

## 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 Company 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. A summary of the 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 2016 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.
- 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.

## 2. Significant accounting policies (Continued)

### (l) Impairment of assets (Continued)

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

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3. Changes in accounting policies

The HKICPA has issued a few amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Annual improvements to HKFRSs 2012-2014 cycle
- Amendments to HKFRS 11, *Accounting for acquisition of interests in joint operations*
- Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- Amendments to HKAS 27, *Equity method in separate financial statements*
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, *Investments entities: Applying the consolidation exception*
- Amendments to HKAS 1, *Disclosure initiative*

The adoption of these amendments to HKFRSs has no material impact on the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or amendment that is not effective for the current accounting period.

### 4. Revenue

The principal activity of the Group is investment in power 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.

	2016 \$ million	2015 \$ million
Interest income	1,236	1,239
Dividends	44	59
Others	8	10
	<b>1,288</b>	1,308
Share of revenue of joint ventures	<b>16,359</b>	17,327

## 5. Other net loss

	2016 \$ million	2015 \$ million
Interest income from financial assets not at fair value through profit or loss	550	612
Loss on partial disposal of an associate	–	(532)
Foreign exchange loss on loans and receivables	(787)	(303)
Sundry income	16	16
	<b>(221)</b>	<b>(207)</b>

## 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 power 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 116 to 117.

## 7. Finance costs

	2016 \$ million	2015 \$ million
Interest on bank loans and other borrowings	248	264

## 8. Profit before taxation

	2016 \$ million	2015 \$ million
Profit before taxation is arrived at after charging:		
Amortisation of leasehold land	1	–
Depreciation	–	2
Staff costs	29	29
Property, plant and equipment written off	–	1
Auditors' remuneration		
– audit and audit related work		
– KPMG	3	3
– other auditors	1	1
– non-audit work		
– KPMG	1	4
– other auditors	2	1

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

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

	2016 \$ million	2015 \$ million
<b>Current tax – operations outside Hong Kong</b>		
Provision for the year	57	46
Tax credit for the year	(50)	(57)
	7	(11)
<b>Deferred tax (see note 22(b)(i))</b>		
Origination and reversal of temporary differences	(19)	–
	(12)	(11)

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 credit and accounting profit at applicable tax rates:**

	2016 \$ million	2015 \$ million
Profit before taxation	6,405	7,721
Less: Share of profits less losses of joint ventures	(4,705)	(4,958)
Share of profits less losses of associates	(1,696)	(1,789)
	4	974
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	23	181
Tax effect of non-deductible expenses	287	227
Tax effect of non-taxable income	(329)	(427)
Tax effect of temporary difference not recognised	(1)	(2)
Tax effect of unused tax losses not recognised	8	10
Actual tax credit	(12)	(11)

**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 \$ million	Retirement scheme contributions \$ million	Bonuses \$ million	2016 Total emoluments \$ million	2015 Total emoluments \$ million
<b>Executive Directors</b>						
Fok Kin Ning, Canning <sup>(3)(4)</sup>						
<i>Chairman</i>	0.12	–	–	–	0.12	0.12
Tsai Chao Chung, Charles <sup>(5)</sup>						
<i>Chief Executive Officer</i>	0.07	3.04	0.45	1.41	4.97	4.81
Chan Loi Shun <sup>(6)(10)</sup>	0.07	4.56	–	–	4.63	4.27
Andrew John Hunter	0.07	0.08	–	–	0.15	0.15
Neil Douglas McGee	0.07	–	–	–	0.07	0.07
Wan Chi Tin <sup>(7)</sup>	0.07	–	–	–	0.07	0.07
<b>Non-executive Directors</b>						
Li Tzar Kuoi, Victor <sup>(8)</sup>	0.07	–	–	–	0.07	0.07
Frank John Sixt <sup>(9)</sup>	0.07	–	–	–	0.07	0.07
Ip Yuk-keung, Albert <sup>(1)(2)</sup>	0.14	–	–	–	0.14	0.14
Ralph Raymond Shea <sup>(1)(2)(3)</sup>	0.16	–	–	–	0.16	0.16
Wong Chung Hin <sup>(1)(2)(3)</sup>	0.16	–	–	–	0.16	0.16
Wu Ting Yuk, Anthony <sup>(1)</sup>	0.07	–	–	–	0.07	0.07
<b>Total for the year 2016</b>	<b>1.14</b>	<b>7.68</b>	<b>0.45</b>	<b>1.41</b>	<b>10.68</b>	
Total for the year 2015	1.14	7.18	0.43	1.41		10.16

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

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 THB484,500 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 THB484,500 from Ratchaburi Power Company Limited and \$2,710,000 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 \$4,630,000 from the Company. The director's emoluments received were paid back to Cheung Kong Infrastructure Holdings Limited, a substantial shareholder of the Company.

The five highest paid individuals of the Group included two directors (2015: two) whose total emoluments are shown above. The remuneration of the other three individuals (2015: three) who comprises the five highest paid individuals of the Group is set out below:

	2016 \$ million	2015 \$ million
Salary and other benefits	9.1	9.7
Retirement scheme contributions	0.6	0.7
	<b>9.7</b>	10.4

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

	2016 Number	2015 Number
\$1,000,001 – \$1,500,000	1	1
\$1,500,001 – \$2,000,000	2	2
\$2,500,001 – \$3,000,000	1	1
\$3,000,001 – \$3,500,000	2	1
\$4,000,001 – \$4,500,000	–	1

The remuneration of directors and senior management is as follows:

	2016 \$ million	2015 \$ million
Short-term employee benefits	24	23
Post-employment benefits	1	2
	<b>25</b>	25

At 31 December 2016 and 2015, 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 \$6,417 million (2015: \$7,732 million) and 2,134,261,654 ordinary shares (2015: 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 2016 and 2015.

## 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
<b>Cost:</b>					
At 1 January 2015	26	6	32	30	62
Additions	–	1	1	–	1
Disposals	–	(2)	(2)	–	(2)
<b>At 31 December 2015, 1 January 2016 and 31 December 2016</b>	<b>26</b>	<b>5</b>	<b>31</b>	<b>30</b>	<b>61</b>
<b>Accumulated amortisation and depreciation:</b>					
At 1 January 2015	15	3	18	12	30
Written back on disposals	–	(1)	(1)	–	(1)
Charge for the year	1	1	2	–	2
At 31 December 2015	16	3	19	12	31
At 1 January 2016	<b>16</b>	<b>3</b>	<b>19</b>	<b>12</b>	<b>31</b>
Charge for the year	–	–	–	<b>1</b>	<b>1</b>
<b>At 31 December 2016</b>	<b>16</b>	<b>3</b>	<b>19</b>	<b>13</b>	<b>32</b>
<b>Net book value:</b>					
<b>At 31 December 2016</b>	<b>10</b>	<b>2</b>	<b>12</b>	<b>17</b>	<b>29</b>
At 31 December 2015	10	2	12	18	30

NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Hong Kong dollars unless otherwise indicated)

### 13. Interest in joint ventures

	2016 \$ million	2015 \$ million
Share of net assets of unlisted joint ventures	34,532	33,281
Loans to unlisted joint ventures (see note below)	8,084	9,175
Amounts due from unlisted joint ventures (see note below)	123	173
	<b>42,739</b>	42,629
Share of total assets of unlisted joint ventures	<b>101,345</b>	104,655

The loans to unlisted joint ventures are unsecured, interest bearing at rates ranging from 6.6% per annum to 11.0% per annum (2015: 6.7% 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 \$4,390 million (2015: \$4,744 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 page 120 to page 121.

#### (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.		Zhuhai Power	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Current assets	3,150	4,416	3,808	1,996	696	3,113	296	350	316	-	5,873	4,970
Non-current assets	108,025	123,512	25,926	30,493	34,936	41,054	29,789	28,543	13,912	-	-	-
Current liabilities	(7,510)	(11,239)	(5,117)	(3,037)	(1,104)	(2,276)	(701)	(966)	(252)	-	(1,642)	(995)
Non-current liabilities	(63,837)	(70,365)	(17,254)	(20,459)	(30,898)	(36,251)	(16,069)	(14,635)	(3,415)	-	-	-

The above amounts of assets and liabilities include the following:

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		Zhuhai Power	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Cash and cash equivalents	776	1,811	43	91	227	2,560	22	31	133	-	5,497	4,690
Current financial liabilities (excluding trade and other payables and provisions)	(835)	(3,882)	(144)	(556)	-	-	(93)	(543)	-	-	-	-
Non-current financial liabilities (excluding trade and other payables and provisions)	(50,336)	(56,218)	(14,193)	(16,744)	(26,148)	(30,151)	(15,551)	(14,564)	(3,353)	-	-	-

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		Zhuhai Power	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Revenue	18,136	20,125	4,443	4,969	4,417	4,880	3,256	3,457	809	-	3,905	4,694
Profit from continuing operations	7,321	7,749	1,460	1,675	1,356	1,620	867	982	227	-	706	338
Other comprehensive income for the year	(3,029)	471	(705)	27	(1,832)	55	79	12	37	-	-	-
Total comprehensive income for the year	4,292	8,220	755	1,702	(476)	1,675	946	994	264	-	706	338
Dividends received from the joint ventures during the year	899	888	299	301	93	106	266	330	-	-	272	706

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

	UK Power Networks		Northern Gas Networks		Wales & West Gas Networks		Australian Gas Networks		Husky Midstream L.P.		Zhuhai Power	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Depreciation and amortisation	(2,225)	(2,481)	(459)	(814)	(727)	(991)	(492)	(474)	(184)	-	(120)	(574)
Interest income	326	381	-	1	12	10	2	4	-	-	51	106
Interest expense	(2,649)	(2,953)	(757)	(786)	(812)	(889)	(671)	(715)	(85)	-	-	-
Income tax (expense)/credit	(1,205)	(773)	(245)	70	26	353	(440)	(497)	(1)	-	(402)	(71)

## 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.		Zhuhai Power	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Net assets of the joint ventures	39,828	46,324	7,363	8,993	3,630	5,640	13,315	13,292	10,561	-	4,231	3,975
Group's effective interest	40.0%	40.0%	41.29%	41.29%	30.0%	30.0%	27.51%	27.51%	48.75%	-	45.0%	45.0%
Group's share of net assets of the joint ventures	15,931	18,530	3,040	3,712	1,089	1,692	3,663	3,657	5,148	-	1,905	1,789
Consolidation adjustments	60	74	-	-	-	-	-	-	(8)	-	-	-
Carrying amount of the Group's interest in joint ventures	15,991	18,604	3,040	3,712	1,089	1,692	3,663	3,657	5,140	-	1,905	1,789

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

	2016 \$ million	2015 \$ million Restated
The Group's share of net assets	3,704	3,827
The Group's share of profit from continuing operations	99	259
The Group's share of other comprehensive income	75	19
The Group's share of total comprehensive income	174	278

## 14. Interest in associates

	2016 \$ million	2015 \$ million
Share of net assets		
– Listed associate	16,881	16,583
– Unlisted associates	3,358	3,395
	20,239	19,978
Loans to unlisted associates (see note below)	3,889	3,868
Amounts due from associates (see note below)	74	73
	24,202	23,919

The market value (level 1 fair value measurement (see note 24(f))) of above listed associate, HKEI, at 31 December 2016 is \$18,873 million (2015: \$19,168 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 (2015: 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 2016, the Group's interest in an associate of \$321 million (2015: \$422 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 122.

### (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	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Current assets	<b>2,526</b>	8,199	<b>2,155</b>	2,711	<b>1,465</b>	2,371
Non-current assets	<b>105,824</b>	105,516	<b>36,324</b>	35,241	<b>46,608</b>	45,113
Current liabilities	<b>(7,509)</b>	(6,129)	<b>(4,955)</b>	(6,156)	<b>(9,976)</b>	(9,835)
Non-current liabilities	<b>(50,936)</b>	(58,574)	<b>(30,238)</b>	(28,412)	<b>(31,295)</b>	(31,220)

	HKEI		SA Power Networks		Victoria Power Networks	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Revenue	<b>11,420</b>	11,210	<b>6,170</b>	6,882	<b>7,459</b>	8,292
Profit from continuing operations	<b>3,599</b>	3,591	<b>523</b>	612	<b>1,010</b>	462
Other comprehensive income for the year	<b>832</b>	(253)	<b>(50)</b>	419	<b>104</b>	466
Total comprehensive income for the year	<b>4,431</b>	3,338	<b>473</b>	1,031	<b>1,114</b>	928
Dividends received from the associates during the year	<b>1,181</b>	1,464	<b>163</b>	148	–	–

## 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	
	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million	2016 \$ million	2015 \$ million
Net assets of the associates	<b>49,905</b>	49,012	<b>3,286</b>	3,384	<b>6,802</b>	6,429
Group's effective interest	<b>33.37%</b>	33.37%	<b>27.93%</b>	27.93%	<b>27.93%</b>	27.93%
Group's share of net assets of the associates	<b>16,655</b>	16,357	<b>918</b>	945	<b>1,899</b>	1,795
Consolidation adjustment	<b>226</b>	226	–	–	–	–
Carrying amount of the Group's interest in the associates	<b>16,881</b>	16,583	<b>918</b>	945	<b>1,899</b>	1,795

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

	2016 \$ million	2015 \$ million
The Group's share of net assets	<b>541</b>	655
The Group's share of profit from continuing operations	<b>67</b>	125
The Group's share of other comprehensive income	–	1
The Group's share of total comprehensive income	<b>67</b>	126

## 15. Other non-current financial assets

	2016 \$ million	2015 \$ million
Unlisted available-for-sale equity securities, at cost	<b>67</b>	67

## 16. Trade and other receivables

	2016 \$ million	2015 \$ million
Trade debtors (see note below)	–	1
Interest and other receivables	<b>79</b>	241
	<b>79</b>	242
Derivative financial instruments (see note 20)	<b>80</b>	144
Deposits and prepayments	<b>2</b>	8
	<b>161</b>	394

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.

The ageing analysis of trade debtors based on invoice date, which are neither individually nor collectively considered to be impaired, is as follows:

	2016 \$ million	2015 \$ million
1 to 3 months	–	1

## 17. Bank deposits and cash

### (a) Bank deposits and cash comprise:

	2016 \$ million	2015 \$ million
Deposits with banks and other financial institutions with 3 months or less to maturity when placed	<b>14,855</b>	66,044
Cash at bank and on hand	<b>357</b>	53
Cash and cash equivalents in the consolidated cash flow statement	<b>15,212</b>	66,097
Deposits with banks and other financial institutions with more than 3 months to maturity when placed	<b>46,498</b>	2,052
Bank deposits and cash in the consolidated statement of financial position	<b>61,710</b>	68,149

## 17. Bank deposits and cash (Continued)

### (b) Reconciliation of profit before taxation to cash (used in)/generated from operations:

	Note	2016 \$ million	2015 \$ million
Profit before taxation		6,405	7,721
Adjustments for:			
Share of profits less losses of joint ventures		(4,705)	(4,958)
Share of profits less losses of associates		(1,696)	(1,789)
Interest income	4,5	(1,786)	(1,851)
Dividend income from unlisted available-for-sale equity securities	4	(44)	(59)
Finance costs	7	248	264
Amortisation of leasehold land	8	1	–
Depreciation	8	–	2
Property, plant and equipment written off	8	–	1
Unrealised exchange loss		37	58
Financial instrument revaluation (gain)/loss		(44)	2
Loss on partial disposal of an associate	5	–	532
Changes in working capital:			
Decrease in trade and other receivables		181	808
Increase/(decrease) in trade and other payables		577	(550)
Decrease/(increase) in amounts due from joint ventures		12	(3)
Decrease in amounts due from associates		–	2
Increase in net employee retirement benefit liabilities		1	3
Cash (used in)/generated from operations		(813)	183

## 18. Trade and other payables

	2016 \$ million	2015 \$ million
Creditors measured at amortised cost (see note below)	2,595	2,034
Derivative financial instruments (see note 20)	–	44
	2,595	2,078

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

Creditors' ageing is analysed as follows:

	2016 \$ million	2015 \$ million
Due within 1 month or on demand	64	26
Due after 1 month but within 3 months	1	6
Due after 3 months but within 12 months	2,530	2,002
	2,595	2,034

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

	2016 \$ million	2015 \$ million
Bank loans	<b>8,514</b>	9,405

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 2016 and 2015, 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:

	2016 \$ million	2015 \$ million
After 1 year but within 2 years	<b>5,069</b>	–
After 2 years but within 5 years	<b>3,445</b>	9,405
	<b>8,514</b>	9,405

## 20. Derivative financial instruments

	2016		2015	
	Assets \$ million	Liabilities \$ million	Assets \$ million	Liabilities \$ million
<b>Derivative financial instruments used for hedging:</b>				
Cash flow hedges				
Interest rate swaps	45	(41)	89	(51)
Net investment hedges				
Forward foreign exchange contracts	881	(11)	222	(19)
<b>Derivative financial instruments not qualifying as accounting hedges:</b>				
Forward foreign exchange contracts	–	–	–	(44)
	<b>926</b>	<b>(52)</b>	311	(114)
Analysed as:				
Current	80	–	144	(44)
Non-current	846	(52)	167	(70)
	<b>926</b>	<b>(52)</b>	311	(114)

## 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 31 December 2013. 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 2016 was determined in accordance with HKAS 19 (2011), *Employee benefits*.

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

	<b>2016</b> <b>\$ million</b>	2015 \$ million
Present value of defined benefit obligations	<b>(407)</b>	(411)
Fair value of assets of the Schemes	<b>266</b>	274
	<b>(141)</b>	(137)
Represented by:		
Employee retirement benefit assets	<b>4</b>	3
Employee retirement benefit liabilities	<b>(145)</b>	(140)
	<b>(141)</b>	(137)

The assets of the Schemes did not include ordinary shares issued by the Company for the years ended 31 December 2016 and 2015.

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:

	<b>2016</b> <b>\$ million</b>	2015 \$ million
At 1 January	<b>411</b>	428
Current service cost	–	1
Interest cost	<b>8</b>	7
Actuarial (gain)/loss due to:		
– Changes in liability experience	<b>(1)</b>	(1)
– Changes in financial assumptions	<b>(1)</b>	11
– Changes in demographic assumptions	<b>10</b>	–
Benefits paid	<b>(20)</b>	(35)
At 31 December	<b>407</b>	411

## 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:

	2016 \$ million	2015 \$ million
At 1 January	274	310
Interest income on the Schemes’ assets	6	6
Return on Schemes’ assets, excluding interest income	5	(7)
Employer contributions paid to the Schemes	1	–
Benefits paid	(20)	(35)
At 31 December	<b>266</b>	274

The Group expects to contribute below \$1 million to its defined benefit retirement schemes in 2017.

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

	2016 \$ million	2015 \$ million
Current service cost	–	1
Net interest on net defined benefit asset/liability	2	1
	<b>2</b>	2

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

	2016 \$ million	2015 \$ million
Other operating costs	2	2

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

	2016 \$ million	2015 \$ million
At 1 January	175	158
Remeasurement of net defined benefit asset/liability recognised in the consolidated statement of comprehensive income during the year	3	17
At 31 December	<b>178</b>	175

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

	2016 \$ million	2015 \$ million
Hong Kong equities	36	32
European equities	18	18
North American equities	47	43
Other Asia Pacific equities	18	15
Global bonds	145	162
Deposits, cash and others	2	4
	<b>266</b>	274

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:

	2016	2015
Discount rate		
– The Pension Scheme	2.1%	2.1%
– The Guaranteed Return Scheme	1.8%	1.4%
Long term salary increase rate	Not applicable	Not applicable
Future pension increase rate	2.5%	2.5%

(ix) Sensitivity analysis

(a) The Pension Scheme

	2016 \$ million	2015 \$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	(9)	(9)
– decrease by 0.25%	9	9
Pension increase rate		
– increase by 0.25%	9	9
– decrease by 0.25%	(8)	(8)
Mortality rate applied to specific age		
– set forward one year	(13)	(13)
– set backward one year	13	13

## 21. Employee retirement benefits (Continued)

### (a) Defined benefit retirement schemes (“the Schemes”) (Continued)

(ix) Sensitivity analysis (Continued)

(b) The Guaranteed Return Scheme

	2016 \$ million	2015 \$ million
Actuarial assumptions		
Discount rate		
– increase by 0.25%	(2)	(2)
– decrease by 0.25%	2	2
Interest to be credited		
– increase by 0.25%	2	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:

	2016 No. of years	2015 No. of years
The Pension Scheme	11.4	11.5
The Guaranteed Return Scheme	6.8	7.9

### (b) Defined contribution retirement scheme

	2016 \$ million	2015 \$ million
Expenses recognised in profit or loss	1	1

No forfeited contributions have been received during the year (2015: \$Nil).

## 22. Income tax in the consolidated statement of financial position

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

	2016 \$ million	2015 \$ million
Tax provision for the year	57	46
Provisional tax paid	(8)	(6)
Tax (credit)/provision relating to prior years	(3)	1
Current tax payable	<b>46</b>	41

### (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 2015	(4)	–	(4)
Charged to other comprehensive income	31	–	31
At 31 December 2015	27	–	27
At 1 January 2016	<b>27</b>	–	<b>27</b>
Credited to profit or loss	–	<b>(19)</b>	<b>(19)</b>
Credited to other comprehensive income	<b>(13)</b>	–	<b>(13)</b>
<b>At 31 December 2016</b>	<b>14</b>	<b>(19)</b>	<b>(5)</b>

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

	2016 \$ million	2015 \$ million
Net deferred tax assets recognised in the consolidated statement of financial position	<b>(19)</b>	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	<b>14</b>	27
	<b>(5)</b>	27

The Group had no material unrecognised deferred tax assets or liabilities as at 31 December 2016 and 2015.

## 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:

	2016 \$ million	2015 \$ million
Interim dividend declared and paid of \$0.70 per ordinary share (2015: \$0.68 per ordinary share)	1,494	1,451
Special interim dividend declared and paid after the end of the reporting period of \$5.00 per ordinary share (2015: \$Nil per ordinary share)	10,671	–
Final dividend proposed after the end of the reporting period of \$2.02 per ordinary share (2015: \$2.02 per ordinary share)	4,311	4,311
	<b>16,476</b>	<b>5,762</b>

The special interim dividend and final dividend declared and paid, or proposed after the end of the reporting period are based on 2,134,261,654 ordinary shares (2015: 2,134,261,654 ordinary shares), being the total number of issued shares at the year end. The special interim dividend and final dividend declared and paid, 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, approved and paid during the year:

	2016 \$ million	2015 \$ million
Final dividend in respect of the previous financial year, approved and paid during the year, of \$2.02 per ordinary share (2015: \$2.01 per ordinary share)	4,311	4,290

### (c) Share capital

	Number of shares	2016 \$ million	2015 \$ million
<b>Issued and fully paid:</b>			
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 2016, the Group's strategy, which was unchanged from 2015, 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 2016, the net cash position of the Group amounted to \$53,196 million (2015: \$58,744 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.

\$ million	Note	2016			2015		
		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
<b>Financial assets</b>		20					
Interest rate swaps		45	-	45	89	-	89
Forward foreign exchange contracts		881	(22)	859	222	(19)	203
Total		926	(22)	904	311	(19)	292
<b>Financial liabilities</b>		20					
Interest rate swaps		41	(22)	19	51	(19)	32
Forward foreign exchange contracts		11	-	11	63	-	63
Total		52	(22)	30	114	(19)	95

## (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 \$61,710 million (2015: \$68,149 million) and no undrawn committed bank facilities at 31 December 2016 (2015: \$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.

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

\$ million	2015 Contractual undiscounted cash outflow/(inflow)				Total
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	
<b>Non-derivative financial liabilities</b>					
Bank loans and other borrowings and interest accruals	90	81	9,449	-	9,620
Trade and other payables	2,053	-	-	-	2,053
<b>Derivative financial instruments</b>					
<b>Net settled</b>					
Interest rate swaps	56	55	75	91	277
<b>Gross settled</b>					
Forward foreign exchange contracts:					
- outflow	8,809	-	-	5,394	14,203
- inflow	(8,900)	-	-	(5,838)	(14,738)
	<b>2,108</b>	<b>136</b>	<b>9,524</b>	<b>(353)</b>	<b>11,415</b>

### (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 cross currency interest rate swaps and interest rate derivatives to manage the exposure in accordance with its treasury policy. At 31 December 2016, the Group had interest rate swaps with a total notional amount of \$6,684 million (2015: \$7,185 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 interest rate swaps designated as cash flow or fair value hedging instruments (see (i) above).

	2016		2015	
	Weighted average interest rate %	\$ million	Weighted average interest rate %	\$ million
<b>Net fixed rate assets/(liabilities)</b>				
Loans to unlisted joint ventures/associates	10.0	11,055	10.0	11,942
Deposits with banks and other financial institutions	1.2	61,353	0.7	68,096
Bank loans and other borrowings	2.1	(6,652)	2.0	(7,177)
		<u>65,756</u>		<u>72,861</u>
<b>Net variable rate assets/(liabilities)</b>				
Loans to unlisted joint ventures/associates	6.6	918	6.7	1,101
Cash at bank and on hand	0.4	357	0.2	53
Bank loans and other borrowings	1.6	(1,862)	1.8	(2,228)
		<u>(587)</u>		<u>(1,074)</u>

#### (iii) Sensitivity analysis

At 31 December 2016, 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 \$10 million (2015: decreased/increased by approximately \$12 million). Other components of consolidated equity would have decreased/increased by approximately \$205 million (2015: decreased/increased by approximately \$263 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 2015.

## 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 2016 was \$8,553 million (2015: \$9,426 million). The fair value of forward foreign exchange contracts at 31 December 2016 was an asset of \$870 million (2015: \$203 million).

#### (ii) Recognised assets and liabilities

The Group uses forward foreign exchange contracts to manage its foreign currency risk arising from foreign currency transactions. The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

'million	2016 Exposure to foreign currencies			
	USD	RMB	GBP	AUD
Trade and other receivables	1	–	4	5
Bank deposits and cash	642	118	487	289
Trade and other payables	–	–	–	(2)
Gross exposure arising from recognised assets and liabilities	643	118	491	292
Notional amounts of forward foreign exchange contracts not qualified as economic hedges	–	–	–	–
Overall exposure	643	118	491	292

'million	2015 Exposure to foreign currencies			
	USD	RMB	GBP	AUD
Trade and other receivables	1	–	4	4
Bank deposits and cash	896	114	296	166
Trade and other payables	–	–	–	(2)
Gross exposure arising from recognised assets and liabilities	897	114	300	168
Notional amounts of forward foreign exchange contracts not qualified as economic hedges	–	–	187	–
Overall exposure	897	114	487	168

### (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	2016		2015	
	Effect on profit for the year and revenue reserve increase/(decrease)	Effect on other components of equity increase/(decrease)	Effect on profit for the year and revenue reserve increase/(decrease)	Effect on other components of equity increase/(decrease)
Sterling pounds	472	–	562	–
Australian dollars	164	–	94	–
Renminbi	13	–	14	–

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 2015.

### (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 2015.

## 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)	
	2016 \$ million	2015 \$ million
<b>Financial assets</b>		
Derivative financial instruments:		
– Interest rate swaps	45	89
– Forward foreign exchange contracts	881	222
	<b>926</b>	311
<b>Financial liabilities</b>		
Derivative financial instruments:		
– Interest rate swaps	(41)	(51)
– Forward foreign exchange contracts	(11)	(63)
	<b>(52)</b>	(114)

##### (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 value of interest rate swaps is measured by discounting the future cash flows of the contracts at the current market interest rate.

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

Unlisted available-for-sale equity securities, 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 2016 and 2015.

## 25. Capital commitments

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

	2016 \$ million	2015 \$ million
Contracted for:		
Investment in a joint venture	1,465	10
Authorised but not contracted for:		
Capital expenditure for property, plant and equipment	1	1
Investment in a joint venture	144	141
	145	142

## 26. Contingent liabilities

	2016 \$ million	2015 \$ million
Financial guarantees issued in respect of banking facilities available to a joint venture	97	97
Other guarantees given in respect of a joint venture	724	695
	821	792

## 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 Cheung Kong Infrastructure Holdings Limited \$30 million (2015: \$31 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 \$783 million (2015: \$782 million) for the year. The outstanding balances with joint ventures are disclosed in note 13.
- (ii) Tax credit claimed under the consortium relief received/receivable from joint ventures in the United Kingdom amounted to \$50 million (2015: \$57 million) for the year.

### (c) Associates

- (i) Interest income received/receivable from associates in respect of the loans to associates amounted to \$453 million (2015: \$457 million) for the year. The outstanding balances with associates are disclosed in note 14.

## 27. Material related party transactions (Continued)

### (c) Associates (Continued)

- (ii) Other operating costs included support service charge recovered by an associate amounted to \$37 million (2015: \$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 (2015: \$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. Cheung Kong Infrastructure Holdings Limited currently holds approximately 38.87% 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 to 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	2016 \$ million	2015 \$ million
<b>Non-current assets</b>			
Property, plant and equipment		1	1
Investments in subsidiaries	30(a)	108,253	109,867
		<b>108,254</b>	109,868
<b>Current assets</b>			
Trade and other receivables		2	8
Bank deposits and cash		28	24
		<b>30</b>	32
<b>Current liabilities</b>			
Trade and other payables		(288)	(327)
<b>Net current liabilities</b>			
		<b>(258)</b>	(295)
<b>Total assets less current liabilities</b>			
		<b>107,996</b>	109,573
<b>Non-current liabilities</b>			
Employee retirement benefit liabilities		(145)	(140)
<b>Net assets</b>			
		<b>107,851</b>	109,433
<b>Capital and reserves</b>			
Share capital	23(c)	6,610	6,610
Reserves		101,241	102,823
<b>Total equity attributable to equity shareholders of the Company</b>			
	30(b)	<b>107,851</b>	109,433

Approved and authorised for issue by the Board of Directors on 21 March 2017.

**Tsai Chao Chung, Charles**  
Director

**Chan Loi Shun**  
Director

#### (a) Investments in subsidiaries

Investments in subsidiaries included net amounts due from subsidiary companies totalling \$95,903 million (2015: \$102,756 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 118 to 119.

### 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 2015	6,610	100,867	4,290	111,767
Changes in equity for 2015:				
Profit for the year	–	3,423	–	3,423
Other comprehensive income	–	(16)	–	(16)
Total comprehensive income	–	3,407	–	3,407
Final dividend in respect of the previous year approved and paid (see note 23(b)(ii))	–	–	(4,290)	(4,290)
Interim dividend paid (see note 23(b)(i))	–	(1,451)	–	(1,451)
Proposed final dividend (see note 23(b)(i))	–	(4,311)	4,311	–
<b>Balance at 31 December 2015 and 1 January 2016</b>	<b>6,610</b>	<b>98,512</b>	<b>4,311</b>	<b>109,433</b>
Change 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	–
<b>Balance at 31 December 2016</b>	<b>6,610</b>	<b>86,259</b>	<b>14,982</b>	<b>107,851</b>

The net profit of the Company is \$4,225 million (2015: \$3,423 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. After the end of the reporting period, the Directors declared a special interim dividend of \$5.00 (2015: \$Nil) per ordinary share, amounting to \$10,671 million and proposed a final dividend of \$2.02 (2015: \$2.02) per ordinary share, amounting to \$4,311 million (2015: \$4,311 million).

## 31. Events after the reporting period

Other than those disclosed elsewhere in the consolidated financial statements, the following significant event took place subsequent to the end of the reporting period.

On 16 January 2017, Cheung Kong Property Holdings Limited, Cheung Kong Infrastructure Holdings Limited and the Company jointly announced that they have entered into a Consortium Formation Agreement for the formation of a joint venture to acquire 100% of DUET Group by way of schemes of arrangement in Australia, pursuant to which the Company will subscribe for a 20% interest in the joint venture, with its maximum financial commitment of the Company under the transaction being approximately AUD1,506 million (equivalent to approximately HK\$8,629 million). The transaction was approved by the Company's independent shareholders in the general meeting on 14 March 2017.

DUET Group is an owner and operator of energy utility assets in Australia, United States, the United Kingdom and Europe. It consists of four separate legal entities that are traded together as stapled securities which are listed on the Australian Securities Exchange (ASX code: DUE). The schemes of arrangement to acquire 100% of DUET Group remain subject to certain conditions as at the reporting date, and may or may not proceed. Details of the transaction are set out in the Company's announcements dated 16 January 2017 and the circular dated 22 February 2017.

## 32. Possible impact of amendments and new standards issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2016 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
• Amendments to HKAS 7, <i>Statement of cash flows: Disclosure initiative</i>	1 January 2017
• Amendments to HKAS 12, <i>Income taxes: Recognition of deferred tax assets for unrealized losses</i>	1 January 2017
• HKFRS 9, <i>Financial instruments</i>	1 January 2018
• HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
• HKFRS 16, <i>Leases</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 of 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 of financial liabilities.

The Group is presently studying the implications of applying HKFRS 9 but it is impracticable to quantify its effect as at the date of publication of these consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Hong Kong dollars unless otherwise indicated)

## Appendix 1

### Segment information

\$ million	2016								
	Investment in HKEI*	Investments					Sub-total	All other activities	Total
		United Kingdom	Australia	Mainland China	Others				
<b>For the year ended 31 December</b>									
<b>Revenue</b>									
Revenue	–	556	453	44	227	1,280	8	1,288	
Other net income/(loss)	–	–	–	–	6	6	(777)	(771)	
<b>Reportable segment revenue</b>	<b>–</b>	<b>556</b>	<b>453</b>	<b>44</b>	<b>233</b>	<b>1,286</b>	<b>(769)</b>	<b>517</b>	
<b>Result</b>									
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	
<b>Reportable segment profit</b>	<b>1,201</b>	<b>4,443</b>	<b>973</b>	<b>308</b>	<b>498</b>	<b>6,222</b>	<b>(1,006)</b>	<b>6,417</b>	
<b>At 31 December</b>									
<b>Assets</b>									
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	
<b>Reportable segment assets</b>	<b>16,881</b>	<b>26,527</b>	<b>10,623</b>	<b>3,955</b>	<b>9,960</b>	<b>51,065</b>	<b>61,831</b>	<b>129,777</b>	
<b>Liabilities</b>									
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)	
<b>Reportable segment liabilities</b>	<b>–</b>	<b>(4,361)</b>	<b>(3,544)</b>	<b>(3)</b>	<b>(884)</b>	<b>(8,792)</b>	<b>(2,574)</b>	<b>(11,366)</b>	
<b>For the year ended 31 December</b>									
<b>Other information</b>									
Capital expenditure	–	–	–	–	–	–	–	–	

\$ million	2015								
	Investment in HKEI*	Investments					Sub-total	All other activities	Total
		United Kingdom	Australia	Mainland China	Others				
<b>For the year ended 31 December</b>									
<b>Revenue</b>									
Revenue	–	627	457	59	155	1,298	10	1,308	
Other net income/(loss)	–	–	–	–	6	6	(293)	(287)	
<b>Reportable segment revenue</b>	<b>–</b>	<b>627</b>	<b>457</b>	<b>59</b>	<b>161</b>	<b>1,304</b>	<b>(283)</b>	<b>1,021</b>	
<b>Result</b>									
Segment earnings	–	627	457	36	161	1,281	(121)	1,160	
Loss on partial disposal of an associate	–	–	–	–	–	–	(532)	(532)	
Depreciation and amortisation	–	–	–	–	–	–	(2)	(2)	
Bank deposit interest income	–	–	–	–	–	–	612	612	
Operating profit	–	627	457	36	161	1,281	(43)	1,238	
Finance costs	–	(109)	(137)	–	(18)	(264)	–	(264)	
Share of profits less losses of joint ventures and associates	1,364	4,324	607	297	152	5,380	3	6,747	
Profit before taxation	1,364	4,842	927	333	295	6,397	(40)	7,721	
Income tax	–	57	(40)	(6)	–	11	–	11	
<b>Reportable segment profit</b>	<b>1,364</b>	<b>4,899</b>	<b>887</b>	<b>327</b>	<b>295</b>	<b>6,408</b>	<b>(40)</b>	<b>7,732</b>	
<b>At 31 December</b>									
<b>Assets</b>									
Property, plant and equipment and leasehold land	–	–	–	–	–	–	30	30	
Other assets	–	212	99	67	–	378	253	631	
Interest in joint ventures and associates	16,583	30,830	10,386	3,910	4,832	49,958	7	66,548	
Bank deposits and cash	–	–	–	–	–	–	68,149	68,149	
<b>Reportable segment assets</b>	<b>16,583</b>	<b>31,042</b>	<b>10,485</b>	<b>3,977</b>	<b>4,832</b>	<b>50,336</b>	<b>68,439</b>	<b>135,358</b>	
<b>Liabilities</b>									
Segment liabilities	–	(114)	(7)	(2)	(53)	(176)	(2,112)	(2,288)	
Current and deferred taxation	–	–	(68)	–	–	(68)	–	(68)	
Interest-bearing borrowings	–	(5,107)	(3,455)	–	(843)	(9,405)	–	(9,405)	
<b>Reportable segment liabilities</b>	<b>–</b>	<b>(5,221)</b>	<b>(3,530)</b>	<b>(2)</b>	<b>(896)</b>	<b>(9,649)</b>	<b>(2,112)</b>	<b>(11,761)</b>	
<b>For the year ended 31 December</b>									
<b>Other information</b>									
Capital expenditure	–	–	–	–	–	–	1	1	

Note:

\* As at 1 January 2015, the Group had a 49.9% equity interest in HKEI. On 9 June 2015, the Group disposed of a 16.53% stake in HKEI and retained approximately 33.37% stake at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Hong Kong dollars unless otherwise indicated)

## Appendix 2

### Principal subsidiaries

The following list contains only the particulars of subsidiaries as at 31 December 2016 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
Constant Wealth Limited	US\$1	100	British Virgin Islands	Financing
Devin International Limited	US\$2	100*	British Virgin Islands	Investment holding
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
Kind Eagle Investment Limited	HK\$666,553,298	100	Hong Kong	Investment holding
More Advance Development Limited	HK\$331,801,191	100*	Hong Kong	Investment holding and financing
Ocean Dawn Investments Limited	US\$1	100	British Virgin Islands	Investment holding

\* Indirectly held

Name of company	Issued share capital	Percentage of equity held by the Company	Place of incorporation/ operation	Principal activity
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	GBP330,420,782	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\$7,083,364,747	100*	Hong Kong	Investment holding and financing
Premier Zone Limited	US\$1	100*	British Virgin Islands/ Hong Kong	Property holding
Quickview Limited	US\$1	100	British Virgin Islands	Investment holding
Sigerson Business Corp.	US\$101	100*	British Virgin Islands	Investment holding
Smarter Corporate Limited	US\$1	100*	British Virgin Islands	Property holding
Sparkle Gain Investment Limited	HK\$5,238,963,067	100*	Hong Kong	Investment holding
Superb Year Limited	US\$2	100*	British Virgin Islands	Investment holding
Vanora Holdings Limited	US\$1	100*	British Virgin Islands	Financing
Well Joint Investment Limited	HK\$2,457,616,097	100*	Hong Kong	Investment holding

\* Indirectly held

NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Hong Kong dollars unless otherwise indicated)

## Appendix 3

### Principal joint ventures

The following list contains only the particulars of joint ventures as at 31 December 2016 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
Electricity First Limited (note (d))	GBP4	50%	United Kingdom	Electricity generation	Equity
Guangdong Zhuhai Jinwan Power Company Limited (note (e))	RMB822,250,000 and US\$83,340,993	45%	People's Republic of China	Electricity generation	Equity
Guangdong Zhuhai Power Station Company Limited (note (f))	RMB1,765,000,000 and US\$166,000,000	45%	People's Republic of China	Electricity generation	Equity
Husky Midstream Limited Partnership (note (g))	C\$1,153,845,000 Class A units C\$621,301,154 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 (h))	EUR50,000	50%	Portugal	Generation and sale of wind energy	Equity
Northern Gas Networks Holdings Limited (note (i))	GBP71,670,980	41.29%	United Kingdom	Gas distribution	Equity
Transmission Operations (Australia) Pty Limited (note (j))	A\$7,888,350	50%	Australia	Electricity transmission	Equity
Transmission Operations (Australia) 2 Pty Limited (note (j))	A\$11,102,000	50%	Australia	Electricity transmission	Equity
UK Power Networks Holdings Limited (note (k))	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 (l))	GBP290,272,506	30%	United Kingdom	Gas distribution	Equity
Wellington Electricity Distribution Network Limited (note (m))	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) Electricity First Limited holds a 50% stake in Seabank Power Limited, an electricity-generating company located near Bristol in the United Kingdom.
- (e) Guangdong Zhuhai Jinwan Power Company Limited ("Jinwan Power") owns and operates power plants in the People's Republic of China.
- (f) Guangdong Zhuhai Power Station Company Limited ("Zhuhai Power") owns and operates power plants in the People's Republic of China.
- (g) 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.
- (h) 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.
- (i) Northern Gas Networks Holdings Limited operates a gas distribution network in the North of England.
- (j) Australian Energy Operations Pty Ltd (formerly known as "Transmission General Holdings (Australia) Pty Limited") 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 to the main power grid.
- (k) 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.
- (l) Wales & West Gas Networks (Holdings) Limited is engaged in gas distribution in Wales and the southwest of England.
- (m) Wellington Electricity Distribution Network Limited supplies electricity to Wellington, Porirua and Hutt Valley regions of New Zealand.

NOTES TO THE FINANCIAL STATEMENTS  
(Expressed in Hong Kong dollars unless otherwise indicated)

## Appendix 4

### Principal associates

The following list contains only the particulars of associates as at 31 December 2016 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.