–**	**–**	**(16,007)**	**–**	**(16,007)**
Special interim dividend declared after the end of the reporting period (see note 23(b)(i))	**–**	**–**	**–**	**(12,806)**	**12,806**	**–**
Proposed final dividend (see note 23(b)(i))	**–**	**–**	**–**	**(4,333)**	**4,333**	**–**
Balance at 31 December 2017	**6,610**	**(5,033)**	**(1,707)**	**78,571**	**17,139**	**95,580**

The notes on pages 74 to 129 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017
(Expressed in Hong Kong dollars)

	Note	**2017 $ million**	2016 $ million
Operating activities			
Cash used in operations activities	17(b)	**(463)**	(813)
Interest paid		**(275)**	(266)
Interest received		**1,900**	1,763
Tax paid for operations outside Hong Kong		**(60)**	(8)
Tax refunded for operations outside Hong Kong		**11**	50
Net cash generated from operating activities		**1,113**	726
Investing activities			
Decrease/(increase) in bank deposits with more than three months to maturity when placed		**45,648**	(44,471)
Investments in joint ventures		**(4,133)**	(5,215)
New loan to a joint venture		**(4,682)**	–
Repayment of loan from an associate		**151**	–
Repayments from joint ventures		**1,233**	–
Advance to an associate		**(25)**	–
Dividends received from joint ventures		**2,184**	2,066
Dividends received from associates		**1,543**	1,728
Dividends received from available-for-sale equity securities		**39**	44
Net proceeds from disposal of property, plant and equipment and leasehold land		**935**	–
Net cash generated from/(used in) investing activities		**42,893**	(45,848)
Financing activities			
Repayment of bank loans and other borrowings	17(c)	**(2,028)**	–
Dividends paid to equity shareholders of the Company		**(32,632)**	(5,805)
Net cash used in financing activities		**(34,660)**	(5,805)
Net increase/(decrease) in cash and cash equivalents		**9,346**	(50,927)
Cash and cash equivalents at 1 January		**15,212**	66,097
Effect of foreign exchange rate changes		**(1)**	42
Cash and cash equivalents at 31 December	17(a)	**24,557**	15,212

The notes on pages 74 to 129 form part of these financial statements.

1. General information

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

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

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

The measurement basis used in the preparation of the financial statements is the historical cost basis except as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 29.

(c) Basis of consolidation

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

(d) Subsidiaries

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

Investments in subsidiaries are consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

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

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

(e) Joint ventures and associates

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

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

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

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

2. Significant accounting policies (Continued)

(e) Joint ventures and associates (Continued)

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

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

(f) Goodwill

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)). In respect of joint ventures or associates, the carrying amount of goodwill is included in the carrying amount of the interest in the joint venture or associate and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(l)).

(g) Other investments in equity securities

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

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

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

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

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 2(i)).

(i) Hedging

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss, along with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

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

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

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

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(iii) Hedge of net investments in foreign operations

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

2. Significant accounting policies (Continued)

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

(i) Property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation (see note 2(j)(vi)), amortisation (see note 2(j)(v)) and impairment losses (see note 2(l)).

(ii) Where parts of a property, plant and equipment have different useful lives, the cost of the property, plant and equipment is allocated on a reasonable basis between the parts and each part is depreciated separately. Subsequent expenditure to replace a component of a property, plant and equipment that is accounted for separately, or to improve its operational performance is included in the asset's carrying amount or recognised as a separate asset as appropriate when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group and the cost of the item can be measured reliably. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(iv) Leasehold land held for own use under finance leases is stated in the consolidated statement of financial position at cost less accumulated amortisation (see note 2(j)(v)) and impairment losses (see note 2(l)).

(v) The cost of acquiring land held under a finance lease is amortised on a straight-line basis over the period of the unexpired lease term.

(vi) Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

	Years
Buildings	60
Furniture and fixtures, sundry plant and equipment	10
Computers	5 to 10
Motor vehicles	5 to 6
Workshop tools and office equipment	5

Immovable assets are amortised on a straight-line basis over the unexpired lease terms of the land on which the immovable assets are situated if the unexpired lease terms of the land are shorter than the estimated useful lives of the immovable assets.

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

(k) Leased assets and operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

(l) Impairment of assets

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

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

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

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

2. Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

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

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

Except for equity securities carried at cost, if in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment; and

– goodwill.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 2(l)(i) and 2(l)(ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(m) Trade and other receivables

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

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, with the exception of fixed interest borrowings that are designated as hedged items in fair value hedges (see note 2(i)(i)), interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

For interest-bearing borrowings that are designated as hedged items in fair value hedges, subsequent to initial recognition, the interest-bearing borrowings are stated at fair value with the fair value changes that are attributable to the hedged risk recognised in profit or loss (see note 2(i)(i)).

2. Significant accounting policies (Continued)

(o) Trade and other payables

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

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(q) Employee benefits

(i) Short term employee benefits

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

(ii) Defined benefit retirement scheme obligations

The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the end of the reporting period on Hong Kong Special Administrative Region Government Exchange Fund Notes that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the "Projected Unit Credit Method".

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from or reductions in future contributions to the defined benefit retirement scheme.

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the revenue reserve and will not be reclassified to profit or loss.

The Group determines the net interest expense or income for the period on the net defined benefit liability or asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability or asset, taking into account any changes in the net defined liabilities or assets during the year as a result of contributions and benefit payments.

(iii) Contributions to defined contribution retirement schemes

Obligations for contributions to defined contribution retirement schemes, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

(r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income, in which case the relevant amounts of tax are recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

All deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

(ii) Other provisions and contingent liabilities

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

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

2. Significant accounting policies (Continued)

(t) Revenue recognition

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

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

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates, or at contract rates if foreign currencies are hedged by forward foreign exchange contracts. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period.

Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

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

(v) Borrowing costs

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

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

(w) Related parties

(i) A person or a close member of that person's family is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group.

(ii) An entity is related to the Group if any of the following conditions apply:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is a joint venture or an associate of the other entity (or a joint venture or an associate of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in note 2(w)(i).

(g) A person identified in note 2(w)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(h) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

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

3. Changes in accounting policies

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

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

4. Revenue

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

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

5. Other net income/(loss)

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

6. Segment information

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

- Investment in HKEI: this segment invests in generation and supply of electricity business in Hong Kong.

- Investments: this segment invests in energy and utility-related businesses and is segregated further into four reportable segments (United Kingdom, Australia, Mainland China and Others) on a geographical basis.

- All other activities: this segment represents other activities carried out by the Group.

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

7. Finance costs

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

8. Profit before taxation

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

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

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

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

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

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

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

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

10. Directors' emoluments and senior management remuneration

Directors' emoluments comprise payments to Directors by the Company and its subsidiaries in connection with the management of the affairs of the Company and its subsidiaries. The emoluments of each of the Directors of the Company are as follows:

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

Notes:

(1) Independent Non-executive Director

(2) Member of the Audit Committee

(3) Member of the Remuneration Committee

(4) During the year, Mr. Fok Kin Ning, Canning received director's emoluments of $120,000 from HK Electric Investments Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.

(5) During the year, Mr. Tsai Chao Chung, Charles received director's emoluments of THB486,200 from Ratchaburi Power Company Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.

(6) During the year, Mr. Chan Loi Shun received director's emoluments of THB486,200 from Ratchaburi Power Company Limited and $2,789,200 from HK Electric Investments Limited, which are associates of the Group. The director's emoluments received were paid back to the Company.

(7) During the year, Mr. Wan Chi Tin received director's emoluments of $70,000 from HK Electric Investments Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.

(8) During the year, Mr. Li Tzar Kuoi, Victor received director's emoluments of $70,000 from HK Electric Investments Limited, which is an associate of the Group. The director's emoluments received were paid back to the Company.

(9) Mr. Frank John Sixt resigned as a Non-executive Director of the Company with effect from 1 January 2017.

(10) During the year, Mr. Chan Loi Shun received director's emoluments of $4,766,800 from the Company. The director's emoluments received were paid back to CK Infrastructure Holdings Limited (formerly known as "Cheung Kong Infrastructure Holdings Limited"), a substantial shareholder of the Company.

(11) For Directors who are employees of the Group, other benefits also include insurance and medical benefits entitled by the employees of the Group.

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

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

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

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

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

The remuneration of directors and senior management is as follows:

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

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

11. Earnings per share

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

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

12. Property, plant and equipment and leasehold land

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

13. Interest in joint ventures

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

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

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

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

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

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

(a) Summarised financial information of material joint ventures

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

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

The above amounts of assets and liabilities include the following:

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

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

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

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

13. Interest in joint ventures (Continued)

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

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

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

* CK William UK Holdings Limited ("CK William") privatised DUET Group in 2017.
# The purchase price allocation is provisional and may be subject to further fair value adjustments.

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

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

14. Interest in associates

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

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

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

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

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

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

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

(a) Summarised financial information of material associates

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

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

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

14. Interest in associates (Continued)

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

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

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

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

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

15. Other non-current financial assets

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

16. Trade and other receivables

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

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

17. Bank deposits and cash and other cash flow information

(a) Bank deposits and cash comprise:

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

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

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

17. Bank deposits and cash and other cash flow information (Continued)

(c) Reconciliation of liabilities arising from financing activities

The table below details changes in the group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

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

18. Trade and other payables

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

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

Creditors' ageing is analysed as follows:

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

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

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

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

None of the non-current interest-bearing borrowings is expected to be settled within one year. All the above borrowings are unsecured.

The non-current borrowings are repayable as follows:

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

20. Derivative financial instruments

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

21. Employee retirement benefits

The Group offers three retirement schemes which together cover all permanent staff.

One of the schemes ("the Pension Scheme") provides pension benefits based on the employee's final basic salary and length of service. This scheme is accounted for as a defined benefit retirement scheme.

Another scheme is defined contribution in nature and offers its members choices to invest in various investment funds. One of the investment funds provides a guaranteed return; the scheme is accounted for as a defined benefit retirement scheme in respect of this investment fund ("the Guaranteed Return Scheme"). In respect of other investment funds which do not offer a guaranteed return, the scheme is accounted for as a defined contribution retirement scheme (see note 21(b)).

Both these schemes are established under trust and are registered under the Hong Kong Occupational Retirement Schemes Ordinance. The assets of the schemes are held independently of the Group's assets in separate trustee administered funds.

The Group also participates in a master trust Mandatory Provident Fund Scheme ("MPF Scheme") operated by an independent service provider under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement scheme with the employer and its employees each contributing to the scheme in accordance with the relevant scheme rules. The MPF Scheme rules provide for voluntary contributions to be made by the employer calculated as a percentage of the employees' basic salaries.

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

The funding policy in respect of the Pension Scheme is based on valuations prepared periodically by independent professionally qualified actuaries at Willis Towers Watson Hong Kong Limited. The policy for employer's contributions is to fund the scheme in accordance with the actuary's recommendations on an on-going basis. The principal actuarial assumptions used include discount rate and future pension increase rate which are disclosed in note 21(a)(viii) together with appropriate provisions for mortality rates. The most recent actuarial valuation of the Pension Scheme was carried out by the appointed actuary, represented by Ms. Wing Lui, FSA, as at 1 January 2017. The valuation revealed that the assets of the Pension Scheme were sufficient to cover the aggregate vested liabilities as at the valuation date.

Both defined retirement schemes expose the Group to investment risk and interest rate risk while the Pension Scheme also exposes the Group to risks of longevity and inflation.

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

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

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

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

A portion of the above asset/liability is expected to be realised/settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future changes in actuarial assumptions and market conditions.

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

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

21. Employee retirement benefits (Continued)

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

(iii) Movements in fair value of plan assets of the Schemes are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

(ix) Sensitivity analysis

(a) The Pension Scheme

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

21. Employee retirement benefits (Continued)

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

(ix) Sensitivity analysis (Continued)

(b) The Guaranteed Return Scheme

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

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the consolidated statement of financial position.

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

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

(b) Defined contribution retirement scheme

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

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

22. Income tax in the consolidated statement of financial position

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

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

(b) Deferred tax assets and liabilities

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

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

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

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

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

23. Capital, reserves and dividends

(a) Movements in components of equity

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

(b) Dividends

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

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

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

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

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

(c) Share capital

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

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

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

(d) Nature and purpose of reserves

(i) Exchange reserve

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

(ii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges (net of any deferred tax effect) pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2(i)(ii).

(iii) Revenue reserve

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

(e) Capital management

The Group's primary objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;

- to provide returns to shareholders by securing access to finance at a reasonable cost;

- to support the Group's stability and future growth; and

- to provide capital for the purpose of strengthening the Group's risk management capability.

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

The Group monitors its capital structure on the basis of a net debt-to-net total capital ratio. For this purpose the Group defines net debt as interest-bearing borrowings (as shown in the consolidated statements of financial position) less bank deposits and cash. Net total capital includes net debt and equity which comprises all components of equity (as shown in the consolidated statement of financial position).

During 2017, the Group's strategy, which was unchanged from 2016, was to control its level of debt in order to secure access to finance at a reasonable cost. In order to maintain or adjust the level of debt, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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

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

24. Financial risk management

The Group is exposed to credit, liquidity, interest rate and currency risks in the normal course of its businesses. The Group is also exposed to equity price risk arising from its equity investments in other entities. In accordance with the Group's treasury policy, derivative financial instruments are only used to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

(a) Credit risk

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

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

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

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

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

Offsetting financial assets and financial liabilities

The Group's derivative transactions are executed with financial institutions and governed by either International Swaps and Derivatives Association Master Agreements or the general terms and conditions of these financial institutions, with a conditional right of set off under certain circumstances that would result in all outstanding transactions being terminated and net settled.

As these financial institutions currently have no legal enforceable right to set off the recognised amounts and the Group does not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously, all such financial instruments are recorded on gross basis at the end of the reporting period.

The following table presents the recognised financial instruments that are subject to enforceable netting arrangements but not offset as at the end of the reporting period.

		2017			2016		
$ million	Note	**Gross amounts of financial instruments in the consolidated statement of financial position**	**Related financial instruments that are not offset**	**Net amount**	Gross amounts of financial instruments in the consolidated statement of financial position	Related financial instruments that are not offset	Net amount
Financial assets	20						
Interest rate swaps		**–**	**–**	**–**	45	–	45
Forward foreign exchange contracts		**422**	**(12)**	**410**	881	(22)	859
Total		**422**	**(12)**	**410**	926	(22)	904
Financial liabilities	20						
Cross currency swaps		**533**	**–**	**533**	–	–	–
Interest rate swaps		**25**	**–**	**25**	41	(22)	19
Forward foreign exchange contracts		**245**	**(12)**	**233**	11	–	11
Total		**803**	**(12)**	**791**	52	(22)	30

(b) Liquidity risk

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

24. Financial risk management (Continued)

(b) Liquidity risk (Continued)

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial instruments, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay.

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

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

(c) Interest rate risk

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

(i) Hedging

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

(ii) Interest rate profile

The following table details the interest rate profile of the Group's net interest-bearing assets and liabilities at the end of the reporting period, after taking into account the effect of cross currency swaps and interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

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

(iii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit for the year and revenue reserve by approximately $41 million (2016: decreased/increased by approximately $10 million). Other components of consolidated equity would have decreased/increased by approximately $191 million (2016: decreased/increased by approximately $205 million) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The analysis has been performed on the same basis as for 2016.

(Expressed in Hong Kong dollars unless otherwise indicated)

24. Financial risk management (Continued)

(d) Currency risk

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

(i) Investments outside Hong Kong

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

(ii) Recognised assets and liabilities

The Group uses forward foreign exchange contracts and cross currency swaps to manage its foreign currency risk arising from foreign currency transactions. The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

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

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

(iii) Sensitivity analysis

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

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

A 10 percent weakening in the above currencies against Hong Kong dollars at the end of the reporting period would have had an equal but opposite effect on the Group's profit for the year (and revenue reserve) and other components of consolidated equity.

This sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period, and that all other variables, in particular interest rates, remain constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit for the year and other components of equity measured in their respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis as for 2016.

(e) Equity price risk

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

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

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

24. Financial risk management (Continued)

(f) Fair value measurement

(i) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

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

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

Recurring fair value measurements

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

(ii) Valuation techniques and inputs in fair value measurements

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

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

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

25. Capital commitments

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

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

26. Contingent liabilities

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

27. Material related party transactions

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

(a) Shareholder

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

(b) Joint ventures

(i) Interest income received/receivable from joint ventures in respect of the loans to joint ventures amounted to $913 million (2016: $783 million) for the year. The outstanding balances with joint ventures are disclosed in note 13.

(ii) Net tax credit claimed under the consortium relief received/receivable from joint ventures in the United Kingdom amounted to $11 million (2016: $50 million) for the year.

27. Material related party transactions (Continued)

(c) Associates

(i) Interest income received/receivable from associates in respect of the loans to associates amounted to $467 million (2016: $453 million) for the year. The outstanding balances with associates are disclosed in note 14.

(ii) Other operating costs included support service charge recovered by an associate amounted to $39 million (2016: $37 million) for the total costs incurred in the provision or procurement of the general office administration and other support services and office facilities. The outstanding balance with the associate was $4 million (2016: $4 million).

28. Substantial shareholder of the Company

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

29. Critical accounting judgements and estimates

The methods, estimates and judgements the Directors used in applying the Group's accounting policies have a significant impact on the Group's financial position and operating results. Some of the accounting policies require the Group to apply estimates and judgements on matters that are inherently uncertain. In addition to notes 21 and 24 which contain information about the assumptions and their risk factors relating to valuation of defined benefit retirement scheme assets and liabilities and financial instruments, certain critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairment

In considering the impairment losses that may be required for the Group's assets which include unlisted available-for-sale securities and property, plant and equipment, the recoverable amounts of the assets need to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount.

Any increase or decrease in impairment losses, recognised as set out above, would affect the net profit in future years.

(b) Associates

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

(ii) CKI Spark Holdings No. Two Limited holds a 51% attributable interest in SA Power Networks Partnership. SA Power Networks Partnership is the sole electricity distributor in South Australia. The Group holds 54.76% of CKI Spark Holdings No. Two Limited but the Group does not have control or joint control over it and, therefore, it has been accounted for as an associate.

30. Company-level Statement of Financial Position

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

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

Tsai Chao Chung, Charles
Director

Chan Loi Shun
Director

(a) Investments in subsidiaries

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

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

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

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

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

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

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

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

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

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

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

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the above developments are relevant to the Group's financial statements but the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for HKFRS 9.

HKFRS 9, *Financial instruments*

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

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

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

HKFRS 9, *Financial instruments* (Continued)

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

(a) Classification and measurement

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

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without subsequent reclassification to profit or loss.

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

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

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

(b) Impairment

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

(c) Hedge accounting

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

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

Appendix 1

Segment information

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

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

(Expressed in Hong Kong dollars unless otherwise indicated)

Appendix 2

Principal subsidiaries

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

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

* Indirectly held

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

* Indirectly held

(Expressed in Hong Kong dollars unless otherwise indicated)

Appendix 3

Principal joint ventures

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

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

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

Notes:

(a) Australian Gas Networks Limited owns strategic gas distribution networks and transmission pipelines that operate in South Australia, Victoria, Queensland, New South Wales and the Northern Territory.

(b) AVR-Afvalverwerking B.V. is owned by Dutch Enviro Energy Holdings B.V., which is principally engaged in the business of waste processing and production and supply of renewable energy from the incineration of waste.

(c) Canadian Power Holdings Inc. holds a 49.99% partnership interest in TransAlta Cogeneration L.P. which owns interests in four gas-fired cogeneration facilities in Alberta and Ontario, Canada and in a coal-fired, generation facility in Alberta, Canada. Canadian Power Holdings Inc. also holds a 100% interest in the Meridian gas-fired combined cycle cogeneration plant in Saskatchewan, Canada.

(d) CK William UK Holdings Limited owns 100% interests in the following companies:

Energy Developments Pty Limited
Multinet Group Holdings Pty Limited
DBNGP Holdings Pty Limited

Energy Developments Pty Limited owns and operates an energy generation business mainly in Australia. Multinet Group Holdings Pty Limited and DBNGP Holdings Pty Limited operate natural gas distribution businesses in Australia.

(e) CK William UK Holdings Limited owns 66% interests in United Energy Distribution Holdings Pty Limited, which operates an energy distribution business in Australia.

(f) Electricity First Limited holds a 50% stake in Seabank Power Limited, an electricity-generating company located near Bristol in the United Kingdom.

(g) Guangdong Zhuhai Jinwan Power Company Limited ("Jinwan Power") owns and operates power plants in the People's Republic of China.

(h) Guangdong Zhuhai Power Station Company Limited ("Zhuhai Power") owns and operates power plants in the People's Republic of China.

Appendix 3 (Continued)

Principal joint ventures (Continued)

(i) Husky Midstream Limited Partnership was established in 2016 to assume ownership of midstream pipeline and terminal assets in the Lloydminster region of Alberta and Saskatchewan, Canada. Its asset portfolio includes oil pipeline, storage facilities and other ancillary assets.

(j) Iberwind-Desenvolvimento e Projectos, S.A. is owned by Portugal Renewable Energy-PTRW, Unipessoal Lda., which is engaged in generation and sale of wind energy from wind power in Portugal.

(k) Northern Gas Networks Holdings Limited operates a gas distribution network in the North of England.

(l) Australian Energy Operations Pty Ltd is the holding company of Transmission Operations (Australia) Pty Limited and Transmission Operations (Australia) 2 Pty Limited, which businesses include the design, build, own and operate transmission lines and associate terminal stations to transport the electricity generated from the Mt. Mercer Wind Farm and the Ararat Wind Farm in Victoria, Australia to the main power grid.

(m) UK Power Networks Holdings Limited owns and operates three regulated electricity distribution networks in the United Kingdom that cover London, South East England and East England. The power networks also include certain non-regulated electricity distribution businesses, which consist predominantly of commercial contracts to distribute electricity to a number of privately owned sites.

(n) Wales & West Gas Networks (Holdings) Limited is engaged in gas distribution in Wales and the South West of England.

(o) Wellington Electricity Distribution Network Limited supplies electricity to Wellington, Porirua and Hutt Valley regions of New Zealand.

Appendix 4

Principal associates

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

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

Notes:

(a) HK Electric Investments and HK Electric Investments Limited collectively ("HKEI") holds 100% of The Hongkong Electric Company, Limited ("HK Electric"). HK Electric is responsible for the generation, transmission, distribution and supply of electricity to Hong Kong and Lamma Islands.

(b) Huaneng Hongkong Electric Dali Wind Power Company Limited is engaged in wind power development, operation, management and supply of electricity in the People's Republic of China.

(c) Huaneng Laoting Wind Power Company Limited is engaged in wind power development, operation, management and supply of electricity in the People's Republic of China.

(d) Ratchaburi Power Company Limited is engaged in the development, financing, operation and maintenance of a power generating station in Thailand.

(e) SA Power Networks Partnership operates and manages the electricity distribution business in the state of South Australia in Australia.

(f) Victoria Power Networks Pty Limited is the holding company of Powercor Australia Limited ("Powercor") and The CitiPower Trust Limited ("CitiPower"). Powercor operates and manages an electricity distribution business in western Victoria, Australia. CitiPower distributes electricity to the Melbourne Central business district in Australia.

FIVE-YEAR GROUP PROFIT SUMMARY AND GROUP STATEMENT OF FINANCIAL POSITION

Five-Year Group Profit Summary

HK$ million	**2017**	2016	2015	2014	2013 Restated
Revenue (Note)	**1,420**	1,288	1,308	2,131	11,578
Operating profit	**2,557**	252	1,238	54,571	6,057
Finance costs	**(295)**	(248)	(264)	(434)	(692)
Share of profits less losses of joint ventures and associates	**6,154**	6,401	6,747	6,961	6,226
Profit before taxation	**8,416**	6,405	7,721	61,098	11,591
Income tax	**(97)**	12	11	(13)	(814)
Profit after taxation	**8,319**	6,417	7,732	61,085	10,777
Scheme of Control transfers	**–**	–	–	(80)	388
Profit attributable to equity shareholders of the Company	**8,319**	6,417	7,732	61,005	11,165

Note: Revenue is restated to reflect the change in principal activities upon the spin-off of the Group's Hong Kong electricity business in January 2014.

Five-Year Group Statement of Financial Position

HK$ million	**2017**	2016	2015	2014	2013
Property, plant and equipment and leasehold land	**14**	29	30	32	49,122
Interest in joint ventures and associates	**81,004**	66,941	66,548	74,066	44,611
Other non-current financial assets	**67**	67	67	67	67
Other non-current assets	**342**	869	170	8	943
Net current assets	**18,742**	59,230	66,424	59,401	5,542
Total assets less current liabilities	**100,169**	127,136	133,239	133,574	100,285
Non-current liabilities	**(4,589)**	(8,725)	(9,642)	(10,486)	(30,808)
Rate Reduction Reserve	**–**	–	–	–	(3)
Tariff Stabilisation Fund	**–**	–	–	–	(36)
Net assets	**95,580**	118,411	123,597	123,088	69,438
Share capital	**6,610**	6,610	6,610	6,610	2,134
Reserves	**88,970**	111,801	116,987	116,478	67,304
Capital and reserves	**95,580**	118,411	123,597	123,088	69,438

CORPORATE INFORMATION

Board of Directors

Executive Directors

FOK Kin Ning, Canning *(Chairman)*
TSAI Chao Chung, Charles *(Chief Executive Officer)*
CHAN Loi Shun
Andrew John HUNTER
Neil Douglas MCGEE
WAN Chi Tin

Non-executive Director

LI Tzar Kuoi, Victor

Independent Non-executive Directors

IP Yuk-keung, Albert
Ralph Raymond SHEA
WONG Chung Hin
WU Ting Yuk, Anthony

Audit Committee

WONG Chung Hin *(Chairman)*
IP Yuk-keung, Albert
Ralph Raymond SHEA

Remuneration Committee

WONG Chung Hin *(Chairman)*
FOK Kin Ning, Canning
Ralph Raymond SHEA

Company Secretary

Alex NG

Principal Bankers

Bank of China (Hong Kong) Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
The Hongkong and Shanghai Banking Corporation Limited
Mizuho Bank, Ltd.

Auditor

KPMG

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Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong
Website: www.computershare.com
Email: hkinfo@computershare.com.hk

ADR (Level 1 Programme) Depositary

Citibank, N.A.
Shareholder Services
P.O. Box 43077, Providence,
Rhode Island 02940-3077, U.S.A.
Website: www.citi.com/dr
Email: citibank@shareholders-online.com

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Ivan CHAN *(Chief Financial Officer)*

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FINANCIAL CALENDAR AND SHARE INFORMATION

Financial Calendar

Interim Results Announcement	20 July 2017
Annual Results Announcement	16 March 2018
Ex-dividend Date for Special Interim Dividend (HK$6.00 per Share)	3 April 2018
Record Date for Special Interim Dividend (HK$6.00 per Share)	4 April 2018
Annual Report Despatch Date	On or before 4 April 2018
Closure of Register of Members – Annual General Meeting	4 May 2018 to 9 May 2018 (both days inclusive)
Annual General Meeting	9 May 2018
Ex-dividend Date for Final Dividend	14 May 2018
Record Date for Final Dividend	15 May 2018
Dividend per Share	
Interim : HK$0.77	29 August 2017
Special Interim : HK$7.50	29 August 2017
Special Interim : HK$6.00	16 April 2018
Final : HK$2.03	29 May 2018

Share Information

Board Lot	500 shares
Market Capitalisation as at 31 December 2017	HK$140,755 million
Ordinary Share to ADR ratio	1:1

Stock Codes

The Stock Exchange of Hong Kong Limited	6
Bloomberg	6 HK
Thomson Reuters	0006.HK
ADR Ticker Symbol	HGKGY
CUSIP Number	739197200

This Annual Report has been printed in both the English and Chinese languages. If shareholders who have received an English copy of this Annual Report wish to obtain a Chinese copy, or vice versa, they may request for it by writing to the share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

This Annual Report has been posted in both the English and Chinese languages on the Company's website at www.powerassets.com. If, for any reason, shareholders who have chosen (or are deemed to have consented) to receive corporate communications through the Company's website have difficulty in gaining access to the Annual Report, they may request that a printed copy of this Annual Report be sent to them free of charge by mail.

Shareholders may at any time change their choice of language of all future corporate communications, or choose to receive all future corporate communications either in printed form or through the Company's website, by writing to the Company at Rooms 1913-1914, 19th Floor, Hutchison House, 10 Harcourt Road, Hong Kong or to the share registrar, Computershare Hong Kong Investor Services Limited at the address above-mentioned or by emailing to the Company's email address at mail@powerassets.com.

Power Assets Holdings Ltd.
電能實業有限公司

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