# Notes to the Financial Statements

## 1 Basis of preparation and presentation

The consolidated financial statements of CK Hutchison Holdings Limited (the "Company" or "CK Hutchison") and its subsidiaries (the "Group") have been prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance Cap. 622 and Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Group has initially applied Hong Kong Financial Reporting Standard 9 "Financial Instruments" ("HKFRS 9") and Hong Kong Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("HKFRS 15") with effect from 1 January 2018 and has taken transitional provisions and methods not to restate comparative information for prior periods. The comparative information continues to be reported under the accounting policies prevailing prior to 1 January 2018. The Group had to change its accounting policies with effect from 1 January 2018 as a result of adopting HKFRS 9 and HKFRS 15. The effect on adoption of these two standards is summarised in note 41. Except for these changes, the accounting policies applied and methods of computation used in the preparation of these financial statements are consistent with those used in the preparation of the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2017. A list of the significant accounting policies adopted in the preparation of these financial statements is set out in note 40.

These financial statements have been prepared on a historical cost basis, except for the following:

- defined benefit plans plan assets, certain properties, certain financial assets and liabilities (including derivative instruments) which are measured at fair values, and

- non-current assets and disposal groups classified as held for sale which are measured at the lower of carrying amount and fair value less cost to sell.

Non-current assets classified as held for sale and the assets and liabilities of a disposal group classified as held for sale are presented separately from other assets and liabilities in the consolidated statement of financial position. Details of the major classes of assets and liabilities classified as held for sale are separately disclosed in note 22. Other assets and liabilities are presented in these financial statements on a net of reclassification to held for sale basis.

With effect from 1 January 2018, "Investment properties" are included in "Other non-current assets" and "Total ordinary shareholders' funds" are shown as a separate item within the "Capital and reserves" section of the consolidated statement of financial position. This change in presentation has no impact on the total equity. The comparative information has been reclassified accordingly.

## 2 Revenue

(a) An analysis of revenue of the Company and subsidiary companies is as follows:

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| Sale of goods | **165,781** | 152,235 |
| Revenue from services | **105,288** | 92,035 |
| Interest | **5,948** | 4,135 |
| Dividend income | **112** | 110 |
| | **277,129** | 248,515 |

## 2 Revenue (continued)

(b) Further details are set out below in respect of revenue of the Company and subsidiary companies, including the disaggregation of revenue from contracts with customers within the scope of HKFRS 15:

(i) By segments

| | Revenue from contracts with customers | | | Revenue | |
|---|---|---|---|---|---|
| | **recognised at a point in time HK$ million** | **recognised over time HK$ million** | **Subtotal HK$ million** | **from other sources HK$ million** | **2018 Total HK$ million** |
| Ports and Related Services | **–** | **26,425** | **26,425** | **162** | **26,587** |
| Retail | **133,371** | **204** | **133,575** | **–** | **133,575** |
| Infrastructure | **3,834** | **10,600** | **14,434** | **6,192** | **20,626** |
| Husky Energy | **–** | **–** | **–** | **–** | **–** |
| **3** Group Europe | **12,534** | **50,321** | **62,855** | **–** | **62,855** |
| Hutchison Telecommunications Hong Kong Holdings | **4,250** | **3,662** | **7,912** | **–** | **7,912** |
| Hutchison Asia Telecommunications | **–** | **8,220** | **8,220** | **–** | **8,220** |
| Finance & Investments and Others | **13,404** | **764** | **14,168** | **3,186** | **17,354** |
| | **167,393** | **100,196** | **267,589** | **9,540** | **277,129** |

| | Revenue from contracts with customers | | | Revenue | |
|---|---|---|---|---|---|
| | recognised at a point in time HK$ million | recognised over time HK$ million | Subtotal HK$ million | from other sources HK$ million | 2017 Total HK$ million |
| Ports and Related Services | – | 25,640 | 25,640 | 122 | 25,762 |
| Retail | 123,834 | – | 123,834 | – | 123,834 |
| Infrastructure | 3,436 | 10,035 | 13,471 | 5,128 | 18,599 |
| Husky Energy | – | – | – | – | – |
| **3** Group Europe | 10,362 | 36,186 | 46,548 | – | 46,548 |
| Hutchison Telecommunications Hong Kong Holdings | 2,899 | 6,786 | 9,685 | – | 9,685 |
| Hutchison Asia Telecommunications | – | 7,695 | 7,695 | – | 7,695 |
| Finance & Investments and Others | 13,705 | 419 | 14,124 | 2,268 | 16,392 |
| | 154,236 | 86,761 | 240,997 | 7,518 | 248,515 |

## 2 Revenue (continued)

(b) Further details are set out below in respect of revenue of the Company and subsidiary companies, including the disaggregation of revenue from contracts with customers within the scope of HKFRS 15 (continued):

(ii) By geographical locations

| | **Revenue from contracts with customers** | | | **Revenue** | |
|---|---|---|---|---|---|
| | **recognised at a point in time HK$ million** | **recognised over time HK$ million** | **Subtotal HK$ million** | **from other sources HK$ million** | **2018 Total HK$ million** |
| Hong Kong | **35,404** | **3,537** | **38,941** | **34** | **38,975** |
| Mainland China | **31,669** | **570** | **32,239** | **5** | **32,244** |
| Europe | **63,108** | **71,154** | **134,262** | **5,068** | **139,330** |
| Canada | **–** | **392** | **392** | **231** | **623** |
| Asia, Australia and Others | **23,808** | **23,779** | **47,587** | **1,016** | **48,603** |
| Finance & Investments and Others | **13,404** | **764** | **14,168** | **3,186** | **17,354** |
| | **167,393** | **100,196** | **267,589** | **9,540** | **277,129** |

| | Revenue from contracts with customers | | | Revenue | |
|---|---|---|---|---|---|
| | recognised at a point in time HK$ million | recognised over time HK$ million | Subtotal HK$ million | from other sources HK$ million | 2017 Total HK$ million |
| Hong Kong | 33,675 | 6,596 | 40,271 | 31 | 40,302 |
| Mainland China | 28,785 | 659 | 29,444 | 2 | 29,446 |
| Europe | 57,536 | 55,489 | 113,025 | 4,278 | 117,303 |
| Canada | – | 357 | 357 | 112 | 469 |
| Asia, Australia and Others | 20,535 | 23,241 | 43,776 | 827 | 44,603 |
| Finance & Investments and Others | 13,705 | 419 | 14,124 | 2,268 | 16,392 |
| | 154,236 | 86,761 | 240,997 | 7,518 | 248,515 |

## 2 Revenue (continued)

(c) Contract balances related to contracts with customers within the scope of HKFRS 15

Under HKFRS 15, a contract asset or a contract liability is generated when either party to the contract performs, depending on the relationship between the entity's performance and the customer's payment. When an entity satisfies a performance obligation by transferring a promised goods or service, the entity has earned a right to consideration from the customer and, therefore, has a contract asset. When the customer performs first, for example, by prepaying its promised consideration, the entity has a contract liability. Generally, contract assets may represent conditional or unconditional rights to consideration. The right would be conditional, for example, when an entity is required first to satisfy another performance obligation in the contract before it is entitled to payment from the customer. If an entity has an unconditional right to receive consideration from the customer, the contract asset is classified as and accounted for as a receivable and presented separately from other contract assets. A right is unconditional if nothing other than the passage of time is required before payment of that consideration is due.

The following table provides information about trade receivables, contract assets and contract liabilities from contracts with customers within the scope of HKFRS 15.

| | **31 December 2018 HK$ million** | 1 January 2018 HK$ million |
|---|---|---|
| Trade receivables (see note 21) | **19,255** | 11,546 |
| Contract assets (see notes 18 and 21) | **6,943** | 3,842 |
| Contract liabilities (see notes 24 and 28) | **(5,883)** | (6,325) |

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

Trade receivables are non-interest bearing and are generally on terms of 30 to 45 days. The acquisition of subsidiary companies during the year resulted in increase in trade receivables of HK$8,596 million. In 2018, HK$1,569 million was recognised in the income statement as provision for expected credit losses on trade receivables.

Contract assets primarily relate to the Group's rights to consideration for delivered services and devices but not billed at the reporting date. Contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. The acquisition of a subsidiary during the year resulted in increase in contract assets of HK$1,863 million. In 2018, HK$853 million was recognised in the income statement as provision for expected credit losses on contract assets.

Contract liabilities primarily relate to the Group's unfulfilled performance obligations for which consideration has been received at the reporting date. On fulfilment of its obligations, the contract liability is recognised in revenue in the period when the performance obligations are fulfilled. HK$3,224 million was recognised as revenue in 2018 that was included in the contract liability balance at the beginning of the year. The reclassification of the Group's interests in certain infrastructure investments as held for sale has resulted in decrease in contract liabilities of HK$4,535 million.

(d) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied or partially unsatisfied at the reporting date. The Group applies the practical expedient in paragraph 121 of HKFRS 15 and does not disclose the amount of the transaction price allocated to the remaining performance obligations for contracts with an original expected duration of one year or less. In addition, contracts that include a promise to perform an undefined quantity of tasks at a fixed contractual rate per unit, with no contractual minimums that would make some or all of the consideration fixed, are not included in the following analysis as the possible transaction prices and the ultimate consideration for those contracts will depend on the occurrence or non-occurrence of future customer usage. In light of these basis of preparation, the following does not reflect the expectation of the Group's performance. The analysis is solely for compliance with HKFRS 15 disclosure requirement in respect of transaction price allocated the remaining performance obligations.

| | **2018 HK$ million** |
|---|---|
| Within one year | **17,591** |
| More than one year | **7,732** |
| | **25,323** |

## 3 Operating segment information

(a) The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management and board of directors for the purposes of resource allocation and performance assessment, the Group presents its operating segment information based on the following five operating divisions.

*Ports and Related Services:*
This division operates container terminals in five of the 10 busiest container ports in the world. This division had 288 operational berths as at 31 December 2018. The division comprises the Group's 80% interest in the Hutchison Ports group of companies and its 30.07% interest in the Hutchison Port Holdings Trust ("HPH Trust"). Results of HPH Trust are included in the segment results (under Ports and Related Services) based on the Group's effective shareholdings (net of non-controlling interests) in HPH Trust.

*Retail:*
The retail division consists of the A S Watson ("ASW") group of companies, the largest health and beauty retailer in Asia and Europe in terms of store numbers. ASW operated 12 retail brands with 14,976 stores in 24 markets worldwide as at 31 December 2018.

*Infrastructure:*
The Infrastructure division comprises the Group's 75.67% interest in CK Infrastructure Holdings Limited ("CKI"), a company listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), and the Group's interests in six infrastructure investments co-owned with CKI comprising of interests in Northumbrian Water, Park'N Fly, UK Rails, Australian Gas Networks, Dutch Enviro Energy and Wales & West Utilities. During the year, the Group has divested a substantial portion of its economic benefits arising from these six infrastructure investments. Results of these six infrastructure investments for the period following the divesture are included in the segment results on a net of divesture basis.

*Husky Energy:*
This comprises the Group's 40.19% interest in Husky Energy, an integrated energy company listed on the Toronto Stock Exchange in Canada.

*Telecommunications:*
The Group's telecommunications division consists of **3** Group Europe with businesses in 6 countries in Europe, a 66.09% interest in Hutchison Telecommunications Hong Kong Holdings ("HTHKH"), which is listed on the Stock Exchange and Hutchison Asia Telecommunications. During the year, the Group has acquired the remaining 50% interest in the **3** Group Europe telecommunications businesses in Italy operated by Wind Tre S.p.A. ("Wind Tre") and become the sole shareholder of Wind Tre. Results of Wind Tre for the period following the acquisition are included in the segment results (under **3** Group Europe) on a 100% basis.

Finance & Investments and Others is presented to reconcile to the totals included in the Group's income statement and statement of financial position, which covers the activities of other areas of the Group that are not presented separately and includes a 87.87% interest in the Australian Securities Exchange listed Hutchison Telecommunications (Australia) ("HTAL"), which has a 50% interest in a joint venture company, Vodafone Hutchison Australia Pty Limited ("VHA"), Hutchison Whampoa (China), Hutchison E-Commerce, Hutchison Water (which was disposed during 2017), the Marionnaud business, listed subsidiary Hutchison China MediTech, listed associated companies TOM Group and CK Life Sciences Int'l., (Holdings) Inc. ("CK Life Sciences"), corporate head office operations and the returns earned on the Group's holdings of cash and liquid investments.

# 3 Operating segment information (continued)

(b) Segment results, assets and liabilities

Saved as disclosed in the notes below, the column headed as Company and Subsidiaries refers to the holding company of the Group and subsidiary companies' respective items and the column headed as Associates and JV refers to the Group's share of associated companies and joint ventures' respective items. Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The Group uses two measures of segment results, EBITDA (see note 3(b)(xiii)) and EBIT (see note 3(b)(xiv)).

Revenue from external customers is after elimination of inter-segment revenue. The amounts eliminated mainly attributable to Retail of HK$54 million (2017 – HK$70 million), Hutchison Telecommunications Hong Kong Holdings of HK$11 million (2017 – HK$222 million) and Hutchison Asia Telecommunications of HK$2 million (2017 – HK$9 million).

HKFRS 9 and HKFRS 15 are applied with effect from 1 January 2018 without restating the comparative information. See notes 1 and 41. The comparative information set out in this note continues to be reported under the accounting policies prevailing prior to 1 January 2018.

(i) An analysis of revenue by segments

| | Revenue | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Company and Subsidiaries** | **Associates and JV** | **2018 Total** | | Company and Subsidiaries | Associates and JV | 2017 Total | |
| | **HK$ million** | **HK$ million** | **HK$ million** | **%** | HK$ million | HK$ million | HK$ million | % |
| Ports and Related Services | **26,587** | **8,588** | **35,175** | **8%** | 25,762 | 8,384 | 34,146 | 8% |
| Retail | **133,575** | **35,416** | **168,991** | **37%** | 123,834 | 32,329 | 156,163 | 38% |
| Infrastructure | **19,522** | **45,202** | **64,724** | **14%** | 18,599 | 38,770 | 57,369 | 14% |
| Husky Energy | **–** | **54,251** | **54,251** | **12%** | – | 44,948 | 44,948 | 11% |
| **3** Group Europe | **62,855** | **15,556** | **78,411** | **17%** | 46,548 | 24,186 | 70,734 | 17% |
| Hutchison Telecommunications Hong Kong Holdings | **7,912** | **–** | **7,912** | **2%** | 9,685 | – | 9,685 | 2% |
| Hutchison Asia Telecommunications | **8,220** | **–** | **8,220** | **2%** | 7,695 | – | 7,695 | 2% |
| Finance & Investments and Others | **17,354** | **18,192** | **35,546** | **8%** | 16,392 | 17,705 | 34,097 | 8% |
| | **276,025** | **177,205** | **453,230** | **100%** | 248,515 | 166,322 | 414,837 | 100% |
| *Portion attributable to:* | | | | | | | | |
| Non-controlling interests of HPH Trust | **–** | **1,098** | **1,098** | | – | 1,069 | 1,069 | |
| Divesture of infrastructure investments | **1,104** | **860** | **1,964** | | – | – | – | |
| | **277,129** | **179,163** | **456,292** | | 248,515 | 167,391 | 415,906 | |

# 3 Operating segment information (continued)

## (b) Segment results, assets and liabilities (continued)

### (ii) An analysis of EBITDA by segments

| | EBITDA (LBITDA) (xiii) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2018 Total HK$ million | % | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2017 Total HK$ million | % |
| Ports and Related Services | 9,683 | 3,709 | 13,392 | 12% | 8,921 | 3,642 | 12,563 | 12% |
| Retail | 12,874 | 3,290 | 16,164 | 14% | 11,911 | 2,887 | 14,798 | 14% |
| Infrastructure | 11,234 | 24,188 | 35,422 | 31% | 10,451 | 22,582 | 33,033 | 32% |
| Husky Energy | – | 12,106 | 12,106 | 11% | – | 8,992 | 8,992 | 9% |
| **3** Group Europe | 22,787 | 5,974 | 28,761 | 25% | 14,546 | 9,791 | 24,337 | 23% |
| Hutchison Telecommunications Hong Kong Holdings (xviii) | 1,298 | 73 | 1,371 | 1% | 4,272 | 65 | 4,337 | 4% |
| Hutchison Asia Telecommunications | 1,028 | – | 1,028 | 1% | 558 | – | 558 | 1% |
| Finance & Investments and Others | 6,138 | (802) | 5,336 | 5% | 1,852 | 3,884 | 5,736 | 5% |
| EBITDA | 65,042 | 48,538 | 113,580 | 100% | 52,511 | 51,843 | 104,354 | 100% |
| *Portion attributable to:* | | | | | | | | |
| Non-controlling interests of HPH Trust | – | 752 | 752 | | – | 741 | 741 | |
| **EBITDA** (see note 31(a)) | 65,042 | 49,290 | 114,332 | | 52,511 | 52,584 | 105,095 | |
| Depreciation and amortisation | (19,351) | (21,615) | (40,966) | | (17,105) | (19,921) | (37,026) | |
| Interest expenses and other finance costs | (9,562) | (8,463) | (18,025) | | (8,274) | (9,750) | (18,024) | |
| Current tax | (3,982) | (3,813) | (7,795) | | (5,415) | (2,483) | (7,898) | |
| Deferred tax | 1,369 | (1,652) | (283) | | 2,599 | (756) | 1,843 | |
| Non-controlling interests | (7,563) | (700) | (8,263) | | (8,502) | (388) | (8,890) | |
| | 25,953 | 13,047 | 39,000 | | 15,814 | 19,286 | 35,100 | |

## 3 Operating segment information (continued)

### (b) Segment results, assets and liabilities (continued)

#### (iii) An analysis of EBIT by segments

| | EBIT (LBIT) (xiv) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2018 Total HK$ million | % | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2017 Total HK$ million | % |
| Ports and Related Services | 6,470 | 2,256 | 8,726 | 12% | 6,008 | 2,211 | 8,219 | 12% |
| Retail | 10,506 | 2,572 | 13,078 | 18% | 9,821 | 2,268 | 12,089 | 18% |
| Infrastructure | 7,825 | 16,213 | 24,038 | 33% | 7,535 | 15,914 | 23,449 | 35% |
| Husky Energy | – | 5,742 | 5,742 | 8% | – | 2,703 | 2,703 | 4% |
| 3 Group Europe | | | | | | | | |
| EBITDA before the following non-cash items: | 22,787 | 5,974 | 28,761 | | 14,546 | 9,791 | 24,337 | |
| Depreciation | (5,064) | (950) | (6,014) | | (3,968) | (1,103) | (5,071) | |
| Amortisation of licence fees, other rights, customer acquisition and retention costs | (3,626) | (1,458) | (5,084) | | (1,164) | (1,535) | (2,699) | |
| EBIT – 3 Group Europe | 14,097 | 3,566 | 17,663 | 24% | 9,414 | 7,153 | 16,567 | 25% |
| Hutchison Telecommunications Hong Kong Holdings (xviii) | 530 | 23 | 553 | 1% | 688 | 19 | 707 | 1% |
| Hutchison Asia Telecommunications | 321 | – | 321 | – | 226 | – | 226 | – |
| Finance & Investments and Others | 5,942 | (3,178) | 2,764 | 4% | 1,714 | 1,918 | 3,632 | 5% |
| EBIT | 45,691 | 27,194 | 72,885 | 100% | 35,406 | 32,186 | 67,592 | 100% |
| *Portion attributable to:* | | | | | | | | |
| Non-controlling interests of HPH Trust | – | 481 | 481 | | – | 477 | 477 | |
| Interest expenses and other finance costs | (9,562) | (8,463) | (18,025) | | (8,274) | (9,750) | (18,024) | |
| Current tax | (3,982) | (3,813) | (7,795) | | (5,415) | (2,483) | (7,898) | |
| Deferred tax | 1,369 | (1,652) | (283) | | 2,599 | (756) | 1,843 | |
| Non-controlling interests | (7,563) | (700) | (8,263) | | (8,502) | (388) | (8,890) | |
| | 25,953 | 13,047 | 39,000 | | 15,814 | 19,286 | 35,100 | |

## 3 Operating segment information (continued)

### (b) Segment results, assets and liabilities (continued)

#### (iv) An analysis of depreciation and amortisation expenses by segments

| | Depreciation and amortisation | | | | | |
|---|---|---|---|---|---|---|
| | **Company and Subsidiaries HK$ million** | **Associates and JV HK$ million** | **2018 Total HK$ million** | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2017 Total HK$ million |
| Ports and Related Services | **3,213** | **1,453** | **4,666** | 2,913 | 1,431 | 4,344 |
| Retail | **2,368** | **718** | **3,086** | 2,090 | 619 | 2,709 |
| Infrastructure | **3,409** | **7,975** | **11,384** | 2,916 | 6,668 | 9,584 |
| Husky Energy | **–** | **6,364** | **6,364** | – | 6,289 | 6,289 |
| **3** Group Europe | **8,690** | **2,408** | **11,098** | 5,132 | 2,638 | 7,770 |
| Hutchison Telecommunications Hong Kong Holdings (xviii) | **768** | **50** | **818** | 3,584 | 46 | 3,630 |
| Hutchison Asia Telecommunications | **707** | **–** | **707** | 332 | – | 332 |
| Finance & Investments and Others | **196** | **2,376** | **2,572** | 138 | 1,966 | 2,104 |
| | **19,351** | **21,344** | **40,695** | 17,105 | 19,657 | 36,762 |
| *Portion attributable to:* | | | | | | |
| Non-controlling interests of HPH Trust | **–** | **271** | **271** | – | 264 | 264 |
| Divesture of infrastructure investments | **388** | **99** | **487** | – | – | – |
| | **19,739** | **21,714** | **41,453** | 17,105 | 19,921 | 37,026 |

#### (v) An analysis of capital expenditure by segments

| | Capital expenditure | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fixed assets and leasehold land HK$ million** | **Telecom-munications licences HK$ million** | **Brand names and other rights HK$ million** | **2018 Total HK$ million** | Fixed assets and leasehold land HK$ million | Telecom-munications licences HK$ million | Brand names and other rights HK$ million | 2017 Total HK$ million |
| Ports and Related Services | **3,909** | **–** | **1** | **3,910** | 3,700 | – | 3 | 3,703 |
| Retail | **3,454** | **–** | **–** | **3,454** | 3,148 | – | – | 3,148 |
| Infrastructure | **5,924** | **–** | **136** | **6,060** | 5,543 | – | 6 | 5,549 |
| Husky Energy | **–** | **–** | **–** | **–** | – | – | – | – |
| **3** Group Europe | **10,990** | **6,384** | **1,341** | **18,715** | 7,880 | 197 | 3 | 8,080 |
| Hutchison Telecommunications Hong Kong Holdings | **513** | **–** | **–** | **513** | 1,018 | – | 9 | 1,027 |
| Hutchison Asia Telecommunications | **2,513** | **2,143** | **–** | **4,656** | 2,103 | 19 | – | 2,122 |
| Finance & Investments and Others | **237** | **–** | **1** | **238** | 278 | – | 8 | 286 |
| | **27,540** | **8,527** | **1,479** | **37,546** | 23,670 | 216 | 29 | 23,915 |

# 3 Operating segment information (continued)

## (b) Segment results, assets and liabilities (continued)

### (vi) An analysis of total assets by segments

| | Total assets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Company and Subsidiaries | | | | | Company and Subsidiaries | | | |
| | Segment assets (xix) | Deferred tax assets | Assets classified as held for sale (xx) | Investments in associated companies and interests in joint ventures | 2018 Total assets | Segment assets (xix) | Deferred tax assets | Investments in associated companies and interests in joint ventures | 2017 Total assets |
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| Ports and Related Services | 74,366 | 243 | – | 20,728 | 95,337 | 75,531 | 184 | 26,242 | 101,957 |
| Retail | 199,151 | 1,059 | – | 13,771 | 213,981 | 196,903 | 1,140 | 13,707 | 211,750 |
| Infrastructure | 54,963 | 12 | 118,187 | 142,569 | 315,731 | 172,958 | 489 | 157,420 | 330,867 |
| Husky Energy | – | – | – | 64,297 | 64,297 | – | – | 62,976 | 62,976 |
| 3 Group Europe | 309,333 | 18,659 | 2,352 | 10 | 330,354 | 114,415 | 18,015 | 32,723 | 165,153 |
| Hutchison Telecommunications Hong Kong Holdings | 19,469 | 258 | – | 396 | 20,123 | 23,500 | 338 | 434 | 24,272 |
| Hutchison Asia Telecommunications | 11,333 | – | – | – | 11,333 | 7,973 | – | – | 7,973 |
| Finance & Investments and Others | 168,490 | 29 | – | 12,569 | 181,088 | 181,303 | 29 | 13,975 | 195,307 |
| | 837,105 | 20,260 | 120,539 | 254,340 | 1,232,244 | 772,583 | 20,195 | 307,477 | 1,100,255 |

### (vii) An analysis of total liabilities by segments

| | Total liabilities | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Segment liabilities (xix) | Current & deferred tax liabilities | Liabilities directly associated with assets classified as held for sale (xx) | Current & non-current borrowings and other non-current liabilities | 2018 Total liabilities | Segment liabilities (xix) | Current & deferred tax liabilities | Current & non-current borrowings and other non-current liabilities | 2017 Total liabilities |
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| Ports and Related Services | 13,433 | 4,472 | – | 16,127 | 34,032 | 13,746 | 4,624 | 16,652 | 35,022 |
| Retail | 26,366 | 9,962 | – | 13,407 | 49,735 | 25,813 | 10,523 | 13,768 | 50,104 |
| Infrastructure | 4,910 | 590 | 77,600 | 30,535 | 113,635 | 15,305 | 7,165 | 102,354 | 124,824 |
| Husky Energy | – | – | – | – | – | – | – | – | – |
| 3 Group Europe | 55,915 | 94 | – | 113,808 | 169,817 | 23,866 | 460 | 14,759 | 39,085 |
| Hutchison Telecommunications Hong Kong Holdings | 1,804 | 16 | – | 343 | 2,163 | 2,229 | 3 | 4,286 | 6,518 |
| Hutchison Asia Telecommunications | 5,976 | 1 | – | 18,897 | 24,874 | 5,219 | 3 | 17,010 | 22,232 |
| Finance & Investments and Others | 10,311 | 6,197 | – | 230,657 | 247,165 | 7,820 | 5,753 | 217,350 | 230,923 |
| | 118,715 | 21,332 | 77,600 | 423,774 | 641,421 | 93,998 | 28,531 | 386,179 | 508,708 |

# 3 Operating segment information (continued)

(b) Segment results, assets and liabilities (continued)

(viii) An analysis of revenue by geographical locations

| | Revenue | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Company and Subsidiaries HK$ million** | **Associates and JV HK$ million** | **2018 Total HK$ million** | **%** | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2017 Total HK$ million | % |
| Hong Kong | **38,975** | **4,624** | **43,599** | **10%** | 40,302 | 4,963 | 45,265 | 11% |
| Mainland China | **32,244** | **7,517** | **39,761** | **9%** | 29,446 | 7,234 | 36,680 | 9% |
| Europe | **138,255** | **76,821** | **215,076** | **47%** | 117,303 | 77,602 | 194,905 | 47% |
| Canada (xxi) | **596** | **53,651** | **54,247** | **12%** | 469 | 43,852 | 44,321 | 11% |
| Asia, Australia and Others | **48,601** | **16,400** | **65,001** | **14%** | 44,603 | 14,966 | 59,569 | 14% |
| Finance & Investments and Others | **17,354** | **18,192** | **35,546** | **8%** | 16,392 | 17,705 | 34,097 | 8% |
| | **276,025** | **177,205** | **453,230** (1) | **100%** | 248,515 | 166,322 | 414,837 (1) | 100% |

(1) see note 3(b)(i) for reconciliation of segment revenue to revenue presented in the income statement.

(ix) An analysis of EBITDA by geographical locations

| | EBITDA (LBITDA) (xiii) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Company and Subsidiaries HK$ million** | **Associates and JV HK$ million** | **2018 Total HK$ million** | **%** | Company and Subsidiaries HK$ million | Associates and JV HK$ million | 2017 Total HK$ million | % |
| Hong Kong | **1,698** | **1,983** | **3,681** | **3%** | 3,864 | 2,506 | 6,370 | 6% |
| Mainland China | **6,184** | **4,924** | **11,108** | **10%** | 4,873 | 4,806 | 9,679 | 9% |
| Europe | **40,354** | **22,468** | **62,822** | **55%** | 31,424 | 24,867 | 56,291 | 54% |
| Canada (xxi) | **410** | **10,364** | **10,774** | **10%** | 299 | 7,598 | 7,897 | 8% |
| Asia, Australia and Others | **10,258** | **9,601** | **19,859** | **17%** | 10,199 | 8,182 | 18,381 | 18% |
| Finance & Investments and Others | **6,138** | **(802)** | **5,336** | **5%** | 1,852 | 3,884 | 5,736 | 5% |
| | **65,042** | **48,538** | **113,580** (2) | **100%** | 52,511 | 51,843 | 104,354 (2) | 100% |

(2) see note 3(b)(ii) for reconciliation of segment EBITDA to profit or loss presented in the income statement.

## 3 Operating segment information (continued)

### (b) Segment results, assets and liabilities (continued)

#### (x) An analysis of EBIT by geographical locations

| | EBIT (LBIT) (xiv) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Company and Subsidiaries | Associates and JV | 2018 Total | | Company and Subsidiaries | Associates and JV | 2017 Total | |
| | HK$ million | HK$ million | HK$ million | % | HK$ million | HK$ million | HK$ million | % |
| Hong Kong | 561 | 929 | 1,490 | 2% | 110 | 1,472 | 1,582 | 2% |
| Mainland China | 5,208 | 3,397 | 8,605 | 12% | 3,836 | 3,221 | 7,057 | 10% |
| Europe | 26,720 | 15,458 | 42,178 | 58% | 21,978 | 18,335 | 40,313 | 60% |
| Canada (xxi) | 390 | 4,508 | 4,898 | 6% | 276 | 1,932 | 2,208 | 4% |
| Asia, Australia and Others | 6,870 | 6,080 | 12,950 | 18% | 7,492 | 5,308 | 12,800 | 19% |
| Finance & Investments and Others | 5,942 | (3,178) | 2,764 | 4% | 1,714 | 1,918 | 3,632 | 5% |
| | 45,691 | 27,194 | 72,885 (3) | 100% | 35,406 | 32,186 | 67,592 (3) | 100% |

(3) see note 3(b)(iii) for reconciliation of segment EBIT to profit or loss presented in the income statement.

#### (xi) An analysis of capital expenditure by geographical locations

| | Capital expenditure | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed assets and leasehold land | Telecom-munications licences | Brand names and other rights | 2018 Total | Fixed assets and leasehold land | Telecom-munications licences | Brand names and other rights | 2017 Total |
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| Hong Kong | 1,316 | – | – | 1,316 | 1,569 | – | 9 | 1,578 |
| Mainland China | 1,147 | – | – | 1,147 | 1,239 | – | – | 1,239 |
| Europe | 18,626 | 6,384 | 1,341 | 26,351 | 14,545 | 197 | 3 | 14,745 |
| Canada | 14 | – | 37 | 51 | 182 | – | – | 182 |
| Asia, Australia and Others | 6,200 | 2,143 | 100 | 8,443 | 5,857 | 19 | 9 | 5,885 |
| Finance & Investments and Others | 237 | – | 1 | 238 | 278 | – | 8 | 286 |
| | 27,540 | 8,527 | 1,479 | 37,546 | 23,670 | 216 | 29 | 23,915 |

## 3 Operating segment information (continued)

### (b) Segment results, assets and liabilities (continued)

(xii) An analysis of total assets by geographical locations

| | Total assets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Company and Subsidiaries | | | | | Company and Subsidiaries | | | |
| | Segment assets (xix) | Deferred tax assets | Assets classified as held for sale (xx) | Investments in associated companies and interests in joint ventures | 2018 Total assets | Segment assets (xix) | Deferred tax assets | Investments in associated companies and interests in joint ventures | 2017 Total assets |
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| Hong Kong | 55,494 | 306 | – | 14,233 | 70,033 | 55,423 | 366 | 22,521 | 78,310 |
| Mainland China | 47,989 | 681 | – | 23,735 | 72,405 | 48,697 | 726 | 27,190 | 76,613 |
| Europe | 452,780 | 18,914 | 114,559 | 87,437 | 673,690 | 370,864 | 18,830 | 120,642 | 510,336 |
| Canada (xxi) | 3,638 | 6 | 2,558 | 63,027 | 69,229 | 6,249 | 3 | 63,977 | 70,229 |
| Asia, Australia and Others | 108,714 | 324 | 3,422 | 53,339 | 165,799 | 110,047 | 241 | 59,172 | 169,460 |
| Finance & Investments and Others | 168,490 | 29 | – | 12,569 | 181,088 | 181,303 | 29 | 13,975 | 195,307 |
| | 837,105 | 20,260 | 120,539 | 254,340 | 1,232,244 | 772,583 | 20,195 | 307,477 | 1,100,255 |

(xiii) EBITDA (LBITDA) represents the EBITDA (LBITDA) of the Company and subsidiary companies as well as the Group's share of the EBITDA (LBITDA) of associated companies and joint ventures except for HPH Trust which are included based on the Group's effective share of EBITDA for this operation and the Group's interests in six infrastructure investments co-owned with CKI comprising of Northumbrian Water, Park'N Fly, UK Rails, Australian Gas Networks, Dutch Enviro Energy and Wales & West Utilities that are included on a 100% basis before the divesture (see note 3(a) under Infrastructure) and on a net divesture basis after the divesture. EBITDA (LBITDA) is defined as earnings (losses) before interest expenses and other finance costs, tax, depreciation and amortisation, and includes profits on disposal of investments and other earnings. Information concerning EBITDA (LBITDA) has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of gross cash flow generation. The Group considers EBITDA (LBITDA) to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBITDA (LBITDA) is therefore presented as a measure of segment results in accordance with HKFRS 8. EBITDA (LBITDA) is not a measure of cash liquidity or financial performance under HKFRS and the EBITDA (LBITDA) measures used by the Group may not be comparable to other similarly titled measures of other companies. EBITDA (LBITDA) should not necessarily be construed as an alternative to cash flows or results from operations as determined in accordance with HKFRS.

(xiv) EBIT (LBIT) represents the EBIT (LBIT) of the Company and subsidiary companies as well as the Group's share of the EBIT (LBIT) of associated companies and joint ventures except for HPH Trust which are included based on the Group's effective share of EBIT for this operation and the Group's interests in six infrastructure investments co-owned with CKI comprising of Northumbrian Water, Park'N Fly, UK Rails, Australian Gas Networks, Dutch Enviro Energy and Wales & West Utilities that are included on a 100% basis before the divesture (see note 3(a) under Infrastructure) and on a net divesture basis after the divesture. EBIT (LBIT) is defined as earnings before interest expenses and other finance costs and tax. Information concerning EBIT (LBIT) has been included in the Group's financial information and consolidated financial statements and is used by many industries and investors as one measure of results from operations. The Group considers EBIT (LBIT) to be an important performance measure which is used in the Group's internal financial and management reporting to monitor business performance. EBIT (LBIT) is therefore presented as a measure of segment results in accordance with HKFRS 8. EBIT (LBIT) is not a measure of financial performance under HKFRS and the EBIT (LBIT) measures used by the Group may not be comparable to other similarly titled measures of other companies. EBIT (LBIT) should not necessarily be construed as an alternative to results from operations as determined in accordance with HKFRS.

## 3 Operating segment information (continued)

(b) Segment results, assets and liabilities (continued)

(xv) As announced on 31 August 2018, the Group divested a substantial portion of the economic benefits arising from its interests in six infrastructure investments co-owned with CKI comprising Northumbrian Water, Park'N Fly, UK Rails, Australian Gas Networks, Dutch Enviro Energy and Wales & West Utilities. The Group recognised one-off loss of HK$2,962 million attributable to ordinary shareholders. The amount of the loss is HK$3,626 million at the EBITDA and EBIT levels, and is reported under "Finance & Investments and Others" in the segment results and is included in "Other operating expenses" in the income statement.

(xvi) As announced on 3 July 2018, the Group acquired the remaining 50% interest in the telecommunications businesses in Italy operated by Wind Tre and become the sole shareholder of Wind Tre. The Group recognised one-off re-measurement and other gains of HK$8,600 million. The amount of the gains is HK$8,600 million at the EBITDA and EBIT levels, and is reported under "Finance & Investments and Others" in the segment results and is included in "Other operating expenses" in the income statement.

(xvii) The Group's 30.07% owned listed associated company, HPH Trust reported a one-off impairment of goodwill and investment in a joint venture of HK$12,289 million for the year ended 31 December 2018. The Group's share of this loss (after consolidation adjustments) amounted to HK$4,781 million. The amount of the loss is HK$4,781 million at the EBITDA and EBIT levels, and is reported under "Finance & Investments and Others" in the segment results and is included in "Share of profits less losses of associated companies" in the income statement.

(xviii) During the comparative 2017 year, HTHKH disposed of its fixed-line telecommunications business and reported a one-off gain of HK$5,614 million. HTHKH also reported a one-off after tax and non-controlling interests accelerated depreciation charges of HK$1,391 million for certain 2G and 3G mobile telecommunications fixed assets in Hong Kong and Macau. The Group's share of this disposal gain is HK$2,034 million at the EBITDA (included in Other operating expenses) level and EBIT level, and the Group's share of these accelerated depreciation charges is HK$2,182 million at the EBIT level (included in Depreciation and amortisation). These one-offs resulted in a net loss of HK$148 million at the EBIT level and the respective amounts are included in the Other operating expenses and Depreciation and amortisation in the income statement and reported under Hutchison Telecommunications Hong Kong Holdings in the segment results.

(xix) Segment assets and segment liabilities are measured in the same way as in the financial statements. Segment assets comprise fixed assets, leasehold land, telecommunications licences, brand names and other rights, goodwill, other non-current assets, liquid funds and other listed investments, cash and cash equivalents, other current assets and exclude assets classified as held for sale. Segment liabilities comprise trade and other payables and pension obligations and exclude liabilities directly associated with assets classified as held for sale. As additional information, the Group's non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts for Hong Kong, Mainland China, Europe, Canada, and Asia, Australia and Others amounted to HK$73,511 million (2017 – HK$81,118 million), HK$85,882 million (2017 – HK$84,307 million), HK$463,580 million (2017 – HK$443,138 million), HK$66,500 million (2017 – HK$68,789 million), HK$159,698 million (2017 – HK$156,169 million) respectively.

(xx) See note 22.

(xxi) Include contribution from the United States of America for Husky Energy.

## 4 Directors' emoluments

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Directors' emoluments | 561 | 512 |

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 exclude amounts received from the Company's listed subsidiaries and paid to the Company. The amounts disclosed above are the amounts recognised as directors' emolument expenses and are included in staff costs and other operating expenses in the income statement.

The Company does not have a share option scheme for the purchase of ordinary shares in the Company. None of the directors have received any share-based payments from the Company or any of its subsidiaries during the year (2017 – nil).

In 2018, the five individuals whose emoluments were the highest for the year were five directors of the Company. In 2017 the five individuals whose emoluments were the highest for the year were four directors of the Company and one director of a subsidiary of the Company. The remuneration of the director of the subsidiary company consisted of basic salary, allowances and benefits-in-kind – HK$4.73 million; provident fund contribution – HK$0.3 million and discretionary bonus – HK$28.34 million.

Further details of the directors' emoluments are set out in table below:

### (a) Directors' emolument expenses recognised in the Group's income statement:

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| Name of directors | Director's fees HK$ million | Basic salaries, allowances and benefits-in-kind HK$ million | Discretionary bonuses HK$ million | Provident fund contributions HK$ million | Inducement or compensation fees HK$ million | Total emoluments HK$ million |
| LI Ka-shing (1) (3) | – | – | – | – | – | – |
| Victor T K Li (4) (8) | | | | | | |
| *Paid by the Company* | 0.26 | 4.89 | 73.87 | – | – | 79.02 |
| *Paid by CKI* | 0.08 | – | 33.24 | – | – | 33.32 |
| | 0.34 | 4.89 | 107.11 | – | – | 112.34 |
| FOK Kin Ning, Canning (2) | 0.22 | 11.53 | 213.50 | 1.04 | – | 226.29 |
| Frank John SIXT (2) | 0.22 | 8.54 | 62.55 | 0.75 | – | 72.06 |
| IP Tak Chuen, Edmond | | | | | | |
| *Paid by the Company* | 0.22 | 1.62 | 10.68 | – | – | 12.52 |
| *Paid by CKI* | 0.08 | 1.80 | 11.70 | – | – | 13.58 |
| | 0.30 | 3.42 | 22.38 | – | – | 26.10 |
| KAM Hing Lam | | | | | | |
| *Paid by the Company* | 0.22 | 2.42 | 10.17 | – | – | 12.81 |
| *Paid by CKI* | 0.08 | 4.20 | 11.70 | – | – | 15.98 |
| | 0.30 | 6.62 | 21.87 | – | – | 28.79 |
| LAI Kai Ming, Dominic (2) | 0.22 | 5.85 | 62.00 | 0.84 | – | 68.91 |
| Edith SHIH (2) | 0.22 | 4.33 | 18.51 | 0.32 | – | 23.38 |
| CHOW Kun Chee, Roland (5) | 0.22 | – | – | – | – | 0.22 |
| CHOW WOO Mo Fong, Susan (5) | 0.22 | – | – | – | – | 0.22 |
| LEE Yeh Kwong, Charles (5) | 0.22 | – | – | – | – | 0.22 |
| LEUNG Siu Hon (5) | 0.22 | – | – | – | – | 0.22 |
| George Colin MAGNUS (5) | | | | | | |
| *Paid by the Company* | 0.22 | – | – | – | – | 0.22 |
| *Paid by CKI* | 0.08 | – | – | – | – | 0.08 |
| | 0.30 | – | – | – | – | 0.30 |
| KWOK Tun-li, Stanley (6) (7) | 0.35 | – | – | – | – | 0.35 |
| CHENG Hoi Chuen, Vincent (6) (7) (8) | 0.41 | – | – | – | – | 0.41 |
| Michael David KADOORIE (6) | 0.22 | – | – | – | – | 0.22 |
| LEE Wai Mun, Rose (6) | 0.22 | – | – | – | – | 0.22 |
| William SHURNIAK (6) (7) | 0.35 | – | – | – | – | 0.35 |
| WONG Chung Hin (6) (7) (8) | 0.41 | – | – | – | – | 0.41 |
| WONG Yick-ming, Rosanna (6) (8) | 0.28 | – | – | – | – | 0.28 |
| **Total** | 5.24 | 45.18 | 507.92 | 2.95 | – | 561.29 |

## 4 Directors' emoluments (continued)

### (a) Directors' emolument expenses recognised in the Group's income statement (continued):

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| Name of directors | Director's fees HK$ million | Basic salaries, allowances and benefits-in-kind HK$ million | Discretionary bonuses HK$ million | Provident fund contributions HK$ million | Inducement or compensation fees HK$ million | Total emoluments HK$ million |
| LI Ka-shing (1) (8) | 0.01 | – | – | – | – | 0.01 |
| Victor T K Li | | | | | | |
| *Paid by the Company* | 0.22 | 4.89 | 63.87 | – | – | 68.98 |
| *Paid by CKI* | 0.08 | – | 32.27 | – | – | 32.35 |
| | 0.30 | 4.89 | 96.14 | – | – | 101.33 |
| FOK Kin Ning, Canning (2) | 0.22 | 11.59 | 197.68 | 1.04 | – | 210.53 |
| Frank John SIXT (2) | 0.22 | 8.64 | 52.58 | 0.75 | – | 62.19 |
| IP Tak Chuen, Edmond | | | | | | |
| *Paid by the Company* | 0.22 | 1.62 | 10.07 | – | – | 11.91 |
| *Paid by CKI* | 0.08 | 1.80 | 11.35 | – | – | 13.23 |
| | 0.30 | 3.42 | 21.42 | – | – | 25.14 |
| KAM Hing Lam | | | | | | |
| *Paid by the Company* | 0.22 | 2.42 | 9.88 | – | – | 12.52 |
| *Paid by CKI* | 0.08 | 4.20 | 11.35 | – | – | 15.63 |
| | 0.30 | 6.62 | 21.23 | – | – | 28.15 |
| LAI Kai Ming, Dominic (2) | 0.22 | 5.84 | 52.01 | 1.10 | – | 59.17 |
| Edith SHIH (2) (9) | 0.22 | 4.30 | 17.13 | 0.36 | – | 22.01 |
| CHOW Kun Chee, Roland (5) | 0.22 | – | – | – | – | 0.22 |
| CHOW WOO Mo Fong, Susan (5) (9) | 0.22 | – | – | – | – | 0.22 |
| LEE Yeh Kwong, Charles (5) | 0.22 | – | – | – | – | 0.22 |
| LEUNG Siu Hon (5) | 0.22 | – | – | – | – | 0.22 |
| George Colin MAGNUS (5) | | | | | | |
| *Paid by the Company* | 0.22 | – | – | – | – | 0.22 |
| *Paid by CKI* | 0.08 | – | – | – | – | 0.08 |
| | 0.30 | – | – | – | – | 0.30 |
| KWOK Tun-li, Stanley (6) (7) | 0.35 | – | – | – | – | 0.35 |
| CHENG Hoi Chuen, Vincent (6) (7) (8) | 0.41 | – | – | – | – | 0.41 |
| Michael David KADOORIE (6) | 0.22 | – | – | – | – | 0.22 |
| LEE Wai Mun, Rose (6) | 0.22 | – | – | – | – | 0.22 |
| William SHURNIAK (6) (7) | 0.35 | – | – | – | – | 0.35 |
| WONG Chung Hin (6) (7) (8) | 0.41 | – | – | – | – | 0.41 |
| WONG Yick-ming, Rosanna (6) (8) | 0.28 | – | – | – | – | 0.28 |
| Total | 5.21 | 45.30 | 458.19 | 3.25 | – | 511.95 |

(1) No remuneration was paid to Mr Li Ka-shing during 2018 other than a director's fee of HK$1,781 (2017 – HK$5,000). The amount of director's fee shown above is a result of rounding.

(2) Directors' fees received by these directors from the Company's listed subsidiaries during the period they served as directors that have been paid to the Company are not included in the amounts above.

(3) Retired on 10 May 2018.

(4) Appointed as Member of the Remuneration Committee on 10 May 2018.

(5) Non-executive director.

(6) Independent non-executive director. The total emoluments of the independent non-executive directors of the Company are HK$2.24 million (2017 – HK$2.24 million).

(7) Member of the Audit Committee.

(8) Member of the Remuneration Committee.

(9) Appointed on 1 January 2017.

## 5 Interest expenses and other finance costs

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Bank loans and overdrafts | **1,971** | 1,556 |
| Other loans | **172** | 264 |
| Notes and bonds | **8,403** | 7,605 |
| Interest bearing loans from non-controlling shareholders | **262** | 260 |
| Other finance costs | **230** | 60 |
| | **11,038** | 9,745 |
| Amortisation of loan facilities fees and premiums or discounts relating to borrowings | **235** | 210 |
| Other non-cash interest adjustments [(a)] | **(1,099)** | (1,311) |
| | **10,174** | 8,644 |
| Less: interest capitalised [(b)] | **(377)** | (370) |
| | **9,797** | 8,274 |

(a) Other non-cash interest adjustments represent amortisation of bank and other debts' fair value adjustments arising from acquisitions of HK$1,522 million (2017 – HK$1,725 million) net with notional adjustments to the carrying amount of certain obligations recognised in the consolidated statement of financial position to the present value of the estimated future cash flows expected to be required for their settlement in the future of HK$423 million (2017 – HK$414 million).

(b) Borrowing costs have been capitalised at various applicable rates ranging from 2.7% to 6.2% (2017 – 4.6% to 6.2%) per annum.

## 6 Tax

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Current tax charge | | |
| Hong Kong | **76** | 598 |
| Outside Hong Kong | **3,836** | 4,817 |
| | **3,912** | 5,415 |
| Deferred tax charge (credit) | | |
| Hong Kong | **53** | (255) |
| Outside Hong Kong | **(1,347)** | (2,344) |
| | **(1,294)** | (2,599) |
| | **2,618** | 2,816 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2017 – 16.5%) on the estimated assessable profits less estimated available tax losses. Tax outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

## 6 Tax (continued)

The differences between the Group's expected tax charge (credit), calculated at the domestic rates applicable to the country concerned, and the Group's tax charge (credit) for the years were as follows:

| | 2018<br>HK$ million | 2017<br>HK$ million |
|---|---|---|
| Tax calculated at the domestic rates applicable in the country concerned | **6,305** | 7,101 |
| Tax effect of: | | |
| Tax losses not recognised | **1,724** | 1,474 |
| Income not subject to tax | **(2,172)** | (1,847) |
| Expenses not deductible for tax purposes | **1,349** | 1,535 |
| Recognition of previously unrecognised tax losses | **(141)** | (2,010) |
| Utilisation of previously unrecognised tax losses | **(1,256)** | (926) |
| Under (over) provision in prior years | **(98)** | 33 |
| Other temporary differences | **(2,818)** | (2,456) |
| Effect of change in tax rate | **(275)** | (88) |
| Total tax for the year | **2,618** | 2,816 |

## 7 Earnings per share for profit attributable to ordinary shareholders

The calculation of earnings per share is based on profit attributable to ordinary shareholders of the Company of HK$39,000 million (2017 – HK$35,100 million) and on weighted average number of shares, 3,857,216,697 shares outstanding during 2018 (2017 – 3,857,678,500 shares in issue).

The Company does not have a share option scheme. Certain of the Company's subsidiary and associated companies have employee share options outstanding as at 31 December 2018 and 2017. The employee share options of these subsidiary and associated companies outstanding as at 31 December 2018 and 2017 did not have a dilutive effect on earnings per share.

## 8 Distributions and dividends

### (a) Distribution paid on perpetual capital securities

| | 2018<br>HK$ million | 2017<br>HK$ million |
|---|---|---|
| Distribution paid on perpetual capital securities | **1,006** | 1,192 |

### (b) Dividends

| | 2018<br>HK$ million | 2017<br>HK$ million |
|---|---|---|
| Interim dividend, paid of HK$0.87 per share (2017 – HK$0.78 per share) | **3,356** | 3,009 |
| Final dividend, proposed of HK$2.30 per share (2017 – HK$2.07 per share) | **8,870** | 7,985 |
| | **12,226** | 10,994 |

In 2018, the calculation of the interim dividend and final dividend is based on 3,857,678,500 shares (2017 – 3,857,678,500 shares) and 3,856,240,500 shares (2017 – 3,857,678,500 shares) in issue respectively.

## 9 Fixed assets

| | Land and buildings HK$ million | Telecom-munications network assets HK$ million | Other assets [a] HK$ million | Total HK$ million |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2017 | 24,367 | 32,061 | 106,907 | 163,335 |
| Additions | 1,632 | 3,336 | 18,553 | 23,521 |
| Relating to subsidiaries acquired (see note 31(c)) | 4 | 334 | 107 | 445 |
| Disposals | (71) | (2,797) | (959) | (3,827) |
| Relating to subsidiaries disposed (see note 31(d)) | (35) | (7,618) | (625) | (8,278) |
| Transfer between categories | (44) | 5,244 | (4,935) | 265 |
| Exchange translation differences | 1,396 | 2,393 | 9,102 | 12,891 |
| At 31 December 2017 and 1 January 2018 | **27,249** | **32,953** | **128,150** | **188,352** |
| Additions | **1,983** | **3,691** | **21,866** | **27,540** |
| Relating to subsidiaries acquired (see note 31(c)) | **16** | **14,905** | **3,248** | **18,169** |
| Disposals | **(10)** | **(551)** | **(1,462)** | **(2,023)** |
| Relating to subsidiaries disposed (see note 31(d)) | **(281)** | **–** | **(125)** | **(406)** |
| Transfer between categories | **120** | **3,201** | **(3,086)** | **235** |
| Exchange translation differences | **(1,009)** | **(2,830)** | **(4,963)** | **(8,802)** |
| Transfer to assets classified as held for sale (see note 22) | **(1,787)** | **(148)** | **(79,906)** | **(81,841)** |
| At 31 December 2018 | **26,281** | **51,221** | **63,722** | **141,224** |
| **Accumulated depreciation and impairment** | | | | |
| At 1 January 2017 | 1,447 | 5,312 | 10,978 | 17,737 |
| Charge for the year | 1,015 | 5,848 | 7,816 | 14,679 |
| Disposals | (23) | (2,753) | (696) | (3,472) |
| Relating to subsidiaries disposed (see note 31(d)) | (5) | (1,406) | (134) | (1,545) |
| Transfer between categories | (177) | 165 | 277 | 265 |
| Exchange translation differences | 146 | 727 | 1,026 | 1,899 |
| At 31 December 2017 and 1 January 2018 | **2,403** | **7,893** | **19,267** | **29,563** |
| Charge for the year | **1,069** | **3,796** | **9,649** | **14,514** |
| Disposals | **(7)** | **(384)** | **(1,511)** | **(1,902)** |
| Relating to subsidiaries disposed (see note 31(d)) | **(24)** | **–** | **(43)** | **(67)** |
| Transfer between categories | **18** | **181** | **36** | **235** |
| Exchange translation differences | **8** | **(517)** | **(831)** | **(1,340)** |
| Transfer to assets classified as held for sale (see note 22) | **(128)** | **–** | **(10,256)** | **(10,384)** |
| At 31 December 2018 | **3,339** | **10,969** | **16,311** | **30,619** |
| **Net book value** | | | | |
| At 31 December 2018 | **22,942** | **40,252** | **47,411** | **110,605** |
| At 31 December 2017 | 24,846 | 25,060 | 108,883 | 158,789 |
| At 1 January 2017 | 22,920 | 26,749 | 95,929 | 145,598 |

(a) Cost and net book value of other assets include HK$24,249 million (2017 - HK$22,937 million) and HK$18,765 million (2017 - HK$19,287 million) respectively relate to the business of Ports and Related Services, HK$20,852 million (2017 - HK$10,439 million) and HK$17,671 million (2017 - HK$8,268 million) respectively relate to the business of Telecommunications and HK$2,025 million (2017 - HK$80,475 million) and HK$1,433 million (2017 - HK$72,599 million) respectively relate to the business of Infrastructure. The decrease in cost and net book value of other assets relating to the business of Infrastructure is mainly attributable to assets transferred to disposal group held for sale during the year.

## 9 Fixed assets (continued)

(b) As at 31 December 2018, the Group's aggregate future minimum lease receivable under non-cancellable operating leases of fixed assets is not material. The comparative balances as at 31 December 2017 analysed by the bands of "within 1 year", "after 1 year, but within 5 years", and "after 5 years" are HK$3,317 million, HK$5,199 million and HK$1,468 million, respectively and are mainly related to businesses of the six co-owned infrastructure investments classified as disposal group held for sale as at the reporting date.

## 10 Leasehold land

| | **2018** **HK$ million** | 2017 HK$ million |
|---|---|---|
| **Net book value** | | |
| At 1 January | **8,305** | 8,155 |
| Additions | **–** | 149 |
| Relating to subsidiaries acquired (see note 31(c)) | **–** | 105 |
| Amortisation for the year | **(424)** | (428) |
| Relating to subsidiaries disposed (see note 31(d)) | **(68)** | – |
| Exchange translation differences | **(111)** | 324 |
| At 31 December | **7,702** | 8,305 |

## 11 Telecommunications licences

| | **2018** **HK$ million** | 2017 HK$ million |
|---|---|---|
| **Net book value** | | |
| At 1 January | **27,271** | 23,936 |
| Additions | **8,527** | 216 |
| Relating to subsidiaries acquired (see note 31(c)) | **32,802** | 1,962 |
| Amortisation for the year | **(1,222)** | (998) |
| Exchange translation differences | **(1,813)** | 2,155 |
| Transfer to assets classified as held for sale (see note 22) | **(1,344)** | – |
| At 31 December | **64,221** | 27,271 |
| Cost | **67,571** | 29,507 |
| Accumulated amortisation and impairment | **(3,350)** | (2,236) |
| | **64,221** | 27,271 |

The carrying amount of telecommunications licences primarily arises from the acquisition of Hutchison Whampoa Limited's ("HWL") businesses pursuant to the Merger Proposal in 2015 and the telecommunications business in Italy operated by Wind Tre during the year.

The Group's telecommunications licences in the UK and Italy are considered to have an indefinite useful life and their carrying amount at 31 December 2018 are £1,723 million and €3,947 million (2017 – £1,555 million and nil) respectively.

## 12 Brand names and other rights

| | Brand names HK$ million | Other rights HK$ million | Total HK$ million |
|---|---|---|---|
| **Net book value** | | | |
| At 1 January 2017 | 60,120 | 13,505 | 73,625 |
| Additions | – | 29 | 29 |
| Relating to subsidiaries acquired (see note 31(c)) | – | 134 | 134 |
| Amortisation for the year | (12) | (988) | (1,000) |
| Relating to subsidiaries disposed (see note 31(d)) | – | (503) | (503) |
| Exchange translation differences | 2,677 | 1,023 | 3,700 |
| At 31 December 2017 and 1 January 2018 | **62,785** | **13,200** | **75,985** |
| Additions | **–** | **1,479** | **1,479** |
| Relating to subsidiaries acquired (see note 31(c)) | **7,652** | **15,327** | **22,979** |
| Amortisation for the year | **(12)** | **(2,379)** | **(2,391)** |
| Exchange translation differences | **(1,118)** | **(730)** | **(1,848)** |
| Transfer to assets classified as held for sale (see note 22) | **(270)** | **(7,173)** | **(7,443)** |
| At 31 December 2018 | **69,037** | **19,724** | **88,761** |
| Cost | **69,080** | **24,096** | **93,176** |
| Accumulated amortisation | **(43)** | **(4,372)** | **(4,415)** |
| | **69,037** | **19,724** | **88,761** |

The carrying amount of brand names and other rights primarily arises from the acquisition of HWL's businesses pursuant to the Merger Proposal in 2015 and the telecommunications business in Italy operated by Wind Tre during the year. At 31 December 2018,

- brand names relate to Retail of approximately HK$50 billion (2017 – HK$51 billion) and Telecommunications of approximately HK$19 billion (2017 – HK$12 billion) are considered to have an indefinite useful life; and

- other rights, which include rights of use of telecommunications network infrastructure sites of HK$547 million (2017 – HK$711 million), operating and service content rights of HK$7,954 million (2017 – HK$9,903 million), resource consents and customer lists of HK$11,223 million (2017 – HK$2,586 million) are amortised over their finite useful lives.

## 13 Goodwill

| | 2018<br>HK$ million | 2017<br>HK$ million |
|---|---|---|
| **Cost** | | |
| At 1 January | **255,334** | 254,748 |
| Relating to subsidiaries acquired (see note 31(c)) | **97,602** | 1,271 |
| Relating to subsidiaries disposed (see note 31(d)) | **–** | (5,929) |
| Exchange translation differences | **(4,090)** | 5,244 |
| Transfer to assets classified as held for sale (see note 22) | **(25,686)** | – |
| At 31 December | **323,160** | 255,334 |

Goodwill primarily arises from the acquisition of HWL's businesses pursuant to the Merger Proposal in 2015 and the telecommunications business in Italy operated by Wind Tre during the year. As at 31 December 2018, the carrying amount of goodwill has been mainly allocated to Retail of approximately HK$114 billion (2017 – HK$114 billion), telecommunications of approximately HK$127 billion (2017 – HK$32 billion) and CKI of approximately HK$39 billion (2017 – HK$39 billion).

Goodwill and assets with indefinite useful lives (telecommunication licences and brand names) are allocated to business units and divisions as described in notes 11, 12 and in this note. In assessing whether these assets have suffered any impairment, the carrying value of the respective business unit or division on which these assets are allocated is compared with its recoverable amount, which is the higher of the asset's fair value less costs to dispose and value in use. The recoverable amounts are determined, where applicable, by reference to the prevailing trading prices and with consideration for premium over the Group's controlling block of shares held (Level 3 of the HKFRS 13 fair value hierarchy), or by utilising cash flow projections based on the latest approved financial budgets for 5 years discounted to present value at a pre-tax rate of 3.3% to 9.3% (2017 – 3.1% to 8.0%) and where applicable, in the calculation, the cash flows beyond the 5 year period have been extrapolated using a growth rate of 1.0% to 3.1% (2017 – 1.0% to 3.5%) per annum. The Group prepared the financial budgets reflecting current and prior year performances, market development expectations, including the expected market share and growth momentum, and where available and relevant, observable market data. There are a number of assumptions and estimates involved for the preparation of the budget, the cash flow projections for the period covered by the approved budget and the estimated terminal value at the end of the budget period. Key assumptions, where applicable, include the expected growth in revenues and gross margin, inventory level, volume and operating costs, timing of future capital expenditures, growth rates and selection of discount rates and, where applicable, for the fair value less cost of disposal calculation, the prevailing trading prices, the earning multiple and control premium that can be realised for the estimated fair value. A reasonably possible change in a key assumption would not cause the recoverable amount to fall below the carrying value of the respective business units and divisions. The results of the tests undertaken as at 31 December 2018 and 2017 indicated no impairment charge was necessary.

## 14 Associated companies

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Unlisted shares | **8,812** | 8,917 |
| Listed shares, Hong Kong | **64,408** | 64,408 |
| Listed shares, outside Hong Kong | **78,444** | 78,202 |
| Share of undistributed post acquisition reserves | **(19,151)** | (10,341) |
| | **132,513** | 141,186 |
| Amounts due from (net with amounts due to) associated companies [a] | **3,774** | 4,157 |
| | **136,287** | 145,343 |

The market value of the above listed investments at 31 December 2018 was HK$91,849 million (2017 – HK$116,870 million), inclusive of HK$33,001 million (2017 – HK$43,574 million) and HK$44,054 million (2017 – HK$53,505 million) for material associated companies, namely Husky Energy and Power Assets Holdings Limited ("Power Assets") respectively.

There are no material contingent liabilities relating to the Group's interests in the associated companies, save as for those disclosed in note 34.

(a) Amounts due from (net with amounts due to) associated companies

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Amounts due from associated companies [i] | | |
| Interest free | **639** | 340 |
| Interest bearing at fixed rates [ii] | **2,946** | 3,444 |
| Interest bearing at floating rates [iii] | **906** | 907 |
| | **4,491** | 4,691 |
| Amount due to an associated company [iv] | | |
| Interest free | **717** | 534 |
| Amounts due from (net with amounts due to) associated companies | **3,774** | 4,157 |

(i) At 31 December 2018 and 2017, the amounts due from associated companies are unsecured and have no fixed terms of repayment except for HK$884 million which are repayable within one to three years (2017 – HK$592 million which are repayable within one to four years).

(ii) At 31 December 2018, HK$2,946 million (2017 – HK$3,444 million) bear interests at fixed rates ranging from approximately 10.9% to 11.2% (2017 – 10.9% to 11.2%) per annum.

(iii) At 31 December 2018, HK$906 million (2017 – HK$907 million) bear interests at floating rates ranging from approximately 1.8% to 3.3% (2017 – 2.0% to 2.3%) per annum with reference to Euro Interbank Offered Rate and Hong Kong Interbank Offered Rate, as applicable.

(iv) At 31 December 2018 and 2017, the amount due to an associated company is unsecured and has no fixed terms of repayment.

## 14 Associated companies (continued)

(b) Material associated companies

Set out below are additional information in respect of the Group's material associated companies:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Husky Energy HK$ million** | **Power Assets HK$ million** | Husky Energy HK$ million | Power Assets HK$ million |
| Dividends received from associated companies | **667** | **7,139** | – | 12,685 |
| Gross amount of the following items of the associated companies [i]: | | | | |
| Total revenue | **135,440** | **1,555** | 111,858 | 1,420 |
| EBITDA | **30,118** | **19,418** | 22,378 | 19,243 |
| EBIT | **14,285** | **14,108** | 6,726 | 14,121 |
| Other comprehensive income (losses) | **(3,617)** | **(1,113)** | 4,780 | 1,482 |
| Total comprehensive income | **4,963** | **6,523** | 10,547 | 9,801 |
| Current assets | **34,517** | **5,475** | 34,145 | 25,574 |
| Non-current assets | **229,816** | **123,664** | 228,164 | 118,935 |
| Current liabilities | **29,015** | **4,072** | 21,323 | 6,832 |
| Non-current liabilities | **71,294** | **3,808** | 79,853 | 4,589 |
| Net assets (net of preferred shares, perpetual capital securities and non-controlling interests) | **159,254** | **121,259** | 156,695 | 133,088 |
| Reconciliation to the carrying amount of the Group's interests in associated companies: | | | | |
| Group's interest | **40.2%** | **38.0%** | 40.2% | 38.0% |
| Group's share of net assets | **64,004** | **46,091** | 62,976 | 50,591 |
| Amount due from associated company | **293** | **–** | – | – |
| Carrying amount | **64,297** | **46,091** | 62,976 | 50,591 |

## 14 Associated companies (continued)

### (b) Material associated companies (continued)

Set out below are additional information in respect of the Group's material associated companies (continued):

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Husky Energy | Power Assets | Other associated companies | Total | Husky Energy | Power Assets | Other associated companies | Total |
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| Group's share of the following items of the associated companies [i]: | | | | | | | | |
| Profits less losses after tax | 3,448 | 2,902 | (3,462) | 2,888 | 2,345 | 3,214 | 1,238 | 6,797 |
| Other comprehensive income (losses) | (1,454) | (424) | (733) | (2,611) | 1,922 | 586 | 659 | 3,167 |
| Total comprehensive income (loss) | 1,994 | 2,478 | (4,195) | 277 | 4,267 | 3,800 | 1,897 | 9,964 |

(i) After translation into Hong Kong dollars and consolidation adjustments.

Particulars regarding the principal associated companies are set forth on pages 283 to 286.

## 15 Interests in joint ventures

| | 2018 | 2017 |
|---|---|---|
| | HK$ million | HK$ million |
| Unlisted shares | 83,066 | 113,091 |
| Share of undistributed post acquisition reserves | 36 | 9,491 |
| | 83,102 | 122,582 |
| Amounts due from (net with amounts due to) joint ventures [a] | 34,951 | 39,552 |
| | 118,053 | 162,134 |

There are no material contingent liabilities relating to the Group's interests in the joint ventures, save as for those disclosed in note 34.

## 15 Interests in joint ventures (continued)

(a) Amounts due from (net with amounts due to) joint ventures

| | **2018** **HK$ million** | 2017 HK$ million |
|---|---|---|
| Amounts due from joint ventures (i) | | |
| Interest free | **2,070** | 2,137 |
| Interest bearing at fixed rates (ii) | **17,222** | 20,101 |
| Interest bearing at floating rates (iii) | **16,036** | 17,699 |
| | **35,328** | 39,937 |
| Amounts due to joint ventures (iv) | | |
| Interest free | **347** | 385 |
| Interest bearing at floating rates (v) | **30** | – |
| Amounts due from (net with amounts due to) joint ventures | **34,951** | 39,552 |

(i) At 31 December 2018 and 2017, the amounts due from joint ventures are unsecured except for HK$133 million for 2017 and have no fixed terms of repayment except for HK$979 million which are repayable within one to two years (2017 – HK$1,807 million which are repayable within one to two years and HK$164 million which is repayable in 2027).

(ii) At 31 December 2018, HK$17,222 million (2017 – HK$20,101 million) bear interests at fixed rates ranging from approximately 4.9% to 11.0% (2017 – 4.9% to 16.0%) per annum.

(iii) At 31 December 2018, HK$16,036 million (2017 – HK$17,699 million) bear interests at floating rates ranging from approximately 3.7% to 7.4% (2017 – 1.7% to 6.5%) per annum with reference to Australian Bank Bill Swap Reference Rate, Euro Interbank Offered Rate, Hong Kong Interbank Offered Rate, Hong Kong Prime rate and London Interbank Offered Rate, as applicable.

(iv) At 31 December 2018 and 2017, the amounts due to joint ventures are unsecured and have no fixed terms of repayment except for HK$30 million which are repayable within one year (2017 – nil).

(v) At 31 December 2018, HK$30 million (2017 – nil) bear interests at floating rates ranging from approximately 1.5% to 2.5% (2017 – nil) per annum with reference to Australian Bank Bill Swap Reference Rate and London Interbank Offered Rate, as applicable.

(b) Set out below are the aggregate amount of the Group's share of the following items of joint ventures:

| | **2018** **HK$ million** | 2017 HK$ million |
|---|---|---|
| Profits less losses after tax (i) | **10,220** | 12,500 |
| Other comprehensive income (losses) | **(4,761)** | 10,315 |
| Total comprehensive income | **5,459** | 22,815 |
| Capital commitments | **2,692** | 2,247 |

(i) During the second half of 2012, VHA underwent a shareholder-sponsored restructuring under the leadership of the other shareholder under the applicable terms of the shareholders' agreement. HTAL's share of VHA's results for the current year is a loss of HK$61 million (2017 – HK$11 million). This item is presented within the consolidated income statement line item titled other operating expenses.

Particulars regarding the principal joint ventures are set forth on pages 283 to 286.

## 16 Deferred tax

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Deferred tax assets | **20,260** | 20,195 |
| Deferred tax liabilities | **19,261** | 25,583 |
| Net deferred tax assets (liabilities) | **999** | (5,388) |

Movements in net deferred tax assets (liabilities) are summarised as follows:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| At 1 January | **(5,388)** | (7,836) |
| Effect on adoption of HKFRS 9 and HKFRS 15 (see note 41) | **(304)** | – |
| Relating to subsidiaries acquired (see note 31(c)) | **2** | 249 |
| Relating to subsidiaries disposed (see note 31(d)) | **7** | 657 |
| Transfer to current tax | **29** | (235) |
| Net charge to other comprehensive income | **(162)** | (263) |
| Net credit (charge) to the income statement | | |
| Unused tax losses | **669** | 1,218 |
| Accelerated depreciation allowances | **(240)** | (181) |
| Fair value adjustments arising from acquisitions | **(39)** | 732 |
| Withholding tax on undistributed profits | **(61)** | 89 |
| Other temporary differences | **965** | 741 |
| Exchange translation differences | **(318)** | (559) |
| Transfer to assets classified as held for sale (see note 22) | **(416)** | – |
| Transfer to liabilities directly associated with assets classified as held for sale (see note 22) | **6,255** | – |
| At 31 December | **999** | (5,388) |

Analysis of net deferred tax assets (liabilities):

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Unused tax losses | **18,459** | 16,687 |
| Accelerated depreciation allowances | **(4,127)** | (9,588) |
| Fair value adjustments arising from acquisitions | **(10,501)** | (8,905) |
| Revaluation of investment properties and other investments | **126** | 119 |
| Withholding tax on undistributed profits | **(497)** | (461) |
| Other temporary differences | **(2,461)** | (3,240) |
| | **999** | (5,388) |

## 16 Deferred tax (continued)

The Group is subject to income taxes in numerous jurisdictions and significant judgement is required in determining the worldwide provision for income taxes. To the extent that dividends distributed from investments in subsidiaries, branches and associates, and interests in joint ventures are expected to result in additional taxes, appropriate amounts have been provided for. No deferred tax has been provided for the temporary differences arising from undistributed profits of these companies to the extent that the undistributed profits are considered permanently employed in their businesses and it is probable that such temporary differences will not reverse in the foreseeable future.

The deferred tax assets and liabilities are offset when there is a legally enforceable right to set off and when the deferred income taxes relate to the same fiscal authority. The amounts shown in the consolidated statement of financial position are determined after appropriate offset.

At 31 December 2018, the Group has recognised accumulated deferred tax assets amounting to HK$20,260 million (2017 – HK$20,195 million) of which HK$18,659 million (2017 – HK$18,015 million) relates to **3** Group Europe.

Note 42(e) contains information about the estimates, assumptions and judgements relating to the recognition of deferred tax assets for unused tax losses carried forward.

The Group has not recognised deferred tax assets of HK$28,880 million at 31 December 2018 (2017 – HK$13,354 million) in respect of unutilised tax losses, tax credits and deductible temporary differences totalling HK$99,135 million (2017 – HK$55,385 million). These unutilised tax losses, tax credits and deductible temporary differences can be carried forward against future taxable income. Of this amount, HK$76,257 million (2017 – HK$31,053 million) can be carried forward indefinitely and the balances expire in the following years:

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| In the first year | **3,896** | 6,677 |
| In the second year | **5,606** | 4,414 |
| In the third year | **2,096** | 6,015 |
| In the fourth year | **2,667** | 2,097 |
| After the fourth year | **8,613** | 5,129 |
| | **22,878** | 24,332 |

## 17 Liquid funds and other listed investments

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Financial assets at amortised cost | | |
| Managed funds – cash and cash equivalents, outside Hong Kong | **66** | – |
| Financial assets at FVOCI *[(i)] | | |
| Listed equity securities, Hong Kong [(ii)] | **2,909** | – |
| Listed equity securities, outside Hong Kong [(ii)] | **208** | – |
| Managed funds – listed equity securities, outside Hong Kong [(ii)] | **154** | – |
| Managed funds – listed debt securities, outside Hong Kong | **4,770** | – |
| Listed / traded debt securities, outside Hong Kong [(iii)] | **1,089** | – |
| | **9,130** | – |
| Available-for-sale investments [(i)] | | |
| Managed funds – cash and cash equivalents, outside Hong Kong | **–** | 50 |
| Listed equity securities, Hong Kong | **–** | 1,546 |
| Listed equity securities, outside Hong Kong | **–** | 25 |
| Managed funds – listed equity securities, outside Hong Kong | **–** | 169 |
| Managed funds – listed debt securities, outside Hong Kong | **–** | 4,697 |
| Listed / traded debt securities, outside Hong Kong [(iii)] | **–** | 1,168 |
| | **–** | 7,655 |
| Financial assets at fair value through profit or loss – listed equity securities | **96** | 158 |
| | **9,292** | 7,813 |

* See note 41.

(i) The fair values are based on quoted market prices.

(ii) These equity securities are strategic investments and not investments held for trading purpose. The Group made an irrevocable election at initial recognition to recognise these investments in this category so the Group considers this category to be the most appropriate classification.

(iii) Included in listed / traded debt securities outside Hong Kong as at 31 December 2018 and 2017 are notes issued by listed associated company, Husky Energy at a principal amount of US$25 million which will mature in 2019.

## 17 Liquid funds and other listed investments (continued)

(a) At 31 December, liquid funds and other listed investments totalling HK$9,292 million (2017 – HK$7,813 million) are denominated in the following currencies:

| | 2018 | | | 2017 | |
|---|---|---|---|---|---|
| | **Financial assets at amortised cost** | **Financial assets at FVOCI** | **Financial assets at fair value through profit or loss** | Available-for-sale investments | Financial assets at fair value through profit or loss |
| | **Percentage** | **Percentage** | **Percentage** | Percentage | Percentage |
| HK dollars | **–** | **32%** | **–** | 20% | – |
| US dollars | **26%** | **55%** | **100%** | 65% | 71% |
| Other currencies | **74%** | **13%** | **–** | 15% | 29% |
| | **100%** | **100%** | **100%** | 100% | 100% |

(b) At 31 December, Listed / traded debt securities totalling HK$5,859 million (2017 – HK$5,865 million) presented above are analysed as follows:

| | 2018 | 2017 |
|---|---|---|
| | **Financial assets at FVOCI** | Available-for-sale investments |
| | **Percentage** | Percentage |
| **Credit ratings** | | |
| Aaa / AAA | **20%** | 19% |
| Aa1 / AA+ | **60%** | 60% |
| Other investment grades | **4%** | 4% |
| Unrated | **16%** | 17% |
| | **100%** | 100% |
| **Sectorial** | | |
| US Treasury notes | **56%** | 56% |
| Government and government guaranteed notes | **17%** | 17% |
| Husky Energy notes | **4%** | 4% |
| Financial institutions notes | **–** | 1% |
| Others | **23%** | 22% |
| | **100%** | 100% |
| Weighted average maturity | **2.2 years** | 2.4 years |
| Weighted average effective yield | **1.58%** | 1.42% |

## 18 Other non-current assets

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Investment properties (see note 19) | **382** | 360 |
| Customer acquisition and retention costs [(a)] | **1,576** | – |
| Contract assets (see note 21(b)) | **2,726** | – |
| Unlisted investments | | |
| Financial assets at amortised costs – debt securities [(b)] | **170** | – |
| Financial assets at FVOCI * – equity securities [(c)] | **1,953** | – |
| Financial assets at fair value through profit or loss – equity securities | **641** | – |
| Financial assets at fair value through profit or loss – debt securities | **318** | – |
| Loans and receivables – debt securities | **–** | 179 |
| Available-for-sale investments – equity securities | **–** | 2,649 |
| Derivative financial instruments | | |
| Fair value hedges – Interest rate swaps | **19** | 45 |
| Cash flow hedges | | |
| Interest rate swaps | **–** | 31 |
| Cross currency Interest rate swaps | **317** | – |
| Forward foreign exchange contracts | **–** | 293 |
| Net investment hedges | | |
| Forward foreign exchange contracts | **2,021** | 1,791 |
| Cross currency swaps | **427** | – |
| Other derivative financial instruments | **167** | 192 |
| | **10,717** | 5,540 |

* See note 41.

(a) Customer acquisition and retention costs primarily relate to incremental commission costs incurred to obtain telecommunications contracts with customers. The amount of amortisation charged to the income statement for the year was HK$1,188 million and there was no impairment loss in relation to the cost capitalised. The Group applies the practical expedient in paragraph 94 of HKFRS 15, and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the costs that the Group otherwise would have recognised is one year or less.

(b) The carrying value of the debt securities approximate their fair values as these investments bear floating interest rates and are repriced within one to six-month periods at the prevailing market interest rates.

(c) Equity securities where there is a history of dividends are carried at fair values based on the discounted present value of expected future dividends. The value of the remaining equity securities are not significant to the Group.

## 19 Investment properties

Investment properties are included in "Other non-current assets" (see note 18) in the statement of financial position.

| | **2018**<br>**HK$ million** | 2017<br>HK$ million |
|---|---|---|
| **Valuation** | | |
| At 1 January | **360** | 344 |
| Increase in fair value of investment properties | **22** | 16 |
| At 31 December | **382** | 360 |

Investment properties have been fair valued as at 31 December 2018 and 31 December 2017 by DTZ Debenham Tie Leung Limited, professional valuers.

As at 31 December 2018 and 2017, the fair value of investment properties which reflects the highest and best use was arrived at by reference to comparable market transactions and also taking reference of capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties.

There were no transfers among Level 1, Level 2 and Level 3 during the year. The Group's policy is to recognise transfers into / out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

As at 31 December 2018 and 2017, the Group's aggregate future minimum lease receivable under non-cancellable operating leases is not material.

## 20 Cash and cash equivalents

| | **2018**<br>**HK$ million** | 2017<br>HK$ million |
|---|---|---|
| Cash at bank and in hand | **32,253** | 27,356 |
| Short term bank deposits | **103,158** | 133,114 |
| | **135,411** | 160,470 |

The carrying amounts of cash and cash equivalents approximate their fair values.

## 21 Trade receivables and other current assets

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Trade receivables [(a)] | **20,391** | 14,132 |
| Less: loss allowance provision | **(1,136)** | (2,586) |
| | **19,255** | 11,546 |
| Other current assets | | |
| Derivative financial instruments | | |
| Fair value hedges – Interest rate swaps | **–** | 9 |
| Cash flow hedges – Forward foreign exchange contracts | **–** | 1 |
| Net investment hedges – Forward foreign exchange contracts | **567** | – |
| Contract assets [(b)] | **4,217** | – |
| Prepayments | **21,105** | 10,351 |
| Other receivables | **18,682** | 29,461 |
| | **63,826** | 51,368 |

(a) Trade receivables are stated at the expected recoverable amount, net of any provision for estimated impairment losses where it is deemed that a receivable may not be fully recoverable. The carrying amounts of these assets approximate their fair values.

Trade receivables exposures are managed locally in the operating units where they arise and credit limits are set as deemed appropriate for the customer. The Group has established credit policies for customers in each of its core businesses. The average credit period granted for trade receivables ranges from 30 to 45 days. As stated above trade receivables which are past due at the end of the reporting period are stated at the expected recoverable amount, net of provision for estimated impairment losses. Given the profile of our customers and the Group's different types of businesses, the Group generally does not hold collateral over these balances.

The Group's five largest customers contributed less than 4% of the Group's revenue for the year ended 31 December 2018 (2017 – less than 4%).

At 31 December, the ageing analysis of the trade receivables presented based on the invoice date, is as follows:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Less than 31 days | **11,830** | 8,271 |
| Within 31 to 60 days | **2,308** | 1,779 |
| Within 61 to 90 days | **994** | 797 |
| Over 90 days | **5,259** | 3,285 |
| | **20,391** | 14,132 |

## 21 Trade receivables and other current assets (continued)

Movements on the loss allowance provision for trade receivables are as follows:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| At 1 January | **2,586** | 2,615 |
| Additions | **1,569** | 1,283 |
| Utilisations | **(2,003)** | (1,133) |
| Write back | **(9)** | (303) |
| Relating to subsidiaries disposed | **–** | (62) |
| Exchange translation differences | **(178)** | 186 |
| Transfer to assets classified as held for sale | **(829)** | – |
| At 31 December | **1,136** | 2,586 |

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on the days past due. The gross carrying amount of the trade receivables and the loss allowance provision determined under the new accounting policies from 1 January 2018 analysed by aging band are set out below.

| | **Gross carrying amount HK$ million** | **Loss allowance provision HK$ million** | **Expected loss rate Percentage** |
|---|---|---|---|
| Not past due | **10,206** | **115** | **1%** |
| Past due less than 31 days | **2,993** | **72** | **2%** |
| Past due within 31 to 60 days | **1,158** | **87** | **8%** |
| Past due within 61 to 90 days | **604** | **100** | **17%** |
| Past due over 90 days | **5,430** | **762** | **14%** |
| | **20,391** | **1,136** | |

The Group has initially applied HKFRS 9 using the cumulative effect method and adjusted the opening balance at 1 January 2018. The comparative information continues to be reported under the accounting policies prevailing prior to 1 January 2018. The gross carrying amount of the impaired and not impaired trade receivables and the loss allowance provision determined under the accounting policies prevailing prior to 1 January 2018 analysed by aging band are set out below.

| | Gross carrying amount of trade receivables | | | Loss allowance provision | Expected loss rate |
|---|---|---|---|---|---|
| | Not impaired HK$ million | Impaired HK$ million | Total HK$ million | HK$ million | Percentage |
| Not past due | 3,002 | 3,825 | 6,827 | 113 | 2% |
| Past due less than 31 days | 1,704 | 742 | 2,446 | 62 | 3% |
| Past due within 31 to 60 days | 343 | 575 | 918 | 191 | 21% |
| Past due within 61 to 90 days | 137 | 420 | 557 | 202 | 36% |
| Past due over 90 days | 318 | 3,066 | 3,384 | 2,018 | 60% |
| | 5,504 | 8,628 | 14,132 | 2,586 | |

(b) As at 31 December 2018, contract assets of HK$4,217 million and HK$2,726 million are included in "Trade receivables and other current assets" (see above) and "Other non-current assets" (see note 18) respectively. These amounts are net of provision for estimated impairment losses of HK$493 million.

## 22 Assets and liabilities classified as held for sale

| | 2018 HK$ million |
|---|---|
| Assets classified as held for sale | |
| Disposal group held for sale [(a)] | 118,187 |
| Non-current assets held for sale [(b)] | 2,352 |
| | 120,539 |
| Liabilities directly associated with assets classified as held for sale [(a)] | 77,600 |

(a) The Group has interests in six infrastructure investments co-owned with CKI comprising of interests in subsidiary Northumbrian Water, subsidiary Park'N Fly, subsidiary UK Rails, joint venture Australian Gas Networks, joint venture Dutch Enviro Energy and joint venture Wales & West Utilities. On 20 December 2018, the board of directors of the Company approved a plan to streamline the Group's holdings in these infrastructure investments. which will lead to the Group ceasing control on some of these infrastructure investments. The plan, subject to obtaining relevant regulatory approvals, is expected to be completed within a year from the reporting date.

These interests in the six co-owned infrastructure investments are reclassified for accounting purposes as disposal group held for sale as at the reporting date. There is no gain or loss recognised in the income statement on reclassification. The major classes and the carrying amounts of assets and liabilities of this disposal group classified as held for sale at the reporting date are as follows:

| | 2018 HK$ million |
|---|---|
| **Assets** | |
| Fixed assets | 71,309 |
| Brand names and other rights | 7,443 |
| Goodwill | 25,686 |
| Interests in joint ventures | 7,223 |
| Deferred tax assets | 416 |
| Other non-current assets | 304 |
| Cash and cash equivalents | 3,585 |
| Inventories | 56 |
| Trade receivables and other current assets | 2,165 |
| Assets classified as held for sale | 118,187 |
| **Liabilities** | |
| Bank and other debts | 57,707 |
| Current tax liabilities | 134 |
| Trade payables and other current liabilities | 4,453 |
| Interest bearing loans from non-controlling shareholders | 2,071 |
| Deferred tax liabilities | 6,255 |
| Pension obligations | 1,113 |
| Other non-current liabilities | 5,867 |
| Liabilities directly associated with assets classified as held for sale | 77,600 |
| Net assets directly associated with disposal group | 40,587 |
| Non-controlling interests | 3,021 |
| Net assets and non-controlling interests directly associated with disposal group | 37,566 |
| Amounts included in accumulated other comprehensive income: | |
| Exchange reserve deficit | (4,146) |
| Pension reserve deficit | (691) |
| Hedging reserve deficit | (1,112) |
| Reserves of disposal group classified as held for sale | (5,949) |

## 22 Assets and liabilities classified as held for sale (continued)

(b) During the year, the Group has acquired the remaining 50% interest in the telecommunications businesses in Italy operated by Wind Tre and become the sole shareholder of Wind Tre. Wind Tre has a pre-existing commitment to sell certain telecommunications assets, including sites, spectrums and frequencies to an external third party. The transfer is expected to be completed within a year from the reporting date. These assets are classified for accounting purposes as assets held for sale as at the reporting date and the major classes of assets and their carrying amounts at that date are as follows:

| | 2018<br>HK$ million |
|---|---|
| Fixed assets | 477 |
| Telecommunications licences | 1,875 |
| | 2,352 |

Non-current asset held for sale is presented within total assets of "**3** Group Europe" segment in note 3(b)(vi) and Europe in note 3(b)(xii).

## 23 Bank and other debts

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current portion<br>HK$ million | Non-current portion<br>HK$ million | Total<br>HK$ million | Current portion<br>HK$ million | Non-current portion<br>HK$ million | Total<br>HK$ million |
| Principal amounts | | | | | | |
| Bank loans | 5,943 | 111,235 | 117,178 | 19,080 | 92,091 | 111,171 |
| Other loans | 38 | 410 | 448 | 249 | 1,279 | 1,528 |
| Notes and bonds | 19,710 | 209,582 | 229,292 | 2,377 | 207,740 | 210,117 |
| | 25,691 | 321,227 | 346,918 | 21,706 | 301,110 | 322,816 |
| Unamortised fair value adjustments arising from acquisitions | 553 | 5,197 | 5,750 | 2 | 10,337 | 10,339 |
| Subtotal before the following items | 26,244 | 326,424 | 352,668 | 21,708 | 311,447 | 333,155 |
| Unamortised loan facilities fees and premiums or discounts related to debts | (1) | (656) | (657) | (5) | (822) | (827) |
| Adjustments to carrying amounts pursuant to unrealised gains (losses) on interest rate swap contracts | (257) | (198) | (455) | 9 | (349) | (340) |
| | 25,986 | 325,570 | 351,556 | 21,712 | 310,276 | 331,988 |

## 23 Bank and other debts (continued)

Details of the bank and other debts by principal amounts are as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million |
| Bank loans | 5,943 | 111,235 | 117,178 | 19,080 | 92,091 | 111,171 |
| Other loans | 38 | 410 | 448 | 249 | 1,279 | 1,528 |
| Notes and bonds | | | | | | |
| HK$500 million notes, 4.88% due 2018 | – | – | – | 500 | – | 500 |
| HK$500 million notes, 4.3% due 2020 | – | 500 | 500 | – | 500 | 500 |
| HK$500 million notes, 4.35% due 2020 | – | 500 | 500 | – | 500 | 500 |
| HK$300 million notes, 3.9% due 2020 | – | 300 | 300 | – | 300 | 300 |
| HK$400 million notes, 3.45% due 2021 | – | 400 | 400 | – | 400 | 400 |
| HK$300 million notes, 3.35% due 2021 | – | 300 | 300 | – | 300 | 300 |
| HK$260 million notes, 4% due 2027 | – | 260 | 260 | – | 260 | 260 |
| US$1,000 million notes, 5.75% due 2019 | 7,800 | – | 7,800 | – | 7,800 | 7,800 |
| US$1,500 million notes, 7.625% due 2019 | 11,700 | – | 11,700 | – | 11,700 | 11,700 |
| US$1,000 million notes, 2.25% due 2020 | – | 7,800 | 7,800 | – | 7,800 | 7,800 |
| US$750 million notes, 1.875% due 2021 | – | 5,850 | 5,850 | – | 5,850 | 5,850 |
| US$1,500 million notes, 4.625% due 2022 | – | 11,700 | 11,700 | – | 11,700 | 11,700 |
| US$1,000 million notes, 2.875% due 2022 | – | 7,800 | 7,800 | – | 7,800 | 7,800 |
| US$500 million notes, 3.25% due 2022 | – | 3,900 | 3,900 | – | 3,900 | 3,900 |
| US$750 million notes, 2.75% due 2023 | – | 5,850 | 5,850 | – | 5,850 | 5,850 |
| US$1,500 million notes, 3.625% due 2024 | – | 11,700 | 11,700 | – | 11,700 | 11,700 |
| US$500 million notes, 2.75% due 2026 | – | 3,900 | 3,900 | – | 3,900 | 3,900 |
| US$1,843 million notes, 5% due 2026 | – | 14,375 | 14,375 | – | – | – |
| US$309 million notes - Series C, 7.5% due 2027 | – | 2,410 | 2,410 | – | 2,410 | 2,410 |
| US$500 million notes, 3.25% due 2027 | – | 3,900 | 3,900 | – | 3,900 | 3,900 |
| US$800 million notes, 3.5% due 2027 | – | 6,240 | 6,240 | – | 6,240 | 6,240 |
| US$1,039 million notes, 7.45% due 2033 | – | 8,107 | 8,107 | – | 8,107 | 8,107 |
| US$25 million notes - Series D, 6.988% due 2037 | – | 196 | 196 | – | 196 | 196 |
| SGD320 million notes, 3.408% due 2018 | – | – | – | 1,859 | – | 1,859 |
| EUR1,500 million notes, 1.375% due 2021 | – | 13,425 | 13,425 | – | 13,890 | 13,890 |
| EUR750 million notes, 3.625% due 2022 | – | 6,712 | 6,712 | – | 6,945 | 6,945 |
| EUR1,350 million notes, 1.25% due 2023 | – | 12,083 | 12,083 | – | 12,501 | 12,501 |
| EUR1,537 million notes, 2.625% due 2023 | – | 13,756 | 13,756 | – | – | – |
| EUR600 million bonds, 1% due 2024 | – | 5,370 | 5,370 | – | 5,556 | 5,556 |
| EUR1,000 million notes, 0.875% due 2024 | – | 8,950 | 8,950 | – | 9,260 | 9,260 |
| EUR2,026 million notes, EURIBOR^ + 2.75% due 2024 | – | 18,133 | 18,133 | – | – | – |

## 23 Bank and other debts (continued)

Details of the bank and other debts by principal amounts are as follows (continued):

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Current portion HK$ million** | **Non-current portion HK$ million** | **Total HK$ million** | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million |
| EUR700 million notes, 1.25% due 2025 | – | 6,712 | 6,712 | – | – | – |
| EUR1,576 million notes, 3.125% due 2025 | – | 14,105 | 14,105 | – | – | – |
| EUR650 million notes, 2% due 2028 | – | 5,818 | 5,818 | – | 6,019 | 6,019 |
| EUR500 million notes, 2% due 2030 | – | 4,475 | 4,475 | – | – | – |
| GBP300 million bonds, 5.831% due 2020 | – | – | – | – | 3,144 | 3,144 |
| GBP100 million notes, 5.82% due 2021 | – | – | – | – | 1,048 | 1,048 |
| GBP350 million bonds, 6.875% due 2023 | – | – | – | – | 3,668 | 3,668 |
| GBP400 million bonds, 6.359% due 2025 | – | – | – | – | 4,192 | 4,192 |
| GBP33 million notes, 2.56% due 2026 | – | – | – | – | 346 | 346 |
| GBP300 million bonds, 1.625% due 2026 | – | – | – | – | 3,144 | 3,144 |
| GBP303 million notes, 5.625% due 2026 | – | 3,005 | 3,005 | – | 3,175 | 3,175 |
| GBP300 million bonds, 2.375% due 2027 | – | – | – | – | 3,144 | 3,144 |
| GBP45 million notes, 2.56% due 2028 | – | – | – | – | 471 | 471 |
| GBP90 million notes, 3.54% due 2030 | – | – | – | – | 943 | 943 |
| GBP22 million notes, 2.83% due 2031 | – | – | – | – | 230 | 230 |
| GBP350 million bonds, 5.625% due 2033 | – | – | – | – | 3,668 | 3,668 |
| GBP246 million bonds, 5.87526% due 2034 | – | – | – | 17 | 2,558 | 2,575 |
| GBP400 million bonds, 6.697% due 2035 | – | – | – | – | 4,192 | 4,192 |
| GBP50 million notes, 5.01% due 2036 | – | – | – | – | 524 | 524 |
| GBP100 million notes, LIBOR* + 2.33% due 2036 | – | – | – | – | 1,048 | 1,048 |
| GBP215 million bonds, RPI# + 2.033% due 2036 | – | – | – | – | 2,252 | 2,252 |
| GBP58 million bonds, 6.627% due 2037 | – | – | – | 1 | 612 | 613 |
| GBP100 million notes, 3.19% due 2037 | – | – | – | – | 1,048 | 1,048 |
| GBP84 million bonds, RPI# + 1.6274% due 2041 | – | – | – | – | 886 | 886 |
| GBP360 million bonds, 5.125% due 2042 | – | – | – | – | 3,773 | 3,773 |
| GBP400 million bonds, 3.529% due 2042 | – | – | – | – | 4,192 | 4,192 |
| GBP140 million bonds, RPI# + 1.7118% due 2049 | – | – | – | – | 1,467 | 1,467 |
| GBP140 million bonds, RPI# + 1.7484% due 2053 | – | – | – | – | 1,467 | 1,467 |
| JPY3,000 million notes, 1.75% due 2019 | 210 | – | 210 | – | 211 | 211 |
| JPY15,000 million notes, 2.6% due 2027 | – | 1,050 | 1,050 | – | 1,053 | 1,053 |
| | 19,710 | 209,582 | 229,292 | 2,377 | 207,740 | 210,117 |
| | 25,691 | 321,227 | 346,918 | 21,706 | 301,110 | 322,816 |

^ EURIBOR represents the Euro Interbank Offered Rate

* LIBOR represents the London Interbank Offered Rate

# RPI represents UK Retail Price Index

## 23 Bank and other debts (continued)

Further analysis of the principal amount of bank and other debts are set out below:

(a) By year of repayment

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million |
| Bank loans | | | | | | |
| Within a year | 5,943 | – | 5,943 | 19,080 | – | 19,080 |
| After 1 year, but within 2 years | – | 35,020 | 35,020 | – | 7,937 | 7,937 |
| After 2 years, but within 5 years | – | 76,215 | 76,215 | – | 79,418 | 79,418 |
| After 5 years | – | – | – | – | 4,736 | 4,736 |
| | 5,943 | 111,235 | 117,178 | 19,080 | 92,091 | 111,171 |
| Other loans | | | | | | |
| Within a year | 38 | – | 38 | 249 | – | 249 |
| After 1 year, but within 2 years | - | 37 | 37 | – | 256 | 256 |
| After 2 years, but within 5 years | - | 273 | 273 | – | 412 | 412 |
| After 5 years | - | 100 | 100 | – | 611 | 611 |
| | 38 | 410 | 448 | 249 | 1,279 | 1,528 |
| Notes and bonds | | | | | | |
| Within a year | 19,710 | – | 19,710 | 2,377 | – | 2,377 |
| After 1 year, but within 2 years | - | 9,100 | 9,100 | – | 19,736 | 19,736 |
| After 2 years, but within 5 years | - | 81,777 | 81,777 | – | 64,655 | 64,655 |
| After 5 years | - | 118,705 | 118,705 | – | 123,349 | 123,349 |
| | 19,710 | 209,582 | 229,292 | 2,377 | 207,740 | 210,117 |
| | 25,691 | 321,227 | 346,918 | 21,706 | 301,110 | 322,816 |

(b) By secured and unsecured borrowings

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million |
| Secured borrowings | 1,258 | 87,343 | 88,601 | 258 | 25,728 | 25,986 |
| Unsecured borrowings | 24,433 | 233,884 | 258,317 | 21,448 | 275,382 | 296,830 |
| | 25,691 | 321,227 | 346,918 | 21,706 | 301,110 | 322,816 |

Out of the principal amount of secured bank and other debts of the Group, HK$87,219 million is arising from the acquisition of a subsidiary during the year.

(c) By borrowings at fixed and floating interest rate

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million |
| Borrowings at fixed rate | 19,748 | 191,859 | 211,607 | 2,818 | 203,665 | 206,483 |
| Borrowings at floating rate | 5,943 | 129,368 | 135,311 | 18,888 | 97,445 | 116,333 |
| | 25,691 | 321,227 | 346,918 | 21,706 | 301,110 | 322,816 |

## 23 Bank and other debts (continued)

Further analysis of the principal amount of bank and other debts are set out below (continued):

(d) By currency

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Current portion Percentage** | **Non-current portion Percentage** | **Total Percentage** | Current portion Percentage | Non-current portion Percentage | Total Percentage |
| US dollars | **6%** | **38%** | **44%** | 2% | 40% | 42% |
| Euro | **–** | **42%** | **42%** | – | 21% | 21% |
| HK dollars | **–** | **3%** | **3%** | 2% | 3% | 5% |
| British Pounds | **–** | **3%** | **3%** | – | 22% | 22% |
| Other currencies | **1%** | **7%** | **8%** | 2% | 8% | 10% |
| | **7%** | **93%** | **100%** | 6% | 94% | 100% |

(e) By borrowings at fixed and floating interest rate (adjusted for the effect of hedging transactions)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Current portion HK$ million** | **Non-current portion HK$ million** | **Total HK$ million** | Current portion HK$ million | Non-current portion HK$ million | Total HK$ million |
| Borrowings at fixed rate | **20,540** | **232,580** | **253,120** | 3,348 | 221,485 | 224,833 |
| Borrowings at floating rate | **5,151** | **88,647** | **93,798** | 18,358 | 79,625 | 97,983 |
| | **25,691** | **321,227** | **346,918** | 21,706 | 301,110 | 322,816 |

Derivative financial instruments are principally utilised by the Group in the management of its foreign currency and interest rate exposures.

The Group has entered into interest rate swap agreements with banks and other financial institutions to swap fixed interest rate borrowings to floating interest rate borrowings to manage the fixed and floating interest rate mix of the Group's total debt portfolio. At 31 December 2018, the notional amount of the outstanding interest rate swap agreements amounted to HK$9,100 million (2017 – HK$9,600 million) (See note 43(i)(i)).

The Group has also entered into interest rate swap agreements to swap floating interest rate borrowings to fixed interest rate borrowings to mainly mitigate interest rate exposures to certain infrastructure project related borrowings. At 31 December 2018, the notional amount of the outstanding interest rate swap agreements and cross currency interest rate swap agreements amounted to HK$33,453 million and HK$17,160 million respectively (2017 – HK$10,790 million and HK$17,160 million respectively) (See note 43(i)(ii)).

(f) By currency (adjusted for the effect of hedging transactions)

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Current portion Percentage** | **Non-current portion Percentage** | **Total Percentage** | Current portion Percentage | Non-current portion Percentage | Total Percentage |
| US dollars | **6%** | **27%** | **33%** | 2% | 33% | 35% |
| Euro | **–** | **53%** | **53%** | – | 28% | 28% |
| HK dollars | **–** | **3%** | **3%** | 2% | 3% | 5% |
| British Pounds | **–** | **3%** | **3%** | – | 22% | 22% |
| Other currencies | **1%** | **7%** | **8%** | 2% | 8% | 10% |
| | **7%** | **93%** | **100%** | 6% | 94% | 100% |

As at 31 December 2018, the Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$38,610 million (2017 – HK$23,010 million) (see note 43(i)(ii)) to Euro principal amount of borrowings to reflect currency exposures of its underlying businesses.

## 24 Trade payables and other current liabilities

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Trade payables [(a)] | **29,233** | 19,252 |
| Other current liabilities | | |
| Derivative financial instruments | | |
| Cash flow hedges | | |
| Interest rate swaps | **8** | 11 |
| Forward foreign exchange contracts | **2** | 2 |
| Other contracts | **–** | 10 |
| Net investment hedges – Forward foreign exchange contracts | **6** | 396 |
| Other derivative financial instruments | **–** | 10 |
| Interest free loans from non-controlling shareholders | **385** | 389 |
| Contract liabilities | **5,880** | – |
| Provisions (see note 25) | **4,514** | 1,014 |
| Other payables and accruals | **76,244** | 69,144 |
| | **116,272** | 90,228 |

(a) At 31 December, the ageing analysis of the trade payables is as follows:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Less than 31 days | **19,764** | 12,994 |
| Within 31 to 60 days | **4,095** | 3,623 |
| Within 61 to 90 days | **2,392** | 1,500 |
| Over 90 days | **2,982** | 1,135 |
| | **29,233** | 19,252 |

(b) The Group's five largest suppliers accounted for less than 16% of the Group's cost of purchases for the year ended 31 December 2018 (2017 – less than 18%).

## 25 Provisions

| | Provision for commitments, onerous contracts and other guarantees HK$ million | Closure obligation HK$ million | Assets retirement obligation HK$ million | Others HK$ million | Total HK$ million |
|---|---|---|---|---|---|
| At 1 January 2017 | 32,492 | 311 | 611 | 433 | 33,847 |
| Additions | – | 12 | 20 | 636 | 668 |
| Interest accretion | – | – | 29 | – | 29 |
| Utilisations | (5,486) | (98) | – | (1) | (5,585) |
| Write back | – | (75) | – | (256) | (331) |
| Relating to subsidiaries acquired | – | – | 34 | – | 34 |
| Relating to subsidiaries disposed | – | – | (34) | – | (34) |
| Exchange translation differences | 314 | 33 | 32 | 19 | 398 |
| At 31 December 2017 and 1 January 2018 | **27,320** | **183** | **692** | **831** | **29,026** |
| Additions | **–** | **15** | **237** | **161** | **413** |
| Interest accretion | **–** | **6** | **17** | **–** | **23** |
| Utilisations | **(8,371)** | **(86)** | **(58)** | **(31)** | **(8,546)** |
| Write back | **–** | **(29)** | **–** | **(86)** | **(115)** |
| Relating to subsidiaries acquired | **12,774** | **–** | **926** | **601** | **14,301** |
| Exchange translation differences | **(535)** | **(10)** | **(40)** | **(14)** | **(599)** |
| At 31 December 2018 | **31,188** | **79** | **1,774** | **1,462** | **34,503** |

Provisions are analysed as:

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| Current portion (see note 24) | **4,514** | 1,014 |
| Non-current portion (see note 28) | **29,989** | 28,012 |
| | **34,503** | 29,026 |

The provision for closure obligations represents costs to execute integration plans and store closures. The provision for assets retirement obligations represents the present value of the estimated future costs of dismantling and removing fixed assets when they are no longer used and restoring the sites on which they are located. The provision for commitments, onerous contracts and other guarantees represents the unavoidable costs of meeting these commitments and obligations after deducting the associated, expected future benefits and / or estimated recoverable value.

## 26 Interest bearing loans from non-controlling shareholders

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| Interest bearing loans from non-controlling shareholders | **752** | 3,143 |

At 31 December 2018, these loans bear interest at rates at 2.3% (2017 – 2.3% to 11%) per annum. The carrying amounts of the borrowings approximate their fair values.

## 27 Pension plans

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| Defined benefit assets | **–** | – |
| Defined benefit liabilities | **2,443** | 3,770 |
| Net defined benefit liabilities | **2,443** | 3,770 |

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held independently of the Group's assets in trustee administered funds.

### (a) Defined benefit plans

The Group's major defined benefit plans are in Hong Kong, the United Kingdom and the Netherlands. The plans are either contributory final salary pension plans or contributory career average pay plans or non-contributory guaranteed return defined contribution plans. No other post-retirement benefits are provided.

The principal actuarial assumptions used for the purpose of the actuarial valuation were as follows:

| | **2018** | 2017 |
|---|---|---|
| Discount rates | **0.4% - 3.0%** | 0.15% – 2.55% |
| Future salary increases | **1.0% - 4.0%** | 1.0% – 4.0% |
| Interest credited on two principal plans in Hong Kong | **5.0% - 6.0%** | 5.0% – 6.0% |

The amount recognised in the consolidated statement of financial position is determined as follows:

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| Present value of defined benefit obligations | **18,337** | 31,528 |
| Fair value of plan assets | **15,897** | 27,761 |
| | **2,440** | 3,767 |
| Restrictions on assets recognised | **3** | 3 |
| Net defined benefit liabilities | **2,443** | 3,770 |

## 27 Pension plans (continued)

### (a) Defined benefit plans (continued)

Movements in net defined benefit liabilities and its components are as follows:

| | Present value of defined benefit obligations HK$ million | Fair value of plan assets HK$ million | Asset ceiling HK$ million | Net defined benefit liabilities HK$ million |
|---|---|---|---|---|
| At 1 January 2018 | 31,528 | (27,761) | 3 | 3,770 |
| Net charge (credit) to the income statement | | | | |
| Current service cost | 710 | 51 | – | 761 |
| Past service cost and gains and losses on settlements | 67 | – | – | 67 |
| Interest cost (income) | 704 | (616) | – | 88 |
| | 1,481 | (565) | – | 916 |
| Net charge (credit) to other comprehensive income | | | | |
| Remeasurements loss (gain): | | | | |
| Actuarial gain arising from change in demographic assumptions | (113) | – | – | (113) |
| Actuarial gain arising from change in financial assumptions | (1,514) | – | – | (1,514) |
| Actuarial loss arising from experience adjustment | 24 | – | – | 24 |
| Return on plan assets excluding interest income | – | 1,002 | – | 1,002 |
| Exchange translation differences | (1,350) | 1,208 | – | (142) |
| | (2,953) | 2,210 | – | (743) |
| Contributions paid by the employer | – | (993) | – | (993) |
| Contributions paid by the employee | 111 | (111) | – | – |
| Benefits paid | (1,371) | 1,371 | – | – |
| Relating to subsidiaries acquired (see note 31(c)) | 594 | – | – | 594 |
| Transfer to liabilities directly associated with assets classified as held for sale (see note 22) | (11,070) | 9,957 | – | (1,113) |
| Transfer from (to) other liabilities | 17 | (5) | – | 12 |
| At 31 December 2018 | 18,337 | (15,897) | 3 | 2,443 |

## 27 Pension plans (continued)

### (a) Defined benefit plans (continued)

| | Present value of defined benefit obligations HK$ million | Fair value of plan assets HK$ million | Asset ceiling HK$ million | Net defined benefit liabilities HK$ million |
|---|---|---|---|---|
| At 1 January 2017 | 29,392 | (24,026) | 3 | 5,369 |
| Net charge (credit) to the income statement | | | | |
| Current service cost | 724 | 40 | – | 764 |
| Past service cost and gains and losses on settlements | (115) | – | – | (115) |
| Interest cost (income) | 745 | (614) | – | 131 |
| | 1,354 | (574) | – | 780 |
| Net charge (credit) to other comprehensive income | | | | |
| Remeasurements loss (gain): | | | | |
| Actuarial gain arising from change in demographic assumptions | (434) | – | – | (434) |
| Actuarial loss arising from change in financial assumptions | 233 | – | – | 233 |
| Actuarial gain arising from experience adjustment | (139) | – | – | (139) |
| Return on plan assets excluding interest income | – | (1,548) | – | (1,548) |
| Exchange translation differences | 2,622 | (2,171) | – | 451 |
| | 2,282 | (3,719) | – | (1,437) |
| Contributions paid by the employer | – | (886) | – | (886) |
| Contributions paid by the employee | 112 | (112) | – | – |
| Benefits paid | (1,552) | 1,552 | – | – |
| Relating to subsidiaries acquired (see note 31(c)) | 11 | – | – | 11 |
| Transfer from (to) other liabilities | (71) | 4 | – | (67) |
| At 31 December 2017 | 31,528 | (27,761) | 3 | 3,770 |

The net defined benefit liabilities presented above represent the deficit calculated in accordance with Hong Kong Accounting Standard 19 "Employee Benefits" ("HKAS 19") and is the difference between the present value of the defined benefit obligation and the fair value of plan assets. Management appointed actuaries to carry out a valuation of these pension plans to determine the pension obligation and the fair value of the plan assets that are required to be disclosed and accounted for in the financial statements in accordance with HKAS 19 (the "accounting actuarial valuations"). The realisation of the deficit disclosed above is contingent upon the realisation of the actuarial assumptions made which is dependent upon a number of factors including the market performance of plan assets. The accounting actuarial valuations are not used for the purposes of determining the funding contributions to the defined benefit pension plans. Contributions to fund the obligations are based upon the recommendations of independent qualified actuaries for each of the Group's pension plans to fully fund the relevant schemes on an ongoing basis. Funding requirements of the Group's major defined benefit pension plans are detailed below.

## 27 Pension plans (continued)

### (a) Defined benefit plans (continued)

The Group operates two principal pension plans in Hong Kong. One plan, which has been closed to new entrants since 1994, provides pension benefits based on the greater of the aggregate of the employee and employer vested contributions plus a minimum interest thereon of 6% per annum, and pension benefits derived by a formula based on the final salary and years of service. An independent actuarial valuation, undertaken for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance ("ORSO"), at 31 May 2017 reported a funding level of 125% of the accrued actuarial liabilities on an ongoing basis. The valuation used the attained age valuation method and the main assumptions in the valuation are an investment return of 5% per annum, salary increases of 4% per annum and interest credited to balances of 6% per annum. The valuation was prepared by Tian Keat Aun, a Fellow of The Institute and Faculty of Actuaries, and William Chow, a Fellow of the Society of Actuaries, of Towers Watson Hong Kong Limited. The second plan provides benefits equal to the employer vested contributions plus a minimum interest thereon of 5% per annum. As at 31 December 2018, vested benefits under this plan are fully funded in accordance with the ORSO funding requirements. During the year, forfeited contributions totalling HK$19 million (2017 – HK$20 million) were used to reduce the current year's level of contributions and HK$2 million forfeited contribution was available at 31 December 2018 (2017 – HK$ 2 million) to reduce future years' contributions.

The Group operates three contributory defined benefit pension plans for its ports operation in the United Kingdom. The plans are all final salary in nature and they are not open to new entrants. Of the three plans, the Port of Felixstowe Pension Plan ("Felixstowe Scheme") is the principal plan. An independent actuarial valuation, undertaken for funding purposes under the provision of the Pensions Act 2004, at 31 December 2015 reported a funding level of 86% of the accrued actuarial liabilities on an ongoing basis. The sponsoring employers have since made additional contributions of GBP7.5 million and 2.7% of active members' pensionable salaries in 2016 and agreed to make additional contributions of GBP7.5 million per annum until 30 June 2023 and 2.7% of active members' pensionable salaries per annum until 30 September 2018 to eliminate the shortfall by 30 June 2023. The valuation used the projected unit credit method and the main assumptions in the valuation are a pre-retirement discount rates of 5% per annum; post-retirement discount rate of 4.45% per annum for non-pensioners and 2.9% per annum for pensioners; pensionable earnings increases of 2.8% per annum; pre-retirement Retail Price Index ("RPI") inflation of 2.8% per annum; post-retirement RPI inflation of 4.05% per annum for non-pensioners and 2.6% per annum for pensioners; pre-retirement Consumer Price Index ("CPI") inflation of 1.8% per annum; post-retirement CPI inflation of 3.05% per annum for non-pensioners and 1.6% per annum for pensioners; and pension increases of 2% to 3.5% per annum for non-pensioners and 1.4% to 2.55% per annum for pensioners. The valuation was prepared by Lloyd Cleaver, a Fellow of the Institute and Faculty of Actuaries, of Towers Watson Limited.

The Group's defined benefit pension plans for its ports and retail operations in the Netherlands are guaranteed contracts undertaken by insurance companies to provide defined benefit payable under the plans in return for actuarially determined contributions based on tariffs and conditions agreed for the term of the contracts. As the risk of providing past pension benefits is underwritten by the insurance companies, the Group does not carry funding risk relating to past service. The annual contribution to provide current year benefits varies in accordance with annual actuarial calculations.

The Group operates a defined benefit pension plan for certain of its retail operation in the United Kingdom. It is not open to new entrants. With effect from 28 February 2010, accrual of future defined benefits for all active members was ceased and the final salary linkage was also severed. An independent actuarial valuation, undertaken for funding purposes under the provision of the Pensions Act 2004, at 31 March 2018 reported a funding level of 79% of the accrued actuarial liabilities on an ongoing basis. The sponsoring employers have since made additional contributions of GBP16 million (included GBP5.5 million additional voluntary contribution) in 2018 (2017 – GBP11 million (included GBP5.5 million additional voluntary contribution)). A schedule of contributions was agreed with GBP18.5 million to pay in 2019 and 2020, and GBP2.7 million in 2021 to eliminate the shortfall by February 2021. The valuation used the projected unit credit method and the main assumptions in the valuation are investment returns of 1.08% to 4.44% per annum and pension increases of 1.28% to 3.68% per annum. The valuation was prepared by Paul Jayson, a Fellow of the Institute and Faculty of Actuaries, of Barnett Waddingham LLP.

# 27 Pension plans (continued)

## (a) Defined benefit plans (continued)

### (i) Plan assets

Fair value of the plan assets are analysed as follows:

| | 2018 Percentage | 2017 Percentage |
|---|---|---|
| Equity instruments | | |
| Consumer markets and manufacturing | 7% | 8% |
| Energy and utilities | 3% | 3% |
| Financial institutions and insurance | 5% | 7% |
| Telecommunications and information technology | 5% | 4% |
| Units trust and equity instrument funds | 6% | 4% |
| Others | 7% | 10% |
| | 33% | 36% |
| Debt instruments | | |
| Government and government guaranteed notes | 17% | 14% |
| Financial institutions notes | 1% | 1% |
| Others | 7% | 7% |
| | 25% | 22% |
| Qualifying insurance policies | 22% | 20% |
| Properties | 6% | 8% |
| Other assets | 14% | 14% |
| | 100% | 100% |

The debt instruments are analysed by issuers' credit rating as follows:

| | 2018 Percentage | 2017 Percentage |
|---|---|---|
| Aaa / AAA | 4% | 5% |
| Aa1 / AA+ | 3% | 4% |
| Aa2 / AA | 73% | 61% |
| Aa3 / AA- | 1% | – |
| A1 / A+ | 1% | 1% |
| A2 / A | 6% | 8% |
| Other investment grades | 11% | 13% |
| No investment grades | 1% | 8% |
| | 100% | 100% |

The fair value of the above equity instruments and debt instruments are determined based on quoted market prices.

Fair value of plan assets of HK$15,897 million (2017 - HK$27,761 million) includes investments in the Company's shares with a fair value of HK$28 million (2017 - HK$36 million).

The long term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership and liability profile, and the liquidity requirements of the plans.

## 27 Pension plans (continued)

### (a) Defined benefit plans (continued)

(ii) Defined benefit obligation

The average duration of the defined benefit obligation as at 31 December 2018 is 18 years (2017 – 18 years).

The Group expects to make contributions of HK$1,071 million (2017 – HK$980 million) to the defined benefit plans next year.

HKAS 19 "Employee Benefits" requires disclosure of a sensitivity analysis for the significant actuarial assumptions, used to determine the present value of the defined benefit obligations, that shows the effects of a hypothetical change in the relevant actuarial assumption at the end of the reporting period on defined benefit obligations.

The effect that is disclosed in the following assumes that (a) a hypothetical change of the relevant actuarial assumption had occurred at the end of the reporting period and had applied to the relevant actuarial assumption in existence on that date; and (b) the sensitivity analysis for each type of actuarial assumption does not reflect inter-dependencies between different assumptions.

The preparation and presentation of the sensitivity analysis for significant actuarial assumptions is solely for compliance with HKAS 19 disclosure requirements in respect of defined benefit obligations. The sensitivity analysis measures changes in the defined benefit obligations from hypothetical instantaneous changes in one actuarial assumption (e.g. discount rate or future salary increase), the amount so generated from the sensitivity analysis are "what-if" forward-looking estimates. The sensitivity analyses are for illustration purposes only and it should be noted that in practice actuarial assumptions rarely change in isolation. Actual results in the future may differ materially from the sensitivity analyses due to developments in the markets which may cause fluctuations in actuarial assumptions (e.g. discount rate or future salary increase) to vary and therefore it is important to note that the hypothetical amounts so generated do not present a projection of likely future events and profits or losses.

If the discount rate is 0.25% higher or lower, the defined benefit obligation would decrease by 3.6% or increase by 3.8% respectively (2017- decrease by 3.7% or increase by 3.9% respectively).

If the future salary increase is 0.25% higher or lower, the defined benefit obligation would increase by 0.3% or decrease by 0.3% respectively (2017 – increase by 0.3% or decrease by 0.3% respectively).

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

### (b) Defined contribution plans

The Group's cost in respect of defined contribution plans for the year amounted to HK$1,363 million (2017 – HK$1,197 million) which has been charged to the profit or loss for the year. Forfeited contributions of HK$16 million (2017 – HK$15 million) were used to reduce the current year's level of contributions and no forfeited contribution was available at 31 December 2018 (2017 – nil) to reduce future years' contributions.

## 28 Other non-current liabilities

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Contract liabilities | **3** | – |
| Derivative financial instruments | | |
| Fair value hedges – Interest rate swaps | **116** | 37 |
| Cash flow hedges | | |
| Interest rate swaps | **373** | 532 |
| Cross currency interest rate swaps | **928** | 1,888 |
| Forward foreign exchange contracts | **–** | 1 |
| Other contracts | **–** | 374 |
| Net investment hedges | | |
| Forward foreign exchange contracts | **–** | 895 |
| Cross currency swaps | **45** | – |
| Other derivative financial instruments | **481** | 4,059 |
| Obligations for telecommunications licences and other rights | **9,613** | 5,670 |
| Other non-current liabilities [(a)] | **15,610** | 9,580 |
| Liabilities relating to the economic benefits agreements [(b)] | **14,308** | – |
| Provisions (see note 25) | **29,989** | 28,012 |
| | **71,466** | 51,048 |

(a) includes equipment purchase payables of HK$10,906 million (2017 – HK$4,845 million).

(b) During the year, the Group has divested a substantial portion of the economic benefits arising from six infrastructure investments co-owned with CKI comprising of interests in Northumbrian Water, Park'N Fly, UK Rails, Australian Gas Networks, Dutch Enviro Energy and Wales & West Utilities under economic benefit agreements. As part of the arrangement, upon the occurrence of certain events, the Group is required to return the consideration. The Group recognises liabilities measured by reference to the amount of consideration it received under this arrangement from entities outside the Group.

## 29 Share capital, share premium, perpetual capital securities and capital management

### (a) Share capital and share premium

| | Number of shares | Share capital HK$ million | Share premium HK$ million | Total HK$ million |
|---|---|---|---|---|
| At 1 January and 31 December 2017 and 1 January 2018 | **3,857,678,500** | **3,858** | **244,505** | **248,363** |
| Buy-back and cancellation of issued shares [(i)] | **(1,438,000)** | **(2)** | **(128)** | **(130)** |
| At 31 December 2018 | **3,856,240,500** | **3,856** | **244,377** | **248,233** |

(i) The Company acquired a total of 1,438,000 of its own shares through purchases on the Stock Exchange on 4, 5 and 6 September 2018. The purchased shares were subsequently cancelled. The total amount paid to acquire the shares was approximately HK$131 million and has been deducted from share capital and share premium of HK$130 million and retained profit of HK$1 million.

## 29 Share capital, share premium, perpetual capital securities and capital management (continued)

### (b) Perpetual capital securities

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| US$425.3 million issued in 2013* | **–** | 3,373 |
| EUR1,750 million issued in 2013 | **–** | 18,266 |
| US$1,000 million issued in 2017 | **7,842** | 7,842 |
| EUR500 million issued in 2018 | **4,484** | – |
| | **12,326** | 29,481 |

In January 2013, May 2013, May 2017 and December 2018, wholly owned subsidiary companies of the Group issued perpetual capital securities with nominal amount of US$500 million (approximately HK$3,875 million), EUR1,750 million (approximately HK$17,879 million), US$1,000 million (approximately HK$7,800 million) and EUR500 million (approximately HK$4,475 million) respectively for cash.

During the year, the Group had redeemed the remaining outstanding US$500 million (approximately HK$3,875 million) nominal amount of the perpetual capital securities that were originally issued in January 2013 and EUR1,750 million (approximately HK$17,879 million) nominal amount of the perpetual capital securities that were originally issued in May 2013. During the year ended 31 December 2017, the Group had redeemed US$1,000 million (approximately HK$7,800 million) and HK$1,000 million nominal amount of perpetual capital securities that were originally issued in May 2012 and July 2012 respectively.

These securities are perpetual, subordinated and the coupon payment is optional in nature. Therefore, perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated statement of financial position.

* US$74.7 million nominal values of perpetual capital securities were repurchased during the year ended 31 December 2013.

## 29 Share capital, share premium, perpetual capital securities and capital management (continued)

### (c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue to provide returns for shareholders and to support the Group's stability and growth. The Group regularly reviews and manages its capital structure to ensure optimal capital structure to maintain a balance between higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

At 31 December 2018, total equity amounted to HK$590,823 million (2017 – HK$591,547 million), and consolidated net debt of the Group, excluding loans from non-controlling shareholders which are viewed as quasi equity, was HK$207,965 million (2017 – HK$164,872 million). The Group's net debt to net total capital ratio increased to 26.0% from 21.7% at the end of last year.

As additional information, the following table shows the net debt to net total capital ratios calculated on the basis of including loans from non-controlling shareholders and also with the Group's investments in its listed subsidiaries and associated companies marked to market value at the end of the reporting period.

Net debt / Net total capital ratios [i] at 31 December:

| | **2018** | 2017 |
|---|---|---|
| A1 — excluding interest-bearing loans from non-controlling shareholders from debt | **26.0%** | 21.7% |
| A2 — as in A1 above and investments in listed subsidiaries and associated companies marked to market value | **27.8%** | 22.1% |
| B1 — including interest-bearing loans from non-controlling shareholders as debt | **26.1%** | 22.1% |
| B2 — as in B1 above and investments in listed subsidiaries and associated companies marked to market value | **27.9%** | 22.5% |

(i) Net debt is defined on the consolidated statement of cash flows. Total bank and other debts are defined, for the purpose of "Net debt" calculation, as the total principal amount of bank and other debts and unamortised fair value adjustments arising from acquisitions. Net total capital is defined as total bank and other debts plus total equity and loans from non-controlling shareholders net of total cash, liquid funds and other listed investments.

## 30 Reserves

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Attributable to ordinary shareholders | | | | |
| | Retained profit HK$ million | Exchange reserve HK$ million | Hedging reserve HK$ million | Others [(a)] HK$ million | Total HK$ million |
| At 31 December 2017, as previously reported, and 1 January 2018 | 546,498 | (20,642) | (2,094) | (342,069) | 181,693 |
| Effect on adoption of HKFRS 9 and HKFRS 15 (see note 41) | 1,379 | – | – | (949) | 430 |
| At 1 January 2018, as adjusted | 547,877 | (20,642) | (2,094) | (343,018) | 182,123 |
| Profit for the year | 39,000 | – | – | – | 39,000 |
| Other comprehensive income (losses) [(b)] | | | | | |
| Equity securities at FVOCI * | | | | | |
| Valuation losses recognised directly in reserves | – | – | – | (1,490) | (1,490) |
| Debt securities at FVOCI * | | | | | |
| Valuation losses recognised directly in reserves | – | – | – | (20) | (20) |
| Remeasurement of defined benefit obligations recognised directly in reserves | 455 | – | – | – | 455 |
| Cash flow hedges (forward foreign currency contracts, cross currency interest rate swap contracts and interest rate swap contracts) | | | | | |
| Gains recognised directly in reserves | – | – | 322 | – | 322 |
| Gains on net investment hedges (forward foreign currency contracts and cross currency swap contracts) recognised directly in reserves | – | 2,892 | – | – | 2,892 |
| Losses on translating overseas subsidiaries' net assets recognised directly in reserves | – | (7,733) | – | – | (7,733) |
| Losses (gains) previously in exchange and other reserves related to subsidiaries and joint ventures disposed during the year recognised in income statement | – | (1,885) | 75 | – | (1,810) |
| Share of other comprehensive income (losses) of associated companies | 285 | (2,417) | (175) | (112) | (2,419) |
| Share of other comprehensive income (losses) of joint ventures | 381 | (4,145) | (186) | 32 | (3,918) |
| Tax relating to components of other comprehensive income (losses) | (70) | – | (66) | – | (136) |
| Other comprehensive income (losses), net of tax | 1,051 | (13,288) | (30) | (1,590) | (13,857) |
| Hedging reserve gains transferred to the carrying value of non-financial item during the year | – | – | (14) | – | (14) |
| Impact of hyperinflation | (173) | 208 | – | (14) | 21 |
| Dividends paid relating to 2017 | (7,985) | – | – | – | (7,985) |
| Dividends paid relating to 2018 | (3,356) | – | – | – | (3,356) |
| Redemption of perpetual capital securities | – | 1,740 | – | – | 1,740 |
| Transaction costs in relation to issuance of perpetual capital securities | (33) | – | – | – | (33) |
| Buy-back and cancellation of issued shares (see note 29(a)(i)) | (1) | – | – | – | (1) |
| Share option schemes and long term incentive plans of subsidiary companies | 4 | – | – | 23 | 27 |
| Transfer of loss on disposal of equity securities at FVOCI * to retained profits | (16) | – | – | 16 | – |
| Unclaimed dividends write back of a subsidiary | 6 | – | – | – | 6 |
| Relating to purchase of non-controlling interests | – | – | – | (28) | (28) |
| Relating to partial disposal of subsidiary companies | 4 | 3 | – | 268 | 275 |
| Gains previously in other reserves related to deemed disposed of associated companies during the year transferred directly to retained profit | 3 | – | – | (3) | – |
| At 31 December 2018 | 576,381 | (31,979) | (2,138) | (344,346) | 197,918 |

* See note 41.

## 30 Reserves (continued)

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Attributable to ordinary shareholders | | | | |
| | Retained profit HK$ million | Exchange reserve HK$ million | Hedging reserve HK$ million | Others [a] HK$ million | Total HK$ million |
| At 1 January 2017 | 520,616 | (30,832) | (1,982) | (341,996) | 145,806 |
| Profit for the year | 35,100 | – | – | – | 35,100 |
| Other comprehensive income (losses) [b] | | | | | |
| Available-for-sale investments | | | | | |
| Valuation gains recognised directly in reserves | – | – | – | 145 | 145 |
| Valuation gains previously in reserves recognised in income statement | – | – | – | (36) | (36) |
| Remeasurement of defined benefit obligations recognised directly in reserves | 1,268 | – | – | – | 1,268 |
| Cash flow hedges (forward foreign currency contracts, cross currency interest rate swap contracts and interest rate swap contracts) | | | | | |
| Losses recognised directly in reserves | – | – | (134) | – | (134) |
| Losses previously in reserves recognised in initial cost of non-financial items | – | – | 1 | – | 1 |
| Losses on net investment hedges (forward foreign currency contracts) recognised directly in reserves | – | (3,847) | – | – | (3,847) |
| Gains on translating overseas subsidiaries' net assets recognised directly in reserves | – | 2,551 | – | – | 2,551 |
| Losses previously in exchange and other reserves related to subsidiaries, associated companies and joint ventures disposed during the year recognised in income statement | – | 20 | 2 | – | 22 |
| Gains previously in other reserves related to subsidiaries disposed during the year transferred directly to retained profit | 9 | – | – | (9) | – |
| Share of other comprehensive income (losses) of associated companies | 101 | 2,897 | (126) | 78 | 2,950 |
| Share of other comprehensive income of joint ventures | 178 | 8,569 | 188 | 54 | 8,989 |
| Tax relating to components of other comprehensive income (losses) | (151) | – | (43) | – | (194) |
| Other comprehensive income (losses), net of tax | 1,405 | 10,190 | (112) | 232 | 11,715 |
| Dividends paid relating to 2016 | (7,503) | – | – | – | (7,503) |
| Dividends paid relating to 2017 | (3,009) | – | – | – | (3,009) |
| Transaction costs in relation to issuance of perpetual capital securities | (62) | – | – | – | (62) |
| Transaction costs in relation to issuance of shares of a subsidiary | (41) | – | – | – | (41) |
| Transaction costs in relation to equity contribution from non-controlling interests | (14) | – | – | – | (14) |
| Share option schemes and long term incentive plans of subsidiary companies | – | – | – | 9 | 9 |
| Unclaimed dividends write back of a subsidiary | 6 | – | – | – | 6 |
| Relating to purchase of non-controlling interests | – | – | – | (342) | (342) |
| Relating to partial disposal of subsidiary companies | – | – | – | 28 | 28 |
| At 31 December 2017 | 546,498 | (20,642) | (2,094) | (342,069) | 181,693 |

## 30 Reserves (continued)

(a) Other reserves comprise revaluation reserve and other capital reserves. As at 31 December 2018, revaluation reserve deficit amounted to HK$2,985 million (1 January 2018 – HK$503 million and 1 January 2017 – HK$792 million), and other capital reserves deficit amounted to HK$341,361 million (1 January 2018 – HK$341,566 million and 1 January 2017 – HK$341,204 million). Included in the other capital reserves account is a deficit of HK$341,336 million, relating to the fair value of shares of Cheung Kong (Holdings) Limited, the former holding company of the Group, cancelled as part of the reorganisation completed in 2015. Revaluation surplus (deficit) arising from revaluation to market value of listed debt securities and listed equity securities are included in the revaluation reserve.

(b) Set out below are the before and after related tax effects of other comprehensive income (losses) for the year:

| | 2018 | | |
|---|---|---|---|
| | **Before-tax amount HK$ million** | **Tax effect HK$ million** | **Net-of-tax amount HK$ million** |
| Equity securities at FVOCI * | | | |
| Valuation losses recognised directly in reserves | **(1,652)** | **–** | **(1,652)** |
| Debt securities at FVOCI * | | | |
| Valuation losses recognised directly in reserves | **(20)** | **–** | **(20)** |
| Remeasurement of defined benefit obligations recognised directly in reserves | **615** | **(93)** | **522** |
| Cash flow hedges (forward foreign currency contracts, cross currency interest rate swap contracts and interest rate swap contracts) | | | |
| Gains recognised directly in reserves | **363** | **(69)** | **294** |
| Gains on net investment hedges (forward foreign currency contracts and cross currency swap contracts) recognised directly in reserves | **3,735** | **–** | **3,735** |
| Losses on translating overseas subsidiaries' net assets recognised directly in reserves | **(9,305)** | **–** | **(9,305)** |
| Gains previously in exchange and other reserves related to subsidiaries and joint ventures disposed during the year recognised in income statement | **(2,093)** | **–** | **(2,093)** |
| Share of other comprehensive income (losses) of associated companies | **(2,611)** | **–** | **(2,611)** |
| Share of other comprehensive income (losses) of joint ventures | **(4,761)** | **–** | **(4,761)** |
| | **(15,729)** | **(162)** | **(15,891)** |

| | 2017 | | |
|---|---|---|---|
| | Before-tax amount HK$ million | Tax effect HK$ million | Net-of-tax amount HK$ million |
| Available-for-sale investments | | | |
| Valuation gains recognised directly in reserves | 149 | – | 149 |
| Valuation gains previously in reserves recognised in income statement | (36) | – | (36) |
| Remeasurement of defined benefit obligations recognised directly in reserves | 1,730 | (213) | 1,517 |
| Cash flow hedges (forward foreign currency contracts, cross currency interest rate swap contracts and interest rate swap contracts) | | | |
| Losses recognised directly in reserves | (114) | (50) | (164) |
| Losses previously in reserves recognised in initial cost of non-financial items | 1 | – | 1 |
| Losses on net investment hedges (forward foreign currency contracts) recognised directly in reserves | (4,683) | – | (4,683) |
| Gains on translating overseas subsidiaries' net assets recognised directly in reserves | 4,625 | – | 4,625 |
| Losses previously in exchange and other reserves related to subsidiaries, associated companies and joint ventures disposed during the year recognised in income statement | 40 | – | 40 |
| Share of other comprehensive income of associated companies | 3,167 | – | 3,167 |
| Share of other comprehensive income of joint ventures | 10,315 | – | 10,315 |
| | 15,194 | (263) | 14,931 |

* See note 41.

## 31 Notes to consolidated statement of cash flows

### (a) Reconciliation of profit after tax to cash generated from operating activities before interest expenses and other finance costs, tax paid and changes in working capital

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| **Profit after tax** | **46,580** | 43,602 |
| Less: share of profits less losses of | | |
| Associated companies | **(2,888)** | (6,797) |
| Joint ventures | **(10,220)** | (12,500) |
| | **33,472** | 24,305 |
| Adjustments for: | | |
| Current tax charge | **3,912** | 5,415 |
| Deferred tax credit | **(1,294)** | (2,599) |
| Interest expenses and other finance costs | **9,797** | 8,274 |
| Depreciation and amortisation | **19,739** | 17,105 |
| Others | **61** | 11 |
| **EBITDA of Company and subsidiaries** (i) | **65,687** | 52,511 |
| Loss (profit) on disposal of fixed assets | **22** | (1,943) |
| Dividends received from associated companies and joint ventures | **14,519** | 19,029 |
| Profit on disposal of subsidiaries, associated companies and joint ventures | **(2,641)** | (2,829) |
| Other non-cash items | **(4,997)** | 1,369 |
| | **72,590** | 68,137 |

## 31 Notes to consolidated statement of cash flows (continued)

### (a) Reconciliation of profit after tax to cash generated from operating activities before interest expenses and other finance costs, tax paid and changes in working capital (continued)

(i) Reconciliation of EBITDA:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| EBITDA of Company and subsidiaries | **65,687** | 52,511 |
| Divesture of infrastructure investments | **(645)** | – |
| | **65,042** | 52,511 |
| Share of EBITDA of associated companies and joint ventures | | |
| Share of profits less losses of | | |
| Associated companies | **2,888** | 6,797 |
| Joint ventures | **10,220** | 12,500 |
| Adjustments for: | | |
| Depreciation and amortisation | **21,615** | 19,921 |
| Interest expenses and other finance costs | **8,463** | 9,750 |
| Current tax charge | **3,813** | 2,483 |
| Deferred tax charge | **1,652** | 756 |
| Non-controlling interests | **700** | 388 |
| Others | **(61)** | (11) |
| | **49,290** | 52,584 |
| EBITDA (see notes 3(b)(ii) and 3(b)(xiii)) | **114,332** | 105,095 |

### (b) Changes in working capital

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Increase in inventories | **(2,433)** | (1,825) |
| Increase in debtors and prepayments | **(2,166)** | (5,320) |
| Increase in creditors | **5,224** | 2,771 |
| Other non-cash items | **(2,236)** | 4,078 |
| | **(1,611)** | (296) |

## 31 Notes to consolidated statement of cash flows (continued)

### (c) Purchase of subsidiary companies

During the year, the Group acquired the remaining 50% interest in the telecommunications businesses in Italy operated by Wind Tre and become the sole shareholder of Wind Tre. The following table summarises the consideration paid and the amounts of the assets acquired and liabilities assumed recognised for acquisitions completed during the years.

| | **Wind Tre HK$ million** | **Others HK$ million** | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|---|---|
| Purchase consideration transferred: | | | | |
| Cash and cash equivalents paid | **21,744** | **38** | **21,782** | 3,925 |
| Deferred consideration | **–** | **11** | **11** | – |
| Non-cash consideration | **–** | **498** | **498** | – |
| Fair value of investments held by the Company prior to acquisition | **39,342** | **278** | **39,620** | – |
| | **61,086** | **825** | **61,911** | 3,925 |
| Fair value | | | | |
| Fixed assets | **17,804** | **365** | **18,169** | 445 |
| Leasehold land | **–** | **–** | **–** | 105 |
| Telecommunications licences | **32,484** | **318** | **32,802** | 1,962 |
| Brand names and other rights | **22,979** | **–** | **22,979** | 134 |
| Deferred tax assets | **–** | **2** | **2** | 249 |
| Other non-current assets | **20** | **–** | **20** | – |
| Cash and cash equivalents | **7,396** | **63** | **7,459** | 201 |
| Trade and other receivables | **14,831** | **310** | **15,141** | 195 |
| Contract assets | **1,863** | **–** | **1,863** | – |
| Inventories | **661** | **50** | **711** | 4 |
| Assets held for sale | **2,007** | **–** | **2,007** | – |
| Creditors and current tax liabilities | **(30,109)** | **(556)** | **(30,665)** | (504) |
| Contract liabilities | **(1,738)** | **(38)** | **(1,776)** | – |
| Bank and other debts | **(93,829)** | **(27)** | **(93,856)** | (20) |
| Pension obligations | **(589)** | **(5)** | **(594)** | (11) |
| Other non-current liabilities | **(9,854)** | **(55)** | **(9,909)** | – |
| Net identifiable assets (liabilities) acquired | **(36,074)** | **427** | **(35,647)** | 2,760 |
| Non-controlling interests | **–** | **(44)** | **(44)** | (106) |
| | **(36,074)** | **383** | **(35,691)** | 2,654 |
| Goodwill | **97,160** | **442** | **97,602** | 1,271 |
| Total consideration | **61,086** | **825** | **61,911** | 3,925 |
| Net cash outflow (inflow) arising from acquisition: | | | | |
| Cash and cash equivalents paid | **21,744** | **38** | **21,782** | 3,925 |
| Cash and cash equivalents acquired | **(7,396)** | **(63)** | **(7,459)** | (201) |
| Total net cash outflow (inflow) | **14,348** | **(25)** | **14,323** | 3,724 |

The assets acquired and liabilities assumed are recognised at the acquisition date fair value and are recorded at the consolidation level.

Acquisition related costs of approximately HK$145 million (2017 – HK$58 million) had been charged to income statement during the year and included in the line item titled other operating expenses.

The subsidiaries acquired during the current year contributed HK$14,566 million to the Group's revenue and HK$3,773 million to the Group's profit before tax since the respective date of acquisition.

For the year ended 31 December 2017, the contribution to the Group's revenue and profit before tax from the subsidiaries acquired during the comparative year since the respective date of acquisition were not material.

## 31 Notes to consolidated statement of cash flows (continued)

### (d) Disposal of subsidiary companies

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Consideration received or receivable | | |
| Cash and cash equivalents | **1,628** | 14,556 |
| Non-cash consideration | **–** | 1,920 |
| Total disposal consideration | **1,628** | 16,476 |
| Carrying amount of net assets disposed | **(644)** | (13,764) |
| Cumulative exchange gains (losses) in respect of the net assets of the subsidiaries and related hedging instruments and other reserves reclassified from equity to profit or loss on loss of control of subsidiaries | **(70)** | 4 |
| Gain on disposal * | **914** | 2,716 |
| Net cash inflow (outflow) on disposal of subsidiaries | | |
| Cash and cash equivalents received as consideration | **1,628** | 14,556 |
| Less: Cash and cash equivalents disposed | **(507)** | (355) |
| Total net cash consideration | **1,121** | 14,201 |
| Analysis of assets and liabilities over which control was lost | | |
| Fixed assets | **339** | 6,733 |
| Leasehold land | **68** | – |
| Goodwill | **–** | 5,929 |
| Brand names and other rights | **–** | 503 |
| Associated companies | **–** | 673 |
| Interests in joint ventures | **–** | (1) |
| Liquid funds and other listed investments | **–** | 4 |
| Trade and other receivables | **28** | 1,850 |
| Inventories | **11** | 5 |
| Creditors and current tax liabilities | **(19)** | (1,630) |
| Bank and other debts | **–** | (9) |
| Deferred tax liabilities | **(7)** | (657) |
| Non-controlling interests | **(283)** | 9 |
| Net assets (excluding cash and cash equivalents) disposed | **137** | 13,409 |
| Cash and cash equivalents disposed | **507** | 355 |
| Net assets disposed | **644** | 13,764 |

* The gains on disposal for the years ended 31 December 2018 and 2017 are recognised in the consolidated income statement and are included in the line item titled other operating expenses.

The effect on the Group's results from the subsidiaries disposed during the year are not material for the years ended 31 December 2018 and 2017.

## 31 Notes to consolidated statement of cash flows (continued)

### (e) Changes in liabilities arising from financing activities

The following table sets out an analysis of the cash flows and non-cash flows changes in liabilities arising from financing activities:

| | Bank and other debts HK$ million | Interest bearing loans from non-controlling shareholders HK$ million | Interest free loans from non-controlling shareholders HK$ million | Liabilities relating to the economic benefits agreements HK$ million | Total HK$ million |
|---|---|---|---|---|---|
| At 1 January 2017 | 303,140 | 4,283 | 927 | – | 308,350 |
| Financing cash flows | | | | | |
| New borrowings | 100,488 | – | – | – | 100,488 |
| Repayment of borrowings | (87,674) | – | – | – | (87,674) |
| Net loans to non-controlling shareholders | – | (1,523) | (616) | – | (2,139) |
| Non-cash changes | | | | | |
| Amortisation of loan facilities fees and premiums or discounts relating to borrowings (see note 5) | 210 | – | – | – | 210 |
| Gains arising on adjustment for hedged items in a designated fair value hedge (see note 43(h)) | (103) | – | – | – | (103) |
| Amortisation of bank and other debts' fair value adjustments arising from acquisitions (see note 5(a)) | (1,725) | – | – | – | (1,725) |
| Relating to subsidiaries acquired (see note 31(c)) | 20 | – | – | – | 20 |
| Relating to subsidiaries disposed (see note 31(d)) | (9) | – | – | – | (9) |
| Exchange translation differences | 17,641 | 383 | 78 | – | 18,102 |
| At 31 December 2017 and 1 January 2018 | **331,988** | **3,143** | **389** | **–** | **335,520** |
| Financing cash flows | | | | | |
| New borrowings | **55,313** | **–** | **–** | **–** | **55,313** |
| Repayment of borrowings | **(54,961)** | **–** | **–** | **–** | **(54,961)** |
| Net loans to non-controlling shareholders | **–** | **(181)** | **(4)** | **–** | **(185)** |
| Consideration received from the economic benefits agreements (see note 28(b)) | **–** | **–** | **–** | **14,308** | **14,308** |
| Non-cash changes | | | | | |
| Amortisation of loan facilities fees and premiums or discounts relating to borrowings (see note 5) | **235** | **–** | **–** | **–** | **235** |
| Gains arising on adjustment for hedged items in a designated fair value hedge (see note 43(h)) | **(115)** | **–** | **–** | **–** | **(115)** |
| Amortisation of bank and other debts' fair value adjustments arising from acquisitions (see note 5(a)) | **(1,522)** | **–** | **–** | **–** | **(1,522)** |
| Relating to subsidiaries acquired (see note 31(c)) | **93,856** | **–** | **–** | **–** | **93,856** |
| Derecognition of notes and bonds * | **(5,633)** | **–** | **–** | **–** | **(5,633)** |
| Exchange translation differences | **(9,898)** | **(139)** | **–** | **–** | **(10,037)** |
| Transfer to liabilities directly associated with assets classified as held for sale (see note 22) | **(57,707)** | **(2,071)** | **–** | **–** | **(59,778)** |
| At 31 December 2018 | **351,556** | **752** | **385** | **14,308** | **367,001** |

* via transfer from liquid funds and other listed investments

## 32 Share-based payments

The Company does not have a share option scheme but certain of the Company's subsidiary companies and associated companies have issued equity-settled and cash-settled share-based payments to certain employees. The aggregate amount of the share-based payments recognised by these companies are not material to the Group.

## 33 Pledge of assets

At 31 December 2018, assets of the Group totalling HK$111,017 million (2017 – HK$27,990 million) were pledged as security for bank and other debts. The increase is mainly attributable to an acquisition of a subsidiary during the year.

## 34 Contingent liabilities

At 31 December 2018, CK Hutchison Holdings Limited, and its subsidiaries provide guarantees in respect of bank and other borrowing facilities to its associated companies and joint ventures of HK$4,138 million (2017 – HK$3,911 million).

The amount utilised by its associated companies and joint ventures are as follows:

| | **2018<br>HK$ million** | 2017<br>HK$ million |
|---|---|---|
| To associated companies | **2,777** | 2,687 |
| To joint ventures | **728** | 623 |

At 31 December 2018, the Group had provided performance and other guarantees of HK$2,885 million (2017 – HK$3,307 million).

## 35 Commitments

The Group's outstanding commitments contracted for at 31 December 2018, where material, not provided for in the financial statements at 31 December 2018 are as follows:

### Capital commitments

(a) Ports and Related Services – HK$214 million (2017 – HK$73 million)
(b) **3** Group Europe – HK$6,441 million (2017 – HK$3,271 million)
(c) Telecommunications, Hong Kong and Asia – HK$2,092 million (2017 – HK$1,836 million)
(d) Other fixed assets – HK$276 million (2017 – HK$187 million)

### Operating lease commitments – future aggregate minimum lease payments for land and buildings leases

(a) In the first year – HK$13,517 million (2017 – HK$11,494 million)
(b) In the second to fifth years inclusive – HK$23,516 million (2017 – HK$21,947 million)
(c) After the fifth year – HK$45,133 million (2017 – HK$41,343 million)

### Operating lease commitments – future aggregate minimum lease payments for other assets

(a) In the first year – HK$1,850 million (2017 – HK$1,041 million)
(b) In the second to fifth years inclusive – HK$3,870 million (2017 – HK$2,528 million)
(c) After the fifth year – HK$698 million (2017 – HK$400 million)

## 36 Related parties transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Transactions between the Group and other related parties during the year are not significant to the Group. The outstanding balances with associated companies and joint ventures are disclosed in notes 14 and 15. In addition, during 2015, the acquisition of HWL resulted in the consolidation of traded debt securities outside Hong Kong issued by listed associated company, Husky Energy with a principal amount of US$25 million which will mature in 2019.

No transactions have been entered with the directors of the Company (being the key management personnel) during the year other than the emoluments paid to them (being the key management personnel compensation).

## 37 Legal proceedings

As at 31 December 2018, the Group is not engaged in any material litigation or arbitration proceedings, and no material litigation or claim is known by the Group to be pending or threatened against it.

## 38 US dollar equivalents

Amounts in these financial statements are stated in Hong Kong dollars (HK$), the functional currency of the Company. The translation into US dollars (US$) of these financial statements as of, and for the year ended, 31 December 2018, is for convenience only and has been made at the rate of HK$7.8 to US$1. This translation should not be construed as a representation that the Hong Kong dollar amounts actually represented have been, or could be, converted into US dollars at this or any other rate.

## 39 Profit before tax

Profit before tax is shown after charging the following items:

| | **2018 HK$ million** | 2017 HK$ million |
|---|---|---|
| Operating leases | | |
| Properties | **18,896** | 17,081 |
| Hire of plant and machinery | **2,105** | 2,023 |
| Auditors' remuneration | | |
| Audit and audit related work – PricewaterhouseCoopers | **201** | 163 |
| – other auditors | **22** | 17 |
| Non-audit work – PricewaterhouseCoopers | **41** | 35 |
| – other auditors | **48** | 63 |

# 40 Significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes elsewhere in these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements of the Group include the financial statements of the Company and its direct and indirect subsidiary companies and also incorporate the Group's interests in associated companies and joint arrangements on the basis set out in notes 40(b) and 40(c) below. Results of subsidiary and associated companies and joint arrangements acquired or disposed of during the year are included as from their effective dates of acquisition to 31 December 2018 or up to the dates of disposal as the case may be. The acquisition of subsidiaries is accounted for using the acquisition method.

## (a) Subsidiary companies

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

## (b) Associated companies

Associates are entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

## (c) Joint arrangement

A joint arrangement is an arrangement of which two or more parties have joint control and over which none of the participating parties has unilateral control.

Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. The Group recognises its direct right to the assets, liabilities, revenue and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement. The results and net assets of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under HKFRS 5, Non-current assets held for sale and discontinued operations. The total carrying amount of such investments is reduced to recognise any identified impairment loss in the value of individual investments.

## (d) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

## 40 Significant accounting policies (continued)

### (d) Non-current assets (or disposal groups) held for sale and discontinued operations (continued)

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

### (e) Fixed assets

Fixed assets are stated at cost less depreciation and any impairment loss. Buildings are depreciated on the basis of an expected life of 50 years, or the remainder thereof, or over the remaining period of the lease of the underlying leasehold land, whichever is less. The period of the lease includes the period for which a right to renewal is attached.

Depreciation of other fixed assets is provided on the straight-line basis to write off their costs over their estimated useful lives. The principal annual rates used for these purposes are as follows:

| | |
|---|---|
| Motor vehicles | 20 - 25% |
| Plant, machinery and equipment | $3\frac{1}{3}$ - 20% |
| Container terminal equipment | 3 - 20% |
| Telecommunications equipment | 2.5 - 20% |
| Rolling stock and other railway assets | 2.5 - 5% |
| Water and sewerage infrastructure assets | 0.5 - 25% |
| Leasehold improvements | Over the unexpired period of the lease or 15%, whichever is greater |

The gain or loss on disposal or retirement of a fixed asset is the difference between the net sales proceeds and the carrying amount

### (f) Investment properties

Investment properties are interests in land and buildings that are held to earn rentals or for capital appreciation or both. Such properties are carried in the statement of financial position at their fair value. Changes in fair values of investment properties are recorded in the income statement.

### (g) Leasehold land

The acquisition costs and upfront payments made for leasehold land are presented on the face of the statement of financial position as leasehold land and expensed in the income statement on a straight-line basis over the period of the lease.

## (h) Telecommunications licences, other licences, brand names, trademarks and other rights

Separately acquired telecommunications licences, other licences, brand names, trademarks and other rights are carried at historical cost. Telecommunications licences, other licences, brand names, trademarks and other rights with a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of these assets over their estimated useful lives:

| | |
|---|---|
| Telecommunications licences and other licences | 2 to 20 years |
| Brand names, trademarks and other rights | 2 to 45 years |

Telecommunications licences, other licences, brand names, trademarks and other rights that are considered to have indefinite useful lives to the Group are not amortised and are tested for impairment annually and when there is indication that they may be impaired.

## (i) Customer acquisition and retention costs

(i) Policy applied from 1 January 2018

Customer acquisition and retention costs ("CACs") comprise the net costs to acquire and retain customers, which are mainly mobile telecommunication 3G and LTE customers. CACs are expensed and recognised in the income statement in the period in which they are incurred, except (i) the costs are incremental of obtaining a contract and they are expected to be recovered; and (ii) the costs relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered, then they are capitalised and amortised over the customer contract period. Appropriate allowance are recognised if the carrying amounts of the capitalised costs exceed the remaining amount that the Group expects to receive less any directly related costs that have not been recognised as expenses.

(ii) Policy applied prior to 1 January 2018

Telecommunications customer acquisition and rention costs comprise the net costs to acquire and retain mobile telecommunications customers, which are primarily 3G and LTE customers. Telecommunications customer acquisition and rention costs are expensed and recognised in the income statement in the period in which they are incurred.

## (j) Goodwill

Goodwill is initially measured at cost, being excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill on acquisition of a foreign operation is treated as an asset of the foreign operation.

Goodwill is subject to impairment test annually and when there is indication that the carrying value may not be recoverable.

If the cost of acquisition is less than the fair value of the Group's share of the net identifiable assets of the acquired company, the difference is recognised directly in the income statement.

The profit or loss on disposal is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill but does not include any attributable goodwill previously eliminated against reserves.

## (k) Contractual customer relationships

Separately acquired contractual customer relationships are carried at historical cost. These contractual customer relationships are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method from five to seven years over the expected useful life of the customer relationship.

## 40 Significant accounting policies (continued)

### (l) Deferred tax

Deferred tax is recognised, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax losses and tax credits can be utilised.

### (m) Liquid funds and other listed investments and other unlisted investments and other financial assets

"Liquid funds and other listed investments" are investments in listed / traded debt securities, listed equity securities, and cash and cash equivalents. "Other unlisted investments", disclosed under other non-current assets, are investments in unlisted debt securities, unlisted equity securities and other receivables. These investments are recognised and de-recognised on the date the Group commits to purchase or sell the investments or when they expire. These investments are classified and accounted for as follows:

(i) Policy applied from 1 January 2018 – see note 41(a)(i) and (ii)

(ii) Policy applied prior to 1 January 2018

*Loans and receivables*

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method less impairment. Interest calculated using the effective interest method is recognised in the income statement.

*Held-to-maturity investments*

"Held-to-maturity investments" are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. At the end of the reporting period subsequent to initial recognition, held-to-maturity investments are carried at amortised cost using the effective interest method less impairment. Interest calculated using the effective interest method is recognised in the income statement.

*Financial assets at fair value through profit or loss*

"Financial assets at fair value through profit or loss" are financial assets where changes in fair value are recognised in the income statement in the period in which they arise. At the end of the reporting period subsequent to initial recognition, these financial assets are carried at fair value. In addition, any dividends or interests earned on these financial assets are recognised in the income statement.

*Available-for-sale investments*

"Available-for-sale investments" ("AFS") are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. At the end of the reporting period subsequent to initial recognition, these financial assets are carried at fair value and changes in fair value are recognised in other comprehensive income and accumulated under the heading of revaluation reserve except for impairment losses which are charged to the income statement. Where these investments are interest bearing, interest calculated using the effective interest method is recognised in the income statement. Dividends from available-for-sale investments are recognised when the right to receive payment is established. When available-for-sale investments are sold, the cumulative fair value gains or losses previously recognised in revaluation reserve is removed from revaluation reserve and recognised in the income statement.

## (n) Derivative financial instruments and hedging activities

Derivative financial instruments are utilised by the Group in the management of its foreign currency and interest rate exposures. Derivative financial instruments are recognised 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 hedges of 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.

The Group designates certain derivative financial instruments as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges). Certain derivative financial instruments are designated as hedges of the foreign exchange risk of a net investment in a foreign operation. The hedge accounting policy applied from 1 January 2018 is similar to that applicable prior to 1 January 2018. However, under the new hedge accounting policy, depending on the complexity of the hedge, the Group applies a more qualitative approach to assessing hedge effectiveness, and the assessment is always forward-looking.

*Cash flow hedges*

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument 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 such as inventory, the associated gain or loss is reclassified from equity to be included in the initial cost of the non-financial asset. For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve 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 amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

*Hedge of net investments in foreign operations*

The effective portion of any foreign exchange gain or loss on the derivative financial instruments is recognised in other comprehensive income and accumulated 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.

## (o) Trade and other receivables, and contract assets

Trade receivables are recognised when the Group's right to consideration is unconditional that only the passage of time is required before the payment is due.

Contract assets primarily relate to the Group's rights to consideration for delivered goods or services but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

Trade and other receivables and contract assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less allowances for expected credit losses. The Group measured the loss allowance for its trade and other receivables and contract assets at an amount equal to the lifetime expected credit losses. Appropriate allowance for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

# 40 Significant accounting policies (continued)

## (p) Inventories

Inventories consist mainly of retail goods. The carrying value of retail stock is mainly determined using the weighted average cost method. Inventories are stated at the lower of cost and net realisable value. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

## (q) Cash and cash equivalents

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

## (r) Borrowings and borrowing costs

Borrowings and debt instruments are initially measured at fair value, net of transaction costs, and are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the settlement or redemption amount is recognised over the period of the borrowings using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

## (s) Trade and other payables, and contract liabilities

Trade and other payables and contract liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

The contract liabilities primarily relate to the advance consideration received from customers, where the Group has the unconditional right to considerations before the goods or services are delivered. They are released and revenues are recognised when the performance obligations are satisfied upon transferring of goods and services to customers.

## (t) Customer loyalty credits

Customer loyalty credits are accounted for as a separate component of the sales transaction in which they are granted.

## (u) Share capital

Share capital issued by the Company are recorded in equity at the proceeds received, net of direct issue costs.

## (v) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present obligation as a result of past events and a reliable estimate can be made of the amount of the obligation.

## (w) Leased assets

Assets acquired pursuant to finance leases and hire purchase contracts that transfer to the Group substantially all the rewards and risks of ownership are accounted for as if purchased.

Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Lease payments are treated as consisting of capital and interest elements. The capital element of the leasing commitment is included as a liability and the interest element is charged to the income statement. All other leases are accounted for as operating leases and the rental payments are charged to the income statement on accrual basis.

# 40 Significant accounting policies (continued)

## (x) Asset impairment

Assets that have an indefinite useful life are tested for impairment annually and when there is indication that they may be impaired. Assets that are subject to depreciation and amortisation are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Such impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease.

## (y) Pension plans

Pension plans are classified into defined benefit and defined contribution plans. The pension plans are generally funded by the relevant Group companies taking into account the recommendations of independent qualified actuaries and by payments from employees for contributory plans.

The Group's contributions to the defined contribution plans are charged to the income statement in the year incurred.

Pension costs for defined benefit plans are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. The liability or asset recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The present value of the defined benefit obligation is measured by discounting the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations.

Remeasurements arising from defined benefit plans are recognised in other comprehensive income in the period in which they occur and reflected immediately in retained profit. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Pension costs are charged to the income statement within staff costs.

## (z) Share-based payments

The Company has no share option scheme but certain of the Company's subsidiary companies and associated companies have issued equity-settled and cash-settled share-based compensation plans. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the respective group companies' estimate of their shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at the end of the reporting period.

## (aa) Foreign exchange

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated at the rates of exchange ruling at the end of the reporting period.

## 40 Significant accounting policies (continued)

### (aa) Foreign exchange (continued)

The financial statements of foreign operations are translated into Hong Kong dollars using the year end rates of exchange for the statement of financial position items and the average rates of exchange for the year for the income statement items. Exchange differences are recognised in other comprehensive income and accumulated under the heading of exchange reserve. Exchange differences arising from foreign currency borrowings and other currency instruments designated as hedges of such overseas investments, are recognised in other comprehensive income and accumulated under the heading of exchange reserve.

Exchange differences arising from translation of inter-company loan balances between Group entities are recognised in other comprehensive income and accumulated under the heading of exchange reserve when such loans form part of the Group's net investment in a foreign entity. On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange gains or losses accumulated in exchange reserve in respect of that operation attributable to the owners of the Company are transferred out of the exchange reserve and are recognised in the income statement.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the income statement. For all other partial disposals (i.e. partial disposals of associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is transferred out of the exchange reserve and are recognised in the income statement.

For accounting purposes, Argentina is considered a hyper-inflationary economy for accounting periods ending after 1 July 2018. HKAS 29 "Financial Reporting in Hyperinflationary Economies" requires financial statements of these subsidiary companies whose functional currency is Argentine peso to be restated into the current purchasing power at the end of the reporting period before being included in the Group's consolidated financial statements. Under this requirement, transactions in 2018 and non-monetary balances at the end of the current year of these subsidiary companies have been restated to reflect a price index that is current at the statement of financial position date, using consumer price index published by The National Institute of Statistics and Censuses of Argentina of 183 in December 2018 (2017 – 125) as basis for hyperinflation adjustment calculation. All amounts, including income, expenses, assets, liabilities and equity items are then translated at the closing exchange rate into Hong Kong dollars. The differences from retranslation of opening equity are directly recognised in equity. As required by HKAS 29, comparative amounts of these subsidiary companies included in the comparative consolidated financial statements of the Group are not restated and continue to be those previously presented.

All other exchange differences are recognised in the income statement.

### (ab) Business combinations

The Group applies the provisions of HKFRS 3, Business combinations, to transactions and other events that meet the definition of a business combination within the scope of HKFRS 3. Where the acquisition method of accounting is used to account for business combinations, the consideration transferred is the sum of the acquisition date fair values of the assets transferred, equity instruments issued or liabilities incurred by the Group to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are generally recognised in profit or loss as incurred. Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

## 40 Significant accounting policies (continued)

### (ab) Business combinations (continued)

The difference between the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any pre-existing investment in the acquiree over the acquisition date fair value of assets acquired and the liabilities assumed is recognised as goodwill. If the consideration transferred and the fair value of pre-existing investment in the acquiree is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the Group, the difference is recognised as a gain directly in profit or loss by the Group on the acquisition date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the Group's previously held equity interest in the acquiree.

Business combinations are initially accounted for on a provisional basis. The Group retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed as of the acquisition date. The measurement period is the period from the date the Group obtains complete information about the facts and circumstances that existed as of the acquisition date, and ends on 12 months from the date of the acquisition.

### (ac) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods and services provided in the normal course of business. Revenue from contracts with customers is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

*Ports and Related Services*

Revenue from the provision of ports and related services is recognised over time when the services are rendered and the Group's performance provides the benefits received and consumed simultaneously by the customer.

*Retail*

Revenue from the sale of retail goods is recognised at point of sale less an estimate for sales return based on past experience where goods are sold with a right to return. Retail sales are usually settled in cash or by credit card and debit card. The recorded revenue is the gross amount of sales, including credit card fees payable for the transaction.

*Infrastructure*

Operating lease income from the rental of rolling stock assets is recognised on a straight-line basis over the lease term.

Revenue from the provision of water and wastewater services to customers is recognised pro-rata over the period to which they relate. Revenue received in respect of contributions to capital investment was previously recognised as deferred income in the statement of financial position and amortised to the income statement over the useful life of the associated assets. From 1 January 2018, contributions related to the connection of new properties to the Group's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, and other contributions to capital investment, most significantly mains and sewer diversions, the contributions are recognised in full in the income statement upon completion of the investment, which are typically the point at which the associated asset is brought into use.

Revenue from the provision of waste collection, commercial refuse and recycling services together with refuse transfer station operations and landfill operations were previously recognised in the period in which the services were rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. From 1 January 2018, revenue from provision of these services is recognised when a performance obligation is satisfied, which is recognised at a point of time, based on the timing of control of the services underlying the particular performance obligation being transferred to the customer.

## 40 Significant accounting policies (continued)

### (ac) Revenue recognition (continued)

*Energy*

Prior to 1 January 2018, revenue associated with the sale of crude oil, natural gas, natural gas liquids, synthetic crude oil, purchased commodities and refined petroleum products was recognised when the title passes to the customer, and revenue associated with the sale of transportation, processing and natural gas storage services was recognised when the service is provided. From 1 January 2018, revenue is recognised when the performance obligations are satisfied and revenue can be reliably measured. Performance obligations associated with the sale of crude oil, crude oil equivalents, and refined products are satisfied at the point in time when the products are delivered to and title passes to the customer. Performance obligations associated with processing services, transportation, blending and storage, and marketing services are satisfied at the point in time when the services are provided.

*Telecommunications services*

Revenue represents amounts earned for services rendered and for the sale of mobile and related devices. The Group recognises revenue for mobile devices when it transfers the control over the device to the customer which is usually the time the customer signs up to a contract. The Group recognises revenue for mobile telecommunication services as the services are rendered. Monthly recurring charges and additional airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each period is accrued, and unearned monthly access charges relating to periods after each accounting period are deferred. Products and services may be sold separately or in a bundled transaction. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

For bundled transactions under contract comprising the provision of telecommunications services and sale of a device (e.g. handsets), the elements are accounted for separately if they are distinct. A product or service is distinct if they are separately identifiable from other items in the bundled package and if the customer can benefit from it. The revenue is allocated to the respective element in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the services and device, where device revenue is recognised at the inception of the contract upon delivery to the customer and services revenue is recognised throughout the contract period as the services are provided.

Other service income is recognised when the service is rendered. Customer service revenue is mobile telecommunications service revenue, and where a customer is invoiced for a bundled transaction under contract, the invoiced amount less amounts related to accrued device revenue and also less other service income. Total revenue arising from telecommunications services comprises of service revenue, sale of device revenue and other service income.

*Finance and investments*

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

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

## 40 Significant accounting policies (continued)

### (ad) Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest million Hong Kong dollars unless otherwise stated.

### (ae) New standards and interpretations not yet adopted

At the date these financial statements are authorised for issue, the following standards, amendments and interpretations were in issue, and applicable to the Group's financial statements for annual accounting periods beginning on or after 1 January 2018, but not yet effective and have not been early adopted by the Group:

| | |
|---|---|
| Annual Improvements 2015-2017 Cycle (i) | Improvements to HKFRSs |
| HKAS 1 and HKAS 8 (Amendments) (ii) | Definition of Material |
| HKAS 28 (Amendments) (i) | Long-term Interests in Associates and Joint Ventures |
| HKAS 19 (Amendments) (i) | Plan Amendment, Curtailment and Settlement |
| HKFRS 3 (Amendments) (ii) | Definition of a Business |
| HKFRS 9 (Amendments) (i) | Prepayment Features with Negative Compensation |
| HKFRS 16 (i) | Leases |
| HKFRS 10 and HKAS 28 (Amendments) (iii) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture |
| HK(IFRIC) Interpretation 23 (i) | Uncertainty over Income Tax Treatments |

(i) Effective for the Group for annual periods beginning on or after 1 January 2019.

(ii) Effective for the Group for annual periods beginning on or after 1 January 2020.

(iii) The original effective date of 1 January 2016 has been postponed until further announcement by the HKICPA.

The Group is continuing to assess the implications of the adoption of these standards.

## 41 Changes in significant accounting policies

In the current year, the Group has adopted all of the new and revised standards, amendments and interpretations issued by the HKICPA that are relevant to the Group's operations and mandatory for annual periods beginning 1 January 2018. The Group had to change its accounting policies with effect from 1 January 2018 as a result of adopting HKFRS 9 and HKFRS 15. The effect on adoption of these two standards is summarised below. The comparative information continues to be reported under the accounting policies prevailing prior to 1 January 2018.

### (a) HKFRS 9

The adoption of HKFRS 9 has resulted in changes in accounting policies. While the new policies are generally required to be applied retrospectively, the Group has taken transitional provisions in HKFRS 9 not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. In addition, changes to hedge accounting policies have been applied prospectively. Therefore, comparative balances have not been restated and continue to be reported under the accounting policies prevailing prior to 1 January 2018. Differences in the carrying amounts resulting from the adoption of HKFRS 9 are recognised as adjustments to the opening consolidated statement of financial position on 1 January 2018.

HKFRS 9 largely retains the requirements in HKAS 39 "Financial Instruments: Recognition and Measurement" for the classification and measurement of financial liabilities. The adoption of HKFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. However, HKFRS 9 eliminates the HKAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. From 1 January 2018, the Group and, for the purpose of reporting for the Group's financial statements, the Group's joint ventures and associated companies are required to classify and measure financial assets in accordance with HKFRS 9 categories: as measured at amortised cost, at fair value either through other comprehensive income ("FVOCI") or through profit or loss ("FVPL").

The adoption of HKFRS 9 has resulted in a HK$36 million increase in the opening balance of total equity on 1 January 2018. The impact is attributable to changes in classification and measurement by certain of the Group's joint ventures and associated companies of their financial assets to HKFRS 9 categories.

Set out below are further details on the changes in significant accounting policies under HKFRS 9 that have been applied from 1 January 2018, where they are different to those applied in preparing the 2017 Annual Financial Statements.

(i) Measurement

Debt instrument financial assets subsequent to initial recognition are measured as follows:

*Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets, impairment losses, foreign exchange gains and losses, and gain or loss arising on derecognition are recognised directly in profit or loss.

*FVOCI:* Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment losses and reversals, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to, and recognised in, profit or loss.

*FVPL:* Assets that do not meet the criteria for amortised cost or FVOCI, or designated as FVPL using fair value option, are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss in the period in which it arises.

# 41 Changes in significant accounting policies (continued)

## (a) HKFRS 9 (continued)

### (i) Measurement (continued)

Equity instrument financial assets are measured at fair value at and subsequent to initial recognition. Changes in the fair value of these financial assets are normally recognised in profit or loss. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established. Where an election is made to present fair value gains and losses on equity investments in other comprehensive income, unlike the previous policies under HKAS 39 there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. During the year, certain joint ventures have disposed of equity investments. Under the new guidance, the Group's share of the fair value gains accumulated in the investment revaluation reserve account of the joint ventures relating to the investments disposed of amounting to HK$100 million is not reflected in the Group's income statement for the year ended 31 December 2018.

### (ii) Impairment of financial assets

HKFRS 9 replaces the "incurred loss" impairment model in HKAS 39 with a forward-looking expected credit loss model. It is no longer necessary for a loss event to occur before an impairment loss is recognised under the new model. Under the new expected loss approach, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The new impairment model applies to debt instruments measured at amortised cost and at FVOCI, contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. The Group applies the simplified approach to recognise lifetime expected losses for trade receivables, due from customers and contract assets. As regards lease receivables, loan commitments, financial guarantee contracts, and certain other financial assets (which are presented under Liquid funds and other listed investments, and other unlisted investments) the Group considers that they have low credit risk and hence recognises 12-month expected credit losses for such items. The application of this new guidance represents a change in accounting policy. The Group was required to revise its impairment methodology under HKFRS 9 for these classes of assets. The results of the revision at 1 January 2018 have not resulted in any material change in impairment provision or any material impact on the carrying amount of the Group's financial assets.

### (iii) Hedge accounting

The Group applies the new hedge accounting model prospectively from 1 January 2018, as no hedging relationships existed on or were designated after 1 January 2017 (the beginning of the comparative period) that would require retrospective application of the new hedge accounting treatment. Accordingly, no adjustment was made to the opening balance of retained profits and other reserves on 1 January 2018. All hedge accounting relationships designated under the previous HKAS 39 have continued to be valid hedge accounting relationships in accordance with HKFRS 9.

Previously under HKAS 39, entities can designate as hedging instrument only the change in the intrinsic value of an option or the spot element of a forward contract. Under these situations, the changes in the fair value of the time value of the option or the forward points, which can be considered as a cost of hedging, are accounted for in profit or loss in the period, therefore resulting in volatility. Under the HKFRS 9 hedging model when only the change in the intrinsic value of an option or the spot element of a forward contract is designated in the hedge relationship, all fluctuations in the fair value of the time value or forward points over time is recorded in other comprehensive income instead of affecting profit or loss immediately. The subsequent timing in the recognition in profit or loss of these amounts recognised in other comprehensive income depends on the nature of the hedged transaction, distinguishing between transaction related hedged items and time-period related hedged items. The amount accumulated in other comprehensive income will be included in the measurement of the hedged item or reclassified to profit or loss in the same periods during which the hedged item affects profit or loss (in the case of a transaction related hedged item), or be amortised to profit or loss on a rational basis, such as over the time periods during which the cost of hedging provides protection against risk, (in the case of a time-period related hedged item). This guidance also applies to foreign currency basis spreads.

## 41 Changes in significant accounting policies (continued)

### (b) HKFRS 15

HKFRS 15 permits either a full retrospective or a modified retrospective approach for the adoption. The Group has elected to apply the modified retrospective approach for transition to the new revenue standard. Under this transition approach, comparative information for prior periods is not restated, the Group recognises the cumulative effect of initially applying the guidance as adjustments to the opening balance of retained profits (or other component of equity, as appropriate) on 1 January 2018, and the Group applies the new guidance only to contracts that are not yet completed on that date. The comparative information continues to be reported under the accounting policies prevailing prior to 1 January 2018.

The Group and, for the purpose of reporting for the Group's financial statements, the Group's joint ventures and associated companies are required to apply the new guidance from 1 January 2018. The application of the new guidance has resulted in a HK$758 million increase in the opening balance of total equity on 1 January 2018, which is mainly attributable to the capitalisation of the incremental cost of obtaining a contract, as explained further below.

Set out below are details of the changes in significant accounting policies under HKFRS 15 that have been applied from 1 January 2018, where they are different to those applied in preparing the 2017 Annual Financial Statements.

Previously, under the Group's accounting policies the costs associated with obtaining a contract are expensed as incurred. The accounting for some of these costs has changed upon adoption of HKFRS 15. Under the new guidance, the incremental cost of obtaining a contract is now recognised as an asset when incurred, and expensed over the customer contract period. Incremental costs of obtaining a contract are those costs that would not have incurred if the contract had not been obtained (for example, sales commissions payable on obtaining a contract). This new policy applied to the Group from 1 January 2018 is similar to that applicable by a subsidiary acquired during the year prior to 1 January 2018 with respect to certain types of its contracts with customers, and for which this newly acquired subsidiary has recognised HK$698 million as an asset and expensed HK$146 million as depreciation and amortisation charge from the date of its acquisition to 31 December 2018. Accordingly, these amounts have been excluded from adoption impacts discussed below. The adoption of this guidance has resulted in an increase of HK$830 million in the opening balance of the Group's total equity at 1 January 2018, and a HK$982 million reduction in Expensed customer acquisition and retention costs and a HK$1,042 million increase in Depreciation and amortisation for the year ended 31 December 2018.

Under HKFRS 15, revenue is recognised when or as performance obligations are satisfied by transferring control of a promised goods or service to a customer, and control either transfers over time or at a point in time. The new revenue standard introduces specific criteria for determining when revenue is recognised. As a result of adopting this new guidance, the opening balance of the Group's total equity has been reduced by HK$72 million and the Group's revenue for the year ended 31 December 2018 has been increased by HK$19 million, reflecting the change in assessment in respect of the timing of satisfaction of the performance obligations related to certain revenue streams at the subsidiaries, joint ventures and associated companies levels.

In addition, HKFRS 15 requires an entity to determine whether it is the principal in the transaction or the agent on the basis of whether it controls the goods or services before they are transferred to the customer. Prior to the adoption of HKFRS 15, based on the existence of credit risks and other factors, certain entities within the Retail and Finance & Investments and Others divisions of the Group concluded that they have an exposure to the significant risks and rewards associated with certain sale arrangements to their customers, and accounted for the contracts as if they were a principal. In applying the new guidance, they determined that they do not control the goods before they are transferring to customers, and hence, are an agent in these contracts. This change has no impact on the total equity on 1 January 2018 and 31 December 2018. However, the amounts for revenue and other operating expenses reported on the consolidated income statement for the year ended 31 December 2018 would have been both higher by HK$1,442 million if these contracts were reported under the previous accounting policies where the same group entities would have accounted for the contracts as if they were a principal.

## 41 Changes in significant accounting policies (continued)

### (c) Effect on adoption of HKFRS 9 and HKFRS 15

(i) on the opening consolidated statement of financial position on 1 January 2018

As explained above, HKFRS 9 and HKFRS 15 were adopted without restating comparative information. The resulting reclassifications and adjustments arising from the new accounting policies are therefore not reflected in the comparative balances, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

| | 31 December 2017 As previously reported HK$ million | Effect on adoption of HKFRS 9 HK$ million | Effect on adoption of HKFRS 15 HK$ million | 1 January 2018 As adjusted HK$ million |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Fixed assets | 158,789 | – | – | 158,789 |
| Investment properties * | 360 | – | – | 360 |
| Leasehold land | 8,305 | – | – | 8,305 |
| Telecommunications licences | 27,271 | – | – | 27,271 |
| Brand names and other rights | 75,985 | – | – | 75,985 |
| Goodwill | 255,334 | – | – | 255,334 |
| Associated companies | 145,343 | 128 | – | 145,471 |
| Interests in joint ventures | 162,134 | (92) | 143 | 162,185 |
| Deferred tax assets | 20,195 | – | (186) | 20,009 |
| Liquid funds and other listed investments | 7,813 | – | – | 7,813 |
| Other non-current assets | 5,180 | – | 1,336 | 6,516 |
| | 866,709 | 36 | 1,293 | 868,038 |
| **Current assets** | | | | |
| Cash and cash equivalents | 160,470 | – | – | 160,470 |
| Inventories | 21,708 | – | – | 21,708 |
| Trade receivables and other current assets | 51,368 | – | (256) | 51,112 |
| | 233,546 | – | (256) | 233,290 |
| **Current liabilities** | | | | |
| Bank and other debts | 21,712 | – | – | 21,712 |
| Current tax liabilities | 2,948 | – | – | 2,948 |
| Trade payables and other current liabilities | 90,228 | – | 920 | 91,148 |
| | 114,888 | – | 920 | 115,808 |
| Net current assets | 118,658 | – | (1,176) | 117,482 |
| Total assets less current liabilities | 985,367 | 36 | 117 | 985,520 |
| **Non-current liabilities** | | | | |
| Bank and other debts | 310,276 | – | – | 310,276 |
| Interest bearing loans from non-controlling shareholders | 3,143 | – | – | 3,143 |
| Deferred tax liabilities | 25,583 | – | 118 | 25,701 |
| Pension obligations | 3,770 | – | – | 3,770 |
| Other non-current liabilities | 51,048 | – | (759) | 50,289 |
| | 393,820 | – | (641) | 393,179 |
| **Net assets** | 591,547 | 36 | 758 | 592,341 |
| **Capital and reserves** | | | | |
| Share capital | 3,858 | – | – | 3,858 |
| Share premium | 244,505 | – | – | 244,505 |
| Reserves | 181,693 | 14 | 416 | 182,123 |
| Total ordinary shareholders' funds * | 430,056 | 14 | 416 | 430,486 |
| Perpetual capital securities | 29,481 | – | – | 29,481 |
| Non-controlling interests | 132,010 | 22 | 342 | 132,374 |
| **Total equity** | 591,547 | 36 | 758 | 592,341 |

* With effect from 1 January 2018, "Investment properties" are included in "Other non-current assets" and "Total ordinary shareholders' funds" are shown as a separate item within the "Capital and reserves" section of the consolidated statement of financial position. The balances presented above have reflected this new presentation.

# 41 Changes in significant accounting policies (continued)

## (c) Effect on adoption of HKFRS 9 and HKFRS 15 (continued)

(ii) on the consolidated income statement for the year ended 31 December 2018

| | For the year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | As presented under accounting policies pre 1 January 2018 | Effect on adoption of HKFRS 9 | Effect on adoption of HKFRS 15 | As presented under accounting policies from 1 January 2018 |
| | HK$ million | HK$ million | HK$ million | HK$ million |
| Revenue | 278,552 | – | (1,423) | 277,129 |
| Cost of inventories sold | (109,564) | – | – | (109,564) |
| Staff costs | (36,478) | – | – | (36,478) |
| Expensed customer acquisition and retention costs | (17,106) | – | 982 | (16,124) |
| Depreciation and amortisation | (18,697) | – | (1,042) | (19,739) |
| Other operating expenses | (50,985) | 130 | 1,518 | (49,337) |
| Share of profits less losses of: | | | | |
| Associated companies | 2,858 | 31 | (1) | 2,888 |
| Joint ventures | 10,384 | (96) | (68) | 10,220 |
| | 58,964 | 65 | (34) | 58,995 |
| Interest expenses and other finance costs | (9,797) | – | – | (9,797) |
| **Profit before tax** | 49,167 | 65 | (34) | 49,198 |
| Current tax | (3,907) | – | (5) | (3,912) |
| Deferred tax | 1,304 | – | (10) | 1,294 |
| **Profit after tax** | 46,564 | 65 | (49) | 46,580 |
| **Profit attributable to non-controlling interests and holders of perpetual capital securities** | (7,573) | (12) | 5 | (7,580) |
| **Profit attributable to ordinary shareholders** | 38,991 | 53 | (44) | 39,000 |
| **Earnings per share for profit attributable to ordinary shareholders** | HK$10.11 | HK$0.01 | (HK$0.01) | HK$10.11 |

# 41 Changes in significant accounting policies (continued)

## (c) Effect on adoption of HKFRS 9 and HKFRS 15 (continued)

(iii) on the consolidated statement of comprehensive income for the year ended 31 December 2018

| | For the year ended 31 December 2018 | | | |
|---|---|---|---|---|
| | As presented under accounting policies pre 1 January 2018 | Effect on adoption of HKFRS 9 | Effect on adoption of HKFRS 15 | As presented under accounting policies from 1 January 2018 |
| | HK$ million | HK$ million | HK$ million | HK$ million |
| **Profit after tax** | 46,564 | 65 | (49) | 46,580 |
| **Other comprehensive income (losses)** | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | |
| Remeasurement of defined benefit obligations recognised directly in reserves | 615 | – | – | 615 |
| Equity securities at FVOCI | | | | |
| Valuation losses recognised directly in reserves | (1,637) | (15) | – | (1,652) |
| Valuation losses previously in reserves recognised in income statement | 2 | (2) | – | – |
| Share of other comprehensive income of associated companies | 262 | (38) | – | 224 |
| Share of other comprehensive income of joint ventures | 463 | 83 | – | 546 |
| Tax relating to items that will not be reclassified to profit or loss | (93) | – | – | (93) |
| | (388) | 28 | – | (360) |
| **Items that have been reclassified or may be subsequently reclassified to profit or loss:** | | | | |
| Debt securities at FVOCI | | | | |
| Valuation losses recognised directly in reserves | (20) | – | – | (20) |
| Cash flow hedges (forward foreign currency contracts, cross currency interest rate swap contracts and interest rate swap contracts) | | | | |
| Gains recognised directly in reserves | 363 | – | – | 363 |
| Gains (losses) on net investment hedges (forward foreign currency contracts and cross currency swap contracts) recognised directly in reserves | 3,735 | – | – | 3,735 |
| Gains (losses) on translating overseas subsidiaries' net assets recognised directly in reserves | (9,294) | – | (11) | (9,305) |
| Losses (gains) previously in exchange and other reserves related to subsidiaries, associated companies and joint ventures disposed during the year recognised in income statement | (2,093) | – | – | (2,093) |
| Share of other comprehensive income (losses) of associated companies | (2,844) | 9 | – | (2,835) |
| Share of other comprehensive income (losses) of joint ventures | (5,299) | – | (8) | (5,307) |
| Tax relating to items that have been reclassified or may be subsequently reclassified to profit or loss | (66) | (3) | – | (69) |
| | (15,518) | 6 | (19) | (15,531) |
| Other comprehensive income (losses), net of tax | (15,906) | 34 | (19) | (15,891) |
| **Total comprehensive income** | 30,658 | 99 | (68) | 30,689 |
| **Total comprehensive income attributable to non-controlling interests and holders of perpetual capital securities** | (5,557) | (10) | 21 | (5,546) |
| **Total comprehensive income attributable to ordinary shareholders** | 25,101 | 89 | (47) | 25,143 |

## 41 Changes in significant accounting policies (continued)

### (c) Effect on adoption of HKFRS 9 and HKFRS 15 (continued)

(iv) on the consolidated statement of financial position on 31 December 2018

| | As at 31 December 2018 | | | |
|---|---|---|---|---|
| | As presented under accounting policies pre 1 January 2018 | Effect on adoption of HKFRS 9 | Effect on adoption of HKFRS 15 | As presented under accounting policies from 1 January 2018 |
| | HK$ million | HK$ million | HK$ million | HK$ million |
| **Non-current assets** | | | | |
| Fixed assets | 110,605 | – | – | 110,605 |
| Leasehold land | 7,702 | – | – | 7,702 |
| Telecommunications licences | 64,221 | – | – | 64,221 |
| Brand names and other rights | 88,761 | – | – | 88,761 |
| Goodwill | 323,160 | – | – | 323,160 |
| Associated companies | 136,161 | 127 | (1) | 136,287 |
| Interests in joint ventures | 118,007 | 4 | 42 | 118,053 |
| Deferred tax assets | 20,444 | – | (184) | 20,260 |
| Liquid funds and other listed investments | 9,292 | – | – | 9,292 |
| Other non-current assets | 9,148 | – | 1,569 | 10,717 |
| | 887,501 | 131 | 1,426 | 889,058 |
| **Current assets** | | | | |
| Cash and cash equivalents | 135,411 | – | – | 135,411 |
| Inventories | 23,410 | – | – | 23,410 |
| Trade receivables and other current assets | 64,425 | 4 | (603) | 63,826 |
| | 223,246 | 4 | (603) | 222,647 |
| Assets classified as held for sale | 120,377 | – | 162 | 120,539 |
| | 343,623 | 4 | (441) | 343,186 |
| **Current liabilities** | | | | |
| Bank and other debts | 25,986 | – | – | 25,986 |
| Current tax liabilities | 2,069 | – | 2 | 2,071 |
| Trade payables and other current liabilities | 115,559 | – | 713 | 116,272 |
| | 143,614 | – | 715 | 144,329 |
| Liabilities directly associated with assets classified as held for sale | 78,020 | – | (420) | 77,600 |
| | 221,634 | – | 295 | 221,929 |
| Net current assets | 121,989 | 4 | (736) | 121,257 |
| Total assets less current liabilities | 1,009,490 | 135 | 690 | 1,010,315 |
| **Non-current liabilities** | | | | |
| Bank and other debts | 325,570 | – | – | 325,570 |
| Interest bearing loans from non-controlling shareholders | 752 | – | – | 752 |
| Deferred tax liabilities | 19,261 | – | – | 19,261 |
| Pension obligations | 2,443 | – | – | 2,443 |
| Other non-current liabilities | 71,466 | – | – | 71,466 |
| | 419,492 | – | – | 419,492 |
| **Net assets** | 589,998 | 135 | 690 | 590,823 |
| **Capital and reserves** | | | | |
| Share capital | 3,856 | – | – | 3,856 |
| Share premium | 244,377 | – | – | 244,377 |
| Reserves | 197,446 | 103 | 369 | 197,918 |
| Total ordinary shareholders' funds | 445,679 | 103 | 369 | 446,151 |
| Perpetual capital securities | 12,326 | – | – | 12,326 |
| Non-controlling interests | 131,993 | 32 | 321 | 132,346 |
| **Total equity** | 589,998 | 135 | 690 | 590,823 |

## 41 Changes in significant accounting policies (continued)

### (d) Standards issued but not yet effective and applied by the Group

A number of new standards and amendments to standards are effective for annual periods beginning on and after 1 January 2019 and earlier application is permitted. However, the Group has not early adopted these new or amended standards in preparing these financial statements. The Group is in the process of making an assessment of what the impact of these standards is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the Group's financial statements. Further details of the expected impacts are discussed below.

HKFRS 16 "Leases" replaces HKAS 17 "Leases" and is mandatory for the Group's financial statements for annual periods beginning on or after 1 January 2019.

As disclosed in note 40(w), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases which are currently classified as operating leases.

The new lease standard requires lessees to account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases over the lease term.

The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the income statement over the period of the lease. With all other variables remaining constant the new accounting treatment will lead to a higher EBITDA and EBIT. The combination of a straight-line depreciation of the right-of-use asset and effective interest rate method applied to the lease liability results in a decreasing "total lease expense" over the lease term. In the initial years of a lease, the new standard will result in an income statement expense which is higher than the straight-line operating lease expense typically recognised under the current standard, and a lower expense after the mid-term of the lease as the interest expense reduces. The Group's profit after tax for a particular year may be affected negatively or positively depending on the maturity of the Group's overall lease portfolio in that year. In addition, leasing expenses will no longer be presented as operating cash outflows in the statement of cash flows, but will be included as part of the financing cash outflow. Interest expenses from the newly recognised lease liability may be presented in the cash flow from operating or from financing activities.

The Group plans to elect the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

Other than the impacts discussed above, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the actual impact upon the initial adoption of this standard may differ as the assessment carried out to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its elections on transition options, practical expedients and recognition exemptions, until the standard is initially applied in that financial report.

## 42 Critical accounting estimates and judgements

Note 40 includes a summary of the significant accounting policies used in the preparation of the financial statements. The preparation of financial statements often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the financial statements. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements.

### (a) Basis of consolidation

The determination of the Group's level of control over another entity will require exercise of judgement under certain circumstances. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group also considers, in particular, whether it obtains benefits, including non-financial benefits, from its power to control the entity. As such, the classification of the entity as a subsidiary, a joint venture, a joint operation, an associate or a cost investment might require the application of judgement through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors and various other factors including, if relevant, the existence of agreement with other shareholders, applicable statutes and regulations and their requirements.

### (b) Long-lived assets

Assets that have an indefinite useful life are tested for impairment annually and when there is indication that they may be impaired. Assets that are subject to depreciation and amortisation are reviewed for impairment to determine whether there is any indication that the carrying value of these assets may not be recoverable and have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. Such impairment loss is recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that asset, in which case it is treated as a revaluation decrease and is recognised in other comprehensive income.

Judgement is required in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may indicate that the related asset values may not be recoverable; (2) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to dispose or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions used to determine the level, if any, of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the income statement.

### (c) Depreciation and amortisation

(i) Fixed assets

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful lives of the respective assets using the straight-line method. The Group periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expense in future periods.

## 42 Critical accounting estimates and judgements (continued)

### (c) Depreciation and amortisation (continued)

(ii) Telecommunications licences, other licences, brand names, trademarks and other rights

Telecommunications licences, other licences, brand names, trademarks and other rights with a finite useful life are carried at cost less accumulated amortisation and are reviewed for impairment annually. Telecommunications licences, other licences, brand names, trademarks and other rights that are considered to have an indefinite useful life are not amortised and are tested for impairment annually and when there is indication that they may be impaired.

Certain brand names related to Retail and Telecommunications are considered to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows.

Judgement is required to determine the useful lives of the telecommunications licences, other licences, brand names, trademarks and other rights. The actual economic lives of these assets may differ from the current contracted or expected usage periods, which could impact the amount of amortisation expense charged to the income statement. In addition, governments from time to time revise the terms of licences to change, amongst other terms, the contracted or expected licence period, which could also impact the amount of amortisation expense charged to the income statement.

(iii) Customer acquisition and retention costs

From 1 January 2018, in accordance with HKFRS 15, customer acquisition and retention costs, which comprise the net costs to acquire and retain customers, are expensed and recognised in the income statement in the period in which they are incurred, where (i) the costs are incurred after 31 December 2017; (ii) the costs are incremental of obtaining a contract and they are expected to be recovered; and (iii) the costs relate directly to the contract, generate resources used in satisfying the contract and are expected to be recovered, then they are capitalised and amortised over the customer contract period. Appropriate allowance are recognised if the carrying amounts of the capitalised costs exceed the remaining amount that the Group expects to receive less any directly related costs that have not been recognised as expenses.

Judgement is required to determine the amount of the provision and the amortisation period. The actual amount to be received from the customer and customer period may differ from the expected amount and the contract periods, which could impact the amount of expense charged to the income statement.

Prior to 1 January 2018, all customer acquisition and retention costs are expensed and recognised in the income statement in the period in which they are incurred.

### (d) Goodwill

Goodwill is initially measured at cost, being excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed. Goodwill is recorded as a separate asset or, as applicable, included within investments in associated companies and joint ventures. Goodwill is also subject to the impairment test annually and when there are indications that the carrying value may not be recoverable.

## 42 Critical accounting estimates and judgements (continued)

### (e) Tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were previously recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the deductible temporary differences and the carry forward of unused tax losses and tax credits can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised.

The ultimate realisation of deferred tax assets recognised for certain of the Group's businesses depends principally on these businesses maintaining profitability and generating sufficient taxable profits to utilise the underlying unused tax losses. It may be necessary for some or all of the deferred tax assets recognised to be reduced and charged to the income statement if there is a significant adverse change in the projected performance and resulting projected taxable profits of these businesses. Judgement is required to determine key assumptions adopted in the taxable profit and loss projections and changes to key assumptions used can significantly affect these taxable profit and loss projections.

### (f) Business combinations and goodwill

As disclosed in note 40(ab), the Group applies the provisions of HKFRS 3 to transactions and other events that meet the definition of a business combination within the scope of HKFRS 3. When the Group completes a business combination, the identifiable assets acquired and the liabilities assumed, including intangible assets, contingent liabilities and commitments, are recognised at their fair value. Judgement is required to determine the fair values of the assets acquired, the liabilities assumed, and the purchase consideration, and on the allocation of the purchase consideration to the identifiable assets and liabilities. If the purchase consideration exceeds the fair value of the net assets acquired then the incremental amount paid is recognised as goodwill. If the purchase price consideration is lower than the fair value of the net assets acquired then the difference is recorded as a gain in the income statement. Allocation of the purchase consideration between finite lived assets and indefinite lived assets such as goodwill affects the subsequent results of the Group as finite lived intangible assets are amortised, whereas indefinite lived intangible assets, including goodwill, are not amortised.

### (g) Provisions for commitments, onerous contracts and other guarantees

The Group has entered into a number of procurement, supply and other contracts related to specific assets in the ordinary course of its business and provided guarantees in respect of bank and other borrowing facilities to associated companies and joint ventures. Where the unavoidable costs of meeting the obligations under these procurement and supply contracts exceed the associated, expected future net benefits, an onerous contract provision is recognised, or where the borrowing associated companies and joint ventures are assessed to be unable to repay the indebtedness that the Group has guaranteed, a provision is recognised. The calculation of these provisions will involve the use of estimates. These onerous provisions are calculated by taking the unavoidable costs that will be incurred under the contract and deducting any estimate revenues or predicted income to be derived from the assets, or by taking the unavoidable costs that will be incurred under the guarantee and deducting any estimated recoverable value from the investment in such associated companies and joint ventures.

## 42 Critical accounting estimates and judgements (continued)

### (h) Pension costs

The Group operates several defined benefit plans. Pension costs for defined benefit plans are assessed using the projected unit credit method in accordance with HKAS 19, "Employee Benefits". Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the future service lives of employees in accordance with the advice of the actuaries who carry out a full valuation of the plans. The liability or asset recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets. The present value of the defined benefit obligation is measured by discounting the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. Remeasurements arising from defined benefit plans are recognised in other comprehensive income in the period in which they occur and reflected immediately in retained profit. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

Management appoints actuaries to carry out full valuations of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the financial statements in accordance with the HKFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

### (i) Sale and leaseback transactions

The Group classifies leases into finance leases or operating leases in accordance with the accounting policies stated in note 40(w). Determining whether a lease transaction is a finance lease or an operating lease is a complex issue and requires substantial judgement as to whether the lease agreement transfers substantially all the risks and rewards of ownership to or from the Group. Careful and considered judgement is required on various complex aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether renewal options are included in the lease term and determining an appropriate discount rate to calculate the present value of the minimum lease payments.

Classification as a finance lease or operating lease determines whether the leased asset is capitalised and recognised on the statement of financial position as set out in note 40(w). In sale and leaseback transactions, the classification of the leaseback arrangements as described above determines how the gain or loss on the sale transaction is recognised. It is either deferred and amortised (finance lease) or recognised in the income statement immediately (operating lease).

### (j) Allocation of revenue for bundled telecommunications transactions with customers

The Group has bundled transactions under contract with customers including sales of both services and hardware (for example handsets). Revenue is allocated to the respective element in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the services and device, where device revenue is recognised at the inception of the contract upon delivery to the customer and services revenue is recognised throughout the contract period as the services are provided. Significant judgement is required in assessing fair values of both of these elements by considering inter alia, standalone selling price, the consideration to which the Group expects to be entitled in exchange for transferring the services and hardware to the customer, and other relevant observable market data. Changes in the allocation may cause the revenue recognised for sales of services and hardware to change individually but not the total bundled revenue from a specific customer throughout its contract term. The Group periodically re-assesses the allocation of the elements as a result of changes in market conditions.

## 43 Financial risk management

The Group's major financial assets and financial liabilities include cash and cash equivalents, liquid funds and other listed investments and borrowings. Details of these financial assets and financial liabilities are disclosed in the respective notes. The Group's treasury function sets financial risk management policies in accordance with policies and procedures that are approved by the Executive Directors, and which are also subject to periodic review by the Group's internal audit function. The Group's treasury policies are designed to mitigate the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's financial risks. The Group's treasury function operates as a centralised service for managing financial risks, including interest rate and foreign exchange risks, and for providing cost-efficient funding to the Group and its companies. It manages the majority of the Group's funding needs, interest rate, foreign currency and credit risk exposures. It is the Group's policy not to have credit rating triggers that would accelerate the maturity dates of the Group's borrowings. The Group uses interest rate and foreign currency swaps and forward contracts as appropriate for risk management purposes only, for hedging transactions and for managing the Group's exposure to interest rate and foreign exchange rate fluctuations. The Group generally does not enter into foreign currency hedges in respect of its foreign currency earning and no derivative instruments to hedge the Group's earnings were entered during the year or remain outstanding at the end of the year. It is the Group's policy not to enter into derivative transactions for speculative purposes. It is also the Group's policy not to invest liquidity in financial products, including hedge funds or similar vehicles, that have significant underlying leverage or derivative exposure.

### (a) Cash management and funding

The Group operates a central cash management system for all of its unlisted subsidiaries. Except for listed and certain overseas entities conducting businesses in non-HK or non-US dollar currencies, the Group generally obtains long-term financing at the Group level to on-lend or contribute as equity to its subsidiaries and associated companies to meet their funding requirements and provide more cost-efficient financing. These borrowings include a range of capital market issues and bank borrowings, for which the proportions will change depending upon financial market conditions and projected interest rates. The Group regularly and closely monitors its overall debt position and reviews its funding costs and maturity profile to facilitate refinancing.

The Group continues to maintain a robust financial position. Cash, liquid funds and other listed investments ("liquid assets") amounted to HK$144,703 million at 31 December 2018 (2017 – HK$168,283 million), mainly reflecting dividend payments to ordinary and non-controlling shareholders as well as distributions to perpetual capital securities holders, redemption of certain perpetual capital securities, repayment and early repayment of certain borrowings and capital expenditure and investment spending, partly offset by the cash arising from positive funds from operations from the Group's businesses, issuance of perpetual capital securities and cash from new borrowings. Liquid assets were denominated as to 25% in HK dollars, 46% in US dollars, 7% in Renminbi, 9% in Euro, 4% in British Pounds and 9% in other currencies (2017 – 23% were denominated in HK dollars, 53% in US dollars, 7% in Renminbi, 4% in Euro, 7% in British Pounds and 6% in other currencies).

Cash and cash equivalents represented 94% (2017 – 95%) of the liquid assets, US Treasury notes and listed / traded debt securities 4% (2017 – 4%) and listed equity securities 2% (2017 – 1%).

The US Treasury notes and listed / traded debt securities, including those held under managed funds, consisted of US Treasury notes of 56% (2017 – 56%), government and government guaranteed notes of 17% (2017 – 17%), notes issued by the Group's associated company, Husky Energy of 4% (2017 – 4%), notes issued by financial institutions of nil (2017 – 1%), and others of 23% (2017 – 22%). Of these US Treasury notes and listed / traded debt securities, 80% (2017 – 79%) are rated at Aaa / AAA or Aa1 / AA+ with an average maturity of 2.2 years (2017 – 2.4 years) on the overall portfolio. The Group has no exposure in mortgage-backed securities, collateralised debt obligations or similar asset classes.

# 43 Financial risk management (continued)

## (b) Interest rate exposure

The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses derivatives such as interest rate swaps and forward rate agreements to manage its interest rate exposure. The Group's main interest rate exposure relates to US dollar, British Pound, Euro and HK dollar borrowings.

At 31 December 2018, approximately 39% (2017 – approximately 36%) of the Group's total principal amount of bank and other debts were at floating rates and the remaining 61% (2017 – approximately 64%) were at fixed rates. The Group has entered into various interest rate agreements with major financial institution counterparties to swap approximately HK$9,100 million (2017 – approximately HK$9,600 million) principal amount of fixed interest rate borrowings to effectively become floating interest rate borrowings. In addition, HK$50,613 million (2017 – HK$27,950 million) principal amount of floating interest rate borrowings that were used to finance long term investments have been swapped to fixed interest rate borrowings. After taking into consideration these interest rate swaps, approximately 27% (2017 – approximately 30%) of the Group's total principal amount of bank and other debts were at floating rates and the remaining 73% (2017 – approximately 70%) were at fixed rates at 31 December 2018. All of the aforementioned interest rate derivatives are designated as hedges and these hedges are considered highly effective.

## (c) Foreign currency exposure

For overseas subsidiaries, associated companies and other investments, which consist of non-HK dollar or non-US dollar assets, the Group generally endeavours to establish a natural hedge for debt financing with an appropriate level of borrowings in those same currencies. For overseas businesses that are in the development phase, or where borrowings in local currency are not or are no longer attractive, the Group may not borrow in the local currency or may repay existing borrowings and monitor the development of the businesses' cashflow and the relevant debt markets with a view to refinance these businesses with local currency borrowings in the future when conditions are more appropriate. Exposure to movements in exchange rates for individual transactions (such as major procurement contracts) directly related to its underlying businesses is minimised by using forward foreign exchange contracts and currency swaps where active markets for the relevant currencies exist. The Group generally does not enter into foreign currency hedges in respect of its long-term equity investments in overseas subsidiaries and associated companies, except in relation to certain infrastructure investments. At 31 December 2018, the Group had foreign exchange forward contracts and cross currency swaps with banks to hedge these infrastructure investments. The total notional amount of these net investment hedges amounted to HK$50,537 million (2017 – HK$59,430 million).

The Group has operations in over 50 countries and conducts businesses in over 50 currencies. The Group's functional currency for reporting purposes is Hong Kong Dollars and the Group's reported results in Hong Kong Dollars are exposed to exchange translation on its foreign currency earnings.

As at 31 December 2018, the Group's total principal amount of bank and other debts are denominated as follows: 44% in US dollars, 42% in Euro, 3% in HK dollars, 3% in British Pounds and 8% in other currencies (2017 – 42% in US dollars, 21% in Euro, 5% in HK dollars, 22% in British Pounds and 10% in other currencies). The Group had currency swap arrangements with banks to swap US dollar principal amount of borrowings equivalent to HK$38,610 million (2017 – HK$23,010 million) to Euro principal amount of borrowings to reflect currency exposures of its underlying businesses. The Group's total principal amount of bank and other debts, after the above swaps, are denominated as follows: 33% in US dollars, 53% in Euro, 3% in HK dollars, 3% in British Pounds and 8% in other currencies (2017 – 35% in US dollars, 28% in Euro, 5% in HK dollars, 22% in British Pounds and 10% in other currencies).

# 43 Financial risk management (continued)

## (d) Credit exposure

The Group's holdings of cash, managed funds and other liquid investments, interest rate and foreign currency swaps and forward currency contracts with financial institutions expose the Group to credit risk of counterparties. The Group controls its credit risk to non-performance by its counterparties through monitoring their equity share price movements and credit ratings as well as setting approved counterparty credit limits that are regularly reviewed.

The Group is also exposed to counterparties credit risk from its operating activities, particularly in its ports businesses. Such risks are continuously monitored by the local operational management.

## (e) Market price risk

The Group's main market price risk exposures relate to listed / traded debt and equity securities as described in "liquid assets" above and the interest rate swaps as described in "interest rate exposure" above. The Group's holding of listed / traded debt and equity securities represented approximately 6% (2017 – approximately 5%) of the liquid assets. The Group controls this risk through active monitoring of price movements and changes in market conditions that may have an impact on the value of these financial assets and instruments.

## (f) Market risks sensitivity analyses

For the presentation of financial assets and financial liabilities market risks (including interest rate risk, currency risk and other price risk) information, HKFRS 7 "Financial Instruments: Disclosures" requires disclosure of a sensitivity analysis for each type of financial market risk that shows the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed at the end of the reporting period on profit for the year and on total equity.

The effect that is disclosed in the following sections assumes that (a) a hypothetical change of the relevant risk variable had occurred at the end of the reporting period and had been applied to the relevant risk variable in existence on that date; and (b) the sensitivity analysis for each type of financial market risk does not reflect inter-dependencies between risk variables, e.g. the interest rate sensitivity analysis does not take into account of the impact of changes in interest rates would have on the relative strengthening and weakening of the currency with other currencies.

**The preparation and presentation of the sensitivity analysis on financial market risk is solely for compliance with HKFRS 7 disclosure requirements in respect of financial assets and financial liabilities. The sensitivity analysis measures changes in the fair value and / or cash flows of the Group's financial assets and financial liabilities from hypothetical instantaneous changes in one risk variable (e.g. functional currency rate or interest rate), the amount so generated from the sensitivity analysis are "what-if" forward-looking estimates. The sensitivity analyses are for illustration purposes only and it should be noted that in practice market rates rarely change in isolation. Actual results in the future may differ materially from the sensitivity analyses due to developments in the global markets which may cause fluctuations in market rates (e.g. exchange or interest rate) to vary and therefore it is important to note that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses.**

(i) Interest rate sensitivity analysis

Interest rate risk as defined by HKFRS 7 arises on interest-bearing financial assets and financial liabilities.

The interest rate sensitivity analysis is based on the following assumptions:

In the cases of non-derivative financial assets and financial liabilities with fixed interest rates, changes in market interest rates only affect profit for the year or total equity if these financial assets and financial liabilities are measured at fair value. Accordingly, all non-derivative financial assets and financial liabilities with fixed interest rates that are carried at amortised cost are excluded from the interest rate sensitivity analysis as they are not subject to interest rate risk as defined in HKFRS 7.

## 43 Financial risk management (continued)

### (f) Market risks sensitivity analyses (continued)

(i) Interest rate sensitivity analysis (continued)

In the cases of derivative financial assets and financial liabilities designated as hedging instruments for hedging interest rate risks, changes in market interest rates affect their fair values. All interest rate hedges are expected to be highly effective. Changes in the fair value of fair value interest rate hedges and changes in the fair value of the hedged items that are attributable to interest rate movements effectively balance out with each other in income statement in the same period. Accordingly, these hedging instruments and hedged items are excluded from the interest rate sensitivity analysis as they are not exposed to interest rate risk as defined in HKFRS 7. Changes in the fair value of cash flow interest rate hedges resulting from market interest rate movements affect total equity and are therefore taken into consideration in the sensitivity analysis.

In the cases of derivative financial assets and financial liabilities that are not part of an interest rate risk hedging relationship, changes in their fair values (arising from gain or loss from remeasurement of these interest rate derivatives to fair value) resulting from market interest rate movements affect profit for the year and total equity, and are therefore taken into consideration in the sensitivity analysis.

Major financial assets and financial liabilities for the purpose of the interest rate sensitivity analysis include:

- cash and cash equivalents (see note 20)
- some of the listed debt securities and managed funds (see note 17) carried at fair value that bear interest at fixed rate
- some of the listed debt securities and managed funds (see note 17) that bear interest at floating rate
- some of the bank and other debts (see note 23) that bear interest at floating rate
- interest bearing loans from non-controlling shareholders (see note 26)

Under these assumptions, the impact of a hypothetical 100 basis points (2017 – 100 basis points) increase in market interest rate at 31 December 2018, with all other variables held constant:

– profit for the year would increase by HK$398 million due to increase in interest income (2017- HK$674 million);
– total equity would increase by HK$398 million due to increase in interest income (2017 – HK$674 million); and
– total equity would increase by HK$1,828 million due to change in fair value of derivative financial instruments (2017 – HK$728 million).

(ii) Foreign currency exchange rate sensitivity analysis

Currency risk as defined by HKFRS 7 arises on financial assets and financial liabilities being denominated in a currency that is not the functional currency and being of a monetary nature. Therefore, non-monetary financial assets and financial liabilities, monetary financial assets and financial liabilities denominated in the entity's functional currency and differences resulting from the translation of financial statements of overseas subsidiaries into the Group's presentation currency are not taken into consideration for the purpose of the sensitivity analysis for currency risk.

The foreign currency exchange rate sensitivity analysis is based on the following assumptions:

Major non-derivative monetary financial assets and financial liabilities are either directly denominated in the functional currency or are transferred to the functional currency through the use of foreign currency swaps and forward foreign exchange contracts. Exchange fluctuations of these monetary financial assets and financial liabilities therefore have no material effects on profit for the year and total equity.

In the cases of derivative financial assets and financial liabilities designated as hedging instruments for hedging currency risks, changes in foreign exchange rates affect their fair values. All currency hedges are expected to be highly effective. Changes in the fair value of foreign currency fair value hedges and changes in the fair value of the hedged items effectively balance out with each other in income statement in the same period. As a consequence, these hedging instruments and hedged items are excluded from the foreign currency exchange rate sensitivity analysis as they are not exposed to currency risk as defined in HKFRS 7. Changes in the fair value of foreign currency cash flow hedges resulting from market exchange rate movements affect total equity and are therefore taken into consideration in the sensitivity analysis.

# 43 Financial risk management (continued)

## (f) Market risks sensitivity analyses (continued)

(ii) Foreign currency exchange rate sensitivity analysis (continued)

Major financial assets and financial liabilities for the purpose of the foreign currency exchange rate sensitivity analysis include:

- some of the cash and cash equivalents (see note 20)
- some of the liquid funds and other listed investments (see note 17)
- some of the bank and other debts (see note 23)

Under these assumptions, the impact of a hypothetical 5% weakening of HK dollar against all exchange rates at the end of the reporting period, with all other variables held constant, on the Group's profit for the year and total equity is set out in the table below.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Hypothetical increase (decrease) in profit after tax HK$ million** | **Hypothetical increase (decrease) in total equity HK$ million** | Hypothetical increase (decrease) in profit after tax HK$ million | Hypothetical increase (decrease) in total equity HK$ million |
| Euro | **11** | **(473)** | 20 | (340) |
| British Pounds | **47** | **(1,106)** | 76 | (1,248) |
| Australian dollars | **63** | **(386)** | 64 | (359) |
| Renminbi | **14** | **14** | 12 | 12 |
| US dollars | **1,523** | **1,523** | 2,281 | 2,281 |
| Japanese Yen | **(106)** | **(106)** | (104) | (104) |

(iii) Other price sensitivity analysis

Other price risk as defined by HKFRS 7 arises from changes in market prices (other than those arising from interest rate risk and currency risk as detailed in "interest rate exposure" and "foreign currency exposure" paragraphs above) on financial assets and financial liabilities.

The other price sensitivity analysis is based on the assumption that changes in market prices (other than those arising from interest rate risk and currency risk) of financial assets and financial liabilities only affect profit for the year or total equity if these financial assets and financial liabilities are measured at the fair values. Accordingly, all non-derivative financial assets and financial liabilities carried at amortised cost are excluded from the other price sensitivity analysis as they are not subject to other price risk as defined in HKFRS 7.

Major financial assets and financial liabilities for the purpose of the other price sensitivity analysis include:

- FVOCI (see note 17)
- available-for-sale investments (see note 17)
- financial assets at fair value through profit or loss (see note 17)

## (f) Market risks sensitivity analyses (continued)

(iii) Other price sensitivity analysis (continued)

Under these assumptions, the impact of a hypothetical 5% increase in the market price of the Group's FVOCI, available-for-sale investments and financial assets at fair value through profit or loss at the end of the reporting period, with all other variables held constant:

– profit for the year would increase by HK$5 million (2017 – HK$8 million) due to increase in gains on financial assets at fair value through profit or loss;
– total equity would increase by HK$5 million (2017 – HK$8 million) due to increase in gains on financial assets at fair value through profit or loss; and
– total equity would increase by HK$456 million (2017 – HK$383 million) due to increase in gains on FVOCI (2017 – available-for-sale investments) which are recognised in other comprehensive income.

## (g) Contractual maturities of financial liabilities

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted principal cash flows and the earliest date the Group can be required to pay:

**Non-derivative financial liabilities:**

| | Contractual maturities | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year HK$ million | After 1 year, but within 5 years HK$ million | After 5 years HK$ million | Total undiscounted cash flows HK$ million | Difference from carrying amounts HK$ million | Carrying amounts HK$ million |
| **At 31 December 2018** | | | | | | |
| Trade payables | 29,233 | – | – | 29,233 | – | 29,233 |
| Other payables and accruals | 76,244 | – | – | 76,244 | – | 76,244 |
| Interest free loans from non-controlling shareholders | 385 | – | – | 385 | – | 385 |
| Bank loans | 5,943 | 111,235 | – | 117,178 | (205) | 116,973 |
| Other loans | 38 | 310 | 100 | 448 | – | 448 |
| Notes and bonds | 19,710 | 90,877 | 118,705 | 229,292 | 4,843 | 234,135 |
| Interest bearing loans from non-controlling shareholders | 752 | – | – | 752 | – | 752 |
| Obligations for telecommunications licences and other rights | 745 | 8,070 | 2,134 | 10,949 | (1,336) | 9,613 |
| | 133,050 | 210,492 | 120,939 | 464,481 | 3,302 | 467,783 |

The table above excludes interest accruing and payable on certain of these liabilities which are estimated to be HK$9,729 million in "within 1 year" maturity band, HK$27,399 million in "after 1 year, but within 5 years" maturity band, and HK$13,001 million in "after 5 years" maturity band. These estimates are calculated assuming effect of hedging transactions and interest rates with respect to variable rate financial liabilities remain constant and there is no change in aggregate principal amount of financial liabilities other than repayment at scheduled maturity as reflected in the table.

## 43 Financial risk management (continued)

### (g) Contractual maturities of financial liabilities (continued)

**Derivative financial liabilities:**

| | Contractual maturities | | | |
|---|---|---|---|---|
| | Within 1 year HK$ million | After 1 year, but within 5 years HK$ million | After 5 years HK$ million | Total undiscounted cash flows HK$ million |
| **At 31 December 2018** | | | | |
| Fair value hedges | | | | |
| Interest rate swaps | | | | |
| Net inflow (outflow) | **(45)** | **17** | **–** | **(28)** |
| Cash flow hedges: | | | | |
| Interest rate swaps | | | | |
| Net outflow | **(166)** | **(438)** | **(25)** | **(629)** |
| Cross currency interest rate swaps | | | | |
| Net inflow (outflow) | **622** | **(1,386)** | **–** | **(764)** |
| Forward foreign exchange contracts | | | | |
| Inflow | **275** | **–** | **–** | **275** |
| Outflow | **(277)** | **–** | **–** | **(277)** |
| Net investment hedges | | | | |
| Forward foreign exchange contracts | | | | |
| Inflow | **1,283** | **–** | **–** | **1,283** |
| Outflow | **(1,290)** | **–** | **–** | **(1,290)** |
| Cross currency swaps | | | | |
| Inflow | **–** | **–** | **8,289** | **8,289** |
| Outflow | **(71)** | **(286)** | **(8,120)** | **(8,477)** |
| Other derivative financial instruments | | | | |
| Net outflow | **(82)** | **(350)** | **–** | **(432)** |

**Non-derivative financial liabilities:**

| | Contractual maturities | | | | | |
|---|---|---|---|---|---|---|
| | Within 1 year HK$ million | After 1 year, but within 5 years HK$ million | After 5 years HK$ million | Total undiscounted cash flows HK$ million | Difference from carrying amounts HK$ million | Carrying amounts HK$ million |
| **At 31 December 2017** | | | | | | |
| Trade payables | 19,252 | – | – | 19,252 | – | 19,252 |
| Other payables and accruals | 69,144 | – | – | 69,144 | – | 69,144 |
| Interest free loans from non-controlling shareholders | 389 | – | – | 389 | – | 389 |
| Bank loans | 19,080 | 87,355 | 4,736 | 111,171 | (291) | 110,880 |
| Other loans | 249 | 668 | 611 | 1,528 | (3) | 1,525 |
| Notes and bonds | 2,377 | 84,391 | 123,349 | 210,117 | 9,466 | 219,583 |
| Interest bearing loans from non-controlling shareholders | – | 956 | 2,187 | 3,143 | – | 3,143 |
| Obligations for telecommunications licences and other rights | 836 | 3,402 | 1,877 | 6,115 | (445) | 5,670 |
| | 111,327 | 176,772 | 132,760 | 420,859 | 8,727 | 429,586 |

# 43 Financial risk management (continued)

## (g) Contractual maturities of financial liabilities (continued)

**Non-derivative financial liabilities** (continued)**:**

The table above excludes interest accruing and payable on certain of these liabilities which are estimated to be HK$9,738 million in "within 1 year" maturity band, HK$28,580 million in "after 1 year, but within 5 years" maturity band, and HK$32,138 million in "after 5 years" maturity band. These estimates are calculated assuming effect of hedging transactions and interest rates with respect to variable rate financial liabilities remain constant and there is no change in aggregate principal amount of financial liabilities other than repayment at scheduled maturity as reflected in the table.

**Derivative financial liabilities:**

| | Contractual maturities | | | |
|---|---|---|---|---|
| | Within 1 year HK$ million | After 1 year, but within 5 years HK$ million | After 5 years HK$ million | Total undiscounted cash flows HK$ million |
| **At 31 December 2017** | | | | |
| Fair value hedges | | | | |
| Interest rate swaps | | | | |
| Net inflow (outflow) | (74) | 50 | – | (24) |
| Cash flow hedges: | | | | |
| Interest rate swaps | | | | |
| Net outflow | (165) | (329) | (64) | (558) |
| Cross currency interest rate swaps | | | | |
| Net inflow (outflow) | 513 | (2,347) | – | (1,834) |
| Forward foreign exchange contracts | | | | |
| Inflow | 380 | 9 | – | 389 |
| Outflow | (380) | (9) | – | (389) |
| Other contracts | | | | |
| Net outflow | (23) | (87) | (339) | (449) |
| Net investment hedges | | | | |
| Forward foreign exchange contracts | | | | |
| Inflow | 16,952 | 9,791 | 13,684 | 40,427 |
| Outflow | (17,187) | (9,752) | (13,872) | (40,811) |
| Other derivative financial instruments | | | | |
| Net outflow | (263) | (3,182) | (659) | (4,104) |

## 43 Financial risk management (continued)

(h) In accordance with the disclosure requirement of HKFRS 7, the group's financial instruments resulted in the following income, expenses and gains and losses recognised in the income statement:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Dividends from equity securities at FVOCI | | |
| Related to investments held at the end of the reporting period | 103 | – |
| Dividends from equity securities at AFS | – | 88 |
| Interest from debt securities at FVOCI | 157 | – |
| Interest from debt securities at AFS | – | 120 |
| Interest from assets held at amortised cost | 2,475 | 1,562 |
| Fair value gains (losses) on equity securities at FVPL | (2) | 2 |
| Fair value losses on debt securities at FVPL | (17) | – |
| Net impairment expense recognised on trade receivables | (1,560) | (980) |
| Losses arising on derivatives in a designated fair value hedge | (115) | (103) |
| Gains arising on adjustment for hedged items in a designated fair value hedge | 115 | 103 |

### (i) Hedge accounting

(i) Fair value hedges

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Carrying amount of derivatives included in | | | |
| Hedging instruments | Receive average contracted interest rate Percentage | Pay average contracted interest rate Percentage | Notional amount in local currency million | Notional Amount HK$ million | Other current assets HK$ million | Other non current assets HK$ million | Other current liabilities HK$ million | Other non current liabilities HK$ million |
| Interest rate swap | | | | | | | | |
| – receive fixed and pay floating maturing in | | | | | | | | |
| 2020 | 4.23% | 2.78% | HK$1,300 | 1,300 | – | 19 | – | – |
| 2022 | 4.63% | 4.92% | US$1,000 | 7,800 | – | – | – | (116) |
| | | | | 9,100 | – | 19 | – | (116) |

| | 2018 | | |
|---|---|---|---|
| Hedged items | Carrying amount of the hedged item HK$ million | Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item HK$ million | Line item in the statement of financial position in which the hedged item is included |
| USD Fixed rate debts | 7,977 | (116) | Bank and other debts |
| HKD Fixed rate debts | 1,319 | 19 | Bank and other debts |

## 43 Financial risk management (continued)

### (i) Hedge accounting (continued)

(ii) Cash flow hedges

| Hedging instruments | Receive average contracted interest rate | Pay average contracted interest rate | Notional amount in local currency million | Notional Amount HK$ million | Carrying amount of derivatives included in Other current assets HK$ million | Other non current assets HK$ million | Other current liabilities HK$ million | Other non current liabilities HK$ million |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | | |
| Interest rate swaps | | | | | | | | |
| – receive floating and pay fixed maturing in | | | | | | | | |
| 2019 | 3.72% | 5.19% | NZD 150 | 792 | – | – | (8) | – |
| 2022 | 1.40% | 3.26% | GBP 300 | 2,976 | – | – | – | (80) |
| 2022 | 2.00% | 2.40% | EUR 3,000 | 26,850 | – | – | – | (192) |
| 2025 | 2.82% | 3.57% | AUD 509 | 2,835 | – | – | – | (101) |
| | | | | 33,453 | – | – | (8) | (373) |
| Cross currency interest rate swaps | | | | | | | | |
| – receive floating and pay fixed maturing in 2020 | 1.73% | 0.05% | US$ 2,200 | 17,160 | – | – | – | (821) |
| – receive fixed and pay fixed contracts maturing in 2021 - 2022 | 4.15% | 1.98% | US$ 2,750 | 21,450 | – | 317 | – | (107) |
| | | | | 38,610 | – | 317 | – | (928) |

| Hedging instruments | Average exchange rate | Notional amount in local currency million | Notional Amount HK$ million | Carrying amount of derivatives included in Other current assets HK$ million | Other non current assets HK$ million | Other current liabilities HK$ million | Other non current liabilities HK$ million |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| Forward foreign exchange contracts maturing in 2019 | 8.89 | EUR 30 | 268 | – | – | (2) | – |

| Hedged items | Change in value used for calculating hedge ineffectiveness HK$ million | Surplus (defcit) in hedging reserve for continuing hedges HK$ million | Surplus (defcit) in hedging reserve arising from hedging relationships for which hedge accounting is no longer applied HK$ million |
|---|---|---|---|
| | 2018 | | |
| Interest rate risk | 2 | 220 | – |
| Cross currency interest rate risk | (1,485) | 567 | – |
| Foreign exchange risk | (1) | 1 | – |

# 43 Financial risk management (continued)

## (i) Hedge accounting (continued)

### (iii) Net investment hedges

| Hedging instruments | Average exchange rate | Notional amount in local currency million | Notional Amount HK$ million | Carrying amount of derivatives included in: Other current assets HK$ million | Other non current assets HK$ million | Other current liabilities HK$ million | Other non current liabilities HK$ million |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| Forward foreign exchange contracts maturing in | | | | | | | |
| 2019 | 5.80 | CAD 184 | 1,070 | 14 | – | – | – |
| 2019 | 5.55 | AUD 159 | 887 | 5 | – | – | – |
| 2019 | 5.39 | NZD 280 | 1,478 | 41 | – | – | – |
| 2019 - 2022 | 11.17 | GBP 2,348 | 23,290 | 507 | 1,977 | (6) | – |
| 2020 - 2022 | 9.53 | EUR 135 | 1,208 | – | 44 | – | – |
| | | | 27,933 | 567 | 2,021 | (6) | – |
| Cross currency swaps maturing in | | | | | | | |
| 2020 - 2024 | 9.23 | EUR 1,030 | 9,219 | – | 112 | – | – |
| 2020 - 2025 | 6.12 | CAD 947 | 5,505 | – | 315 | – | – |
| 2027 | 5.86 | AUD 1,415 | 7,880 | – | – | – | (45) |
| | | | 22,604 | – | 427 | – | (45) |

| Hedged items | Change in value used for calculating hedge ineffectiveness HK$ million | Surplus (deficit) in hedging reserve / exchange reserves for continuing hedges HK$ million | Surplus (deficit) in hedging reserve / exchange reserves arising from hedging relationships for which hedge accounting is no longer applied HK$ million |
|---|---|---|---|
| | 2018 | | |
| Foreign investments | (3,735) | (5,602) | (2,841) |

## 43 Financial risk management (continued)

(j) The following table shows the classification category and carrying amount as at 31 December 2018 and 1 January 2018 (the date of initial application of HKFRS 9) under HKFRS 9 and as at 31 December 2017 under HKAS 39 for the Group's financial assets and financial liabilities.

| | Note | Classification under HKFRS 9 * | 31 December 2018 Carrying amount HK$ million | 1 January 2018 Carrying amount HK$ million | Classification under HKAS 39 * | 31 December 2017 Carrying amount HK$ million |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Liquid funds and other listed investments | | | | | | |
| Cash and cash equivalents (included in Managed funds) | 17 | Amortised cost | 66 | 50 | Loans and receivables | 50 |
| Listed equity securities, Hong Kong | 17 | FVOCI | 2,909 | 1,546 | AFS | 1,546 |
| Listed equity securities, outside Hong Kong | 17 | FVOCI | 208 | 25 | AFS | 25 |
| Listed equity securities (included in Managed funds) | 17 | FVOCI | 154 | 169 | AFS | 169 |
| Listed debt securities (included in Managed funds) | 17 | FVOCI | 4,770 | 4,697 | AFS | 4,697 |
| Listed / traded debt securities, outside Hong Kong | 17 | FVOCI | 1,089 | 1,168 | AFS | 1,168 |
| Financial assets at fair value through profit or loss | 17 | FVPL | 96 | 158 | FVPL | 158 |
| Unlisted investments | | | | | | |
| Unlisted debt securities | 18 | Amortised cost | 170 | 179 | Loans and receivables | 179 |
| Unlisted equity securities | 18 | FVOCI | 1,953 | 2,044 | AFS | 2,649 |
| Unlisted equity securities | 18 | FVPL | 641 | 605 | | |
| Unlisted debt securities | 18 | FVPL | 318 | – | | |
| Derivative financial instruments | | | | | | |
| Fair value hedges - Interest rate swaps | 18 & 21 | Fair value - hedges | 19 | 54 | Fair value - hedges | 54 |
| Cash flow hedges | | | | | | |
| Interest rate swaps | 18 | Fair value - hedges | – | 31 | Fair value - hedges | 31 |
| Cross currency interest rate swaps | 18 | Fair value - hedges | 317 | – | | |
| Forward foreign exchange contracts | 18 & 21 | Fair value - hedges | – | 294 | Fair value - hedges | 294 |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | 18 & 21 | Fair value - hedges | 2,588 | 1,791 | Fair value - hedges | 1,791 |
| Cross currency swaps | 18 | Fair value - hedges | 427 | – | | |
| Other derivative financial instruments | 18 | FVPL | 167 | 192 | FVPL | 192 |
| Cash and cash equivalents | 20 | Amortised cost | 135,411 | 160,470 | Loans and receivables | 160,470 |
| Trade receivables | 21 | Amortised cost | 19,255 | 11,546 | Loans and receivables | 11,546 |
| Other receivables | 21 | Amortised cost | 18,682 | 29,461 | Loans and receivables | 29,461 |
| | | | 189,240 | 214,480 | | 214,480 |

* see note 41.

## 43 Financial risk management (continued)

(j) The following table shows the classification category and carrying amount as at 31 December 2018 and 1 January 2018 (the date of initial application of HKFRS 9) under HKFRS 9 and as at 31 December 2017 under HKAS 39 for the Group's financial assets and financial liabilities. (continued)

| | Note | Classification under HKFRS 9 * | 31 December 2018 Carrying amount HK$ million | 1 January 2018 Carrying amount HK$ million | Classification under HKAS 39 * | 31 December 2017 Carrying amount HK$ million |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Bank and other debts | 23 | Amortised cost | 351,556 | 331,988 | Amortised cost | 331,988 |
| Trade payables | 24 | Amortised cost | 29,233 | 19,252 | Amortised cost | 19,252 |
| Derivative financial instruments | | | | | | |
| Fair value hedges - Interest rate swaps | 28 | Fair value - hedges | 116 | 37 | Fair value - hedges | 37 |
| Cash flow hedges | | | | | | |
| Interest rate swaps | 24 & 28 | Fair value - hedges | 381 | 543 | Fair value - hedges | 543 |
| Cross currency interest rate swaps | 28 | Fair value - hedges | 928 | 1,888 | Fair value - hedges | 1,888 |
| Forward foreign exchange contracts | 24 & 28 | Fair value - hedges | 2 | 3 | Fair value - hedges | 3 |
| Other contracts | 24 & 28 | Fair value - hedges | – | 384 | Fair value - hedges | 384 |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | 24 & 28 | Fair value - hedges | 6 | 1,291 | Fair value - hedges | 1,291 |
| Cross currency swaps | 28 | Fair value - hedges | 45 | – | | |
| Other derivative financial instruments | 24 & 28 | FVPL | 481 | 4,069 | FVPL | 4,069 |
| Interest free loans from non-controlling shareholders | 24 | Amortised cost | 385 | 389 | Amortised cost | 389 |
| Other payables and accruals | 24 | Amortised cost | 76,244 | 69,144 | Amortised cost | 69,144 |
| Interest bearing loans from non-controlling shareholders | 26 | Amortised cost | 752 | 3,143 | Amortised cost | 3,143 |
| Obligations for telecommunications licences and other rights | 28 | Amortised cost | 9,613 | 5,670 | Amortised cost | 5,670 |
| Liabilities relating to the economic benefits agreements | 28 | Amortised cost | 14,308 | – | | |
| | | | 484,050 | 437,801 | | 437,801 |
| Representing: | | | | | | |
| Financial assets measured at | | | | | | |
| Amortised cost (2017 - Loans and receivables) | | | 173,584 | 201,706 | | 201,706 |
| FVOCI (2017 - AFS) | | | 11,083 | 9,649 | | 10,254 |
| FVPL | | | 1,222 | 955 | | 350 |
| Fair value - hedges | | | 3,351 | 2,170 | | 2,170 |
| | | | 189,240 | 214,480 | | 214,480 |
| Financial liabilities measured at | | | | | | |
| Amortised cost | | | 482,091 | 429,586 | | 429,586 |
| FVPL | | | 481 | 4,069 | | 4,069 |
| Fair value - hedges | | | 1,478 | 4,146 | | 4,146 |
| | | | 484,050 | 437,801 | | 437,801 |

* see note 41.

## 43 Financial risk management (continued)

### (k) Carrying amounts and fair values of financial assets and financial liabilities

The fair value of financial assets and financial liabilities, together with the carrying amounts in the consolidated statement of financial position, are as follows:

| | | | 2018 | | 2017 | |
|---|---|---|---|---|---|---|
| | Note | Classification under HKFRS 9 * | **Carrying amount HK$ million** | **Fair values HK$ million** | Carrying amount HK$ million | Fair values HK$ million |
| **Financial assets** | | | | | | |
| Liquid funds and other listed investments | | | | | | |
| Cash and cash equivalents (included in Managed funds) | 17 | Amortised cost | **66** | **66** | 50 | 50 |
| Listed equity securities, Hong Kong | 17 | FVOCI | **2,909** | **2,909** | 1,546 | 1,546 |
| Listed equity securities, outside Hong Kong | 17 | FVOCI | **208** | **208** | 25 | 25 |
| Listed equity securities (included in Managed funds) | 17 | FVOCI | **154** | **154** | 169 | 169 |
| Listed debt securities (included in Managed funds) | 17 | FVOCI | **4,770** | **4,770** | 4,697 | 4,697 |
| Listed / traded debt securities, outside Hong Kong | 17 | FVOCI | **1,089** | **1,089** | 1,168 | 1,168 |
| Financial assets at fair value through profit or loss | 17 | FVPL | **96** | **96** | 158 | 158 |
| Unlisted investments | | | | | | |
| Unlisted debt securities | 18 | Amortised cost | **170** | **170** | 179 | 179 |
| Unlisted equity securities | 18 | FVOCI | **1,953** | **1,953** | 2,649 | 2,649 |
| Unlisted equity securities | 18 | FVPL | **641** | **641** | – | – |
| Unlisted debt securities | 18 | FVPL | **318** | **318** | – | – |
| Derivative financial instruments | | | | | | |
| Fair value hedges - Interest rate swaps | 18 & 21 | Fair value - hedges | **19** | **19** | 54 | 54 |
| Cash flow hedges | | | | | | |
| Interest rate swaps | 18 | Fair value - hedges | **–** | **–** | 31 | 31 |
| Cross currency interest rate swaps | 18 | Fair value - hedges | **317** | **317** | – | – |
| Forward foreign exchange contracts | 18 & 21 | Fair value - hedges | **–** | **–** | 294 | 294 |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | 18 & 21 | Fair value - hedges | **2,588** | **2,588** | 1,791 | 1,791 |
| Cross currency swaps | 18 | Fair value - hedges | **427** | **427** | – | – |
| Other derivative financial instruments | 18 | FVPL | **167** | **167** | 192 | 192 |
| Cash and cash equivalents | 20 | Amortised cost | **135,411** | **135,411** | 160,470 | 160,470 |
| Trade receivables | 21 | Amortised cost | **19,255** | **19,255** | 11,546 | 11,546 |
| Other receivables | 21 | Amortised cost | **18,682** | **18,682** | 29,461 | 29,461 |
| | | | **189,240** | **189,240** | 214,480 | 214,480 |

* see note 41.

# 43 Financial risk management (continued)

## (k) Carrying amounts and fair values of financial assets and financial liabilities (continued)

| | Note | Classification under HKFRS 9 * | 2018 Carrying amount HK$ million | 2018 Fair values HK$ million | 2017 Carrying amount HK$ million | 2017 Fair values HK$ million |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Bank and other debts [(i)] | 23 | Amortised cost | **351,556** | **343,527** | 331,988 | 341,334 |
| Trade payables | 24 | Amortised cost | **29,233** | **29,233** | 19,252 | 19,252 |
| Derivative financial instruments | | | | | | |
| Fair value hedges - Interest rate swaps | 28 | Fair value - hedges | **116** | **116** | 37 | 37 |
| Cash flow hedges | | | | | | |
| Interest rate swaps | 24 & 28 | Fair value - hedges | **381** | **381** | 543 | 543 |
| Cross currency interest rate swaps | 28 | Fair value - hedges | **928** | **928** | 1,888 | 1,888 |
| Forward foreign exchange contracts | 24 & 28 | Fair value - hedges | **2** | **2** | 3 | 3 |
| Other contracts | 24 & 28 | Fair value - hedges | **–** | **–** | 384 | 384 |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | 24 & 28 | Fair value - hedges | **6** | **6** | 1,291 | 1,291 |
| Cross currency swaps | 28 | Fair value - hedges | **45** | **45** | – | – |
| Other derivative financial instruments | 24 & 28 | FVPL | **481** | **481** | 4,069 | 4,069 |
| Interest free loans from non-controlling shareholders | 24 | Amortised cost | **385** | **385** | 389 | 389 |
| Other payables and accruals | 24 | Amortised cost | **76,244** | **76,244** | 69,144 | 69,144 |
| Interest bearing loans from non-controlling shareholders | 26 | Amortised cost | **752** | **752** | 3,143 | 3,143 |
| Obligations for telecommunications licences and other rights | 28 | Amortised cost | **9,613** | **9,613** | 5,670 | 5,670 |
| Liabilities relating to the economic benefits agreements | 28 | Amortised cost | **14,308** | **14,308** | – | – |
| | | | **484,050** | **476,021** | 437,801 | 447,147 |
| Representing: | | | | | | |
| Financial assets measured at | | | | | | |
| Amortised cost (2017 - Loans and receivables) | | | **173,584** | **173,584** | 201,706 | 201,706 |
| FVOCI (2017 - AFS) | | | **11,083** | **11,083** | 10,254 | 10,254 |
| FVPL | | | **1,222** | **1,222** | 350 | 350 |
| Fair value - hedges | | | **3,351** | **3,351** | 2,170 | 2,170 |
| | | | **189,240** | **189,240** | 214,480 | 214,480 |
| Financial liabilities measured at | | | | | | |
| Amortised cost | | | **482,091** | **474,062** | 429,586 | 438,932 |
| FVPL | | | **481** | **481** | 4,069 | 4,069 |
| Fair value - hedges | | | **1,478** | **1,478** | 4,146 | 4,146 |
| | | | **484,050** | **476,021** | 437,801 | 447,147 |

* see note 41.

(i) The fair value of the bank and other debts are based on market quotes or estimated using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

# 43 Financial risk management (continued)

## (l) Fair value measurements

(i) Financial assets and financial liabilities measured at fair value

*Fair value hierarchy*

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs).

| | | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | **Level 1 HK$ million** | **Level 2 HK$ million** | **Level 3 HK$ million** | **Total HK$ million** | Level 1 HK$ million | Level 2 HK$ million | Level 3 HK$ million | Total HK$ million |
| **Financial assets** | | | | | | | | | |
| Liquid funds and other listed investments | | | | | | | | | |
| Listed equity securities, Hong Kong | 17 | **2,909** | **–** | **–** | **2,909** | 1,546 | – | – | 1,546 |
| Listed equity securities, outside Hong Kong | 17 | **208** | **–** | **–** | **208** | 25 | – | – | 25 |
| Listed equity securities (included in Managed funds) | 17 | **154** | **–** | **–** | **154** | 169 | – | – | 169 |
| Listed debt securities (included in Managed funds) | 17 | **4,770** | **–** | **–** | **4,770** | 4,697 | – | – | 4,697 |
| Listed / traded debt securities, outside Hong Kong | 17 | **201** | **888** | **–** | **1,089** | 212 | 956 | – | 1,168 |
| Financial assets at fair value through profit or loss | 17 | **96** | **–** | **–** | **96** | 112 | 46 | – | 158 |
| Unlisted investments | | | | | | | | | |
| Unlisted equity securities | 18 | **–** | **–** | **1,953** | **1,953** | – | – | 2,649 | 2,649 |
| Unlisted equity securities | 18 | **–** | **46** | **595** | **641** | – | – | – | – |
| Unlisted debt securities | 18 | **–** | **143** | **175** | **318** | – | – | – | – |
| Derivative financial instruments | | | | | | | | | |
| Fair value hedges - Interest rate swaps | 18 & 21 | **–** | **19** | **–** | **19** | – | 54 | – | 54 |
| Cash flow hedges | | | | | | | | | |
| Interest rate swaps | 18 | **–** | **–** | **–** | **–** | – | 31 | – | 31 |
| Cross currency interest rate swaps | 18 | **–** | **317** | **–** | **317** | – | – | – | – |
| Forward foreign exchange contracts | 18 & 21 | **–** | **–** | **–** | **–** | – | 294 | – | 294 |
| Net investment hedges | | | | | | | | | |
| Forward foreign exchange contracts | 18 & 21 | **–** | **2,588** | **–** | **2,588** | – | 1,791 | – | 1,791 |
| Cross currency swaps | 18 | **–** | **427** | **–** | **427** | – | – | – | – |
| Other derivative financial instruments | 18 | **–** | **167** | **–** | **167** | – | 192 | – | 192 |
| | | **8,338** | **4,595** | **2,723** | **15,656** | 6,761 | 3,364 | 2,649 | 12,774 |

## 43 Financial risk management (continued)

### (l) Fair value measurements (continued)

(i) Financial assets and financial liabilities measured at fair value (continued)

| | | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Level 1 HK$ million | Level 2 HK$ million | Level 3 HK$ million | Total HK$ million | Level 1 HK$ million | Level 2 HK$ million | Level 3 HK$ million | Total HK$ million |
| **Financial liabilities** | | | | | | | | | |
| Derivative financial instruments | | | | | | | | | |
| Fair value hedges – Interest rate swaps | 28 | – | 116 | – | 116 | – | 37 | – | 37 |
| Cash flow hedges | | | | | | | | | |
| Interest rate swaps | 24 & 28 | – | 381 | – | 381 | – | 543 | – | 543 |
| Cross currency interest rate swaps | 28 | – | 928 | – | 928 | – | 1,888 | – | 1,888 |
| Forward foreign exchange contracts | 24 & 28 | – | 2 | – | 2 | – | 3 | – | 3 |
| Other contracts | 24 & 28 | – | – | – | – | – | 384 | – | 384 |
| Net investment hedges | | | | | | | | | |
| Forward foreign exchange contracts | 24 & 28 | – | 6 | – | 6 | – | 1,291 | – | 1,291 |
| Cross currency swaps | 28 | – | 45 | – | 45 | – | – | – | – |
| Other derivative financial instruments | 24 & 28 | – | 481 | – | 481 | – | 4,069 | – | 4,069 |
| | | – | 1,959 | – | 1,959 | – | 8,215 | – | 8,215 |

The fair value of financial assets and financial liabilities that are not traded in active market is determined by using valuation techniques. Specific valuation techniques used to value financial assets and financial liabilities include discounted cash flow analysis, are used to determine fair value for the financial assets and financial liabilities.

During the year ended 31 December 2018 and 2017, there were no transfers between the Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 from or to Level 1 or Level 2 fair value measurements.

*Level 3 fair values*

The movements of the balance of financial assets and financial liabilities measured at fair value based on Level 3 are as follows:

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| At 1 January | 2,649 | 1,059 |
| Total gains (losses) recognised in | | |
| Income statement | 29 | – |
| Other comprehensive income | (510) | 46 |
| Additions | 598 | 130 |
| Relating to subsidiaries acquired | 20 | – |
| Relating to subsidiaries disposed | – | 1,413 |
| Disposals | (22) | (18) |
| Exchange translation differences | (41) | 19 |
| At 31 December | 2,723 | 2,649 |
| Total losses recognised in income statement relating to those financial assets and financial liabilities held at the end of the reporting period | 29 | – |

The fair value of financial assets and financial liabilities that are grouped under Level 3 is determined by using valuation techniques including discounted cash flow analysis. In determining fair value, specific valuation techniques are used with reference to inputs such as dividend stream and other specific input relevant to those particular financial assets and financial liabilities.

Changing unobservable inputs used in Level 3 valuation to reasonable alternative assumptions would not have significant impact on the Group's profit or loss.

## 43 Financial risk management (continued)

### (l) Fair value measurements (continued)

(ii) Financial assets and financial liabilities that are not measured at fair value but fair value disclosures are required

Except for bank and other debts as detailed in the table 43(k) above, the carrying amounts of the financial assets and financial liabilities recognised in the consolidated statement of financial position approximate their fair values.

*Fair value hierarchy*

The table below analyses the fair value measurements disclosures for bank and other debts. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used.

| | Level 1 HK$ million | Level 2 HK$ million | Level 3 HK$ million | Total HK$ million |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| Bank and other debts | **217,197** | **126,330** | – | **343,527** |
| **At 31 December 2017** | | | | |
| Bank and other debts | 214,297 | 127,037 | – | 341,334 |

The fair value of the bank and other debts included in level 2 category above are estimated using discounted cash flow calculations based upon the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

## 43 Financial risk management (continued)

### (m) Financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

The following tables set out the carrying amounts of recognised financial assets and recognised financial liabilities that:

(1) are offset in the Group's consolidated statement of financial position; or

(2) are subject to an enforceable master netting arrangements or similar agreements that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

| | Gross amounts of recognised financial assets (liabilities) | Gross amounts offset in the consolidated statement of financial position | Net amounts presented in the consolidated statement of financial position | Related amounts not offset in the consolidated statement of financial position: Financial assets (liabilities) | Related amounts not offset in the consolidated statement of financial position: Cash collateral pledged (received) | Net amounts |
|---|---|---|---|---|---|---|
| | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million | HK$ million |
| **At 31 December 2018** | | | | | | |
| **Financial assets** | | | | | | |
| Derivative financial instruments | | | | | | |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | **965** | **–** | **965** | **(6)** | **–** | **959** |
| Other derivative financial instruments | **159** | **–** | **159** | **(4)** | **–** | **155** |
| Trade receivables | **172** | **(127)** | **45** | **(25)** | **–** | **20** |
| Other receivables and prepayments | **602** | **(406)** | **196** | **–** | **–** | **196** |
| | **1,898** | **(533)** | **1,365** | **(35)** | **–** | **1,330** |
| **Financial liabilities** | | | | | | |
| Trade payables | **(1,165)** | **278** | **(887)** | **–** | **–** | **(887)** |
| Derivative financial instruments | | | | | | |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | **(6)** | **–** | **(6)** | **6** | **–** | **–** |
| Other derivative financial instruments | **(4)** | **–** | **(4)** | **4** | **–** | **–** |
| Other payables and accruals | **(3,471)** | **255** | **(3,216)** | **25** | **–** | **(3,191)** |
| | **(4,646)** | **533** | **(4,113)** | **35** | **–** | **(4,078)** |
| **At 31 December 2017** | | | | | | |
| **Financial assets** | | | | | | |
| Derivative financial instruments | | | | | | |
| Cash flow hedges | | | | | | |
| Forward foreign exchange contracts | 2 | – | 2 | (2) | – | – |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | 487 | – | 487 | (275) | – | 212 |
| Other derivative financial instruments | 192 | – | 192 | (82) | – | 110 |
| Trade receivables | 57 | (3) | 54 | (35) | – | 19 |
| Other receivables and prepayments | 994 | (568) | 426 | – | – | 426 |
| | 1,732 | (571) | 1,161 | (394) | – | 767 |
| **Financial liabilities** | | | | | | |
| Trade payables | (4,355) | 571 | (3,784) | – | – | (3,784) |
| Derivative financial instruments | | | | | | |
| Cash flow hedges | | | | | | |
| Forward foreign exchange contracts | (2) | – | (2) | 2 | – | – |
| Net investment hedges | | | | | | |
| Forward foreign exchange contracts | (275) | – | (275) | 275 | – | – |
| Other derivative financial instruments | (539) | – | (539) | 82 | – | (457) |
| Other payables and accruals | (43) | – | (43) | 35 | – | (8) |
| | (5,214) | 571 | (4,643) | 394 | – | (4,249) |

## 44 Statement of financial position of the Company, as at 31 December 2018

| | 2018 HK$ million | 2017 HK$ million |
|---|---|---|
| Non-current assets | | |
| Subsidiary companies – Unlisted shares [(a)] | **355,164** | 355,164 |
| Current assets | | |
| Amounts due from subsidiary companies [(b)] | **9,382** | 9,292 |
| Other receivables | **20** | 176 |
| Cash | **7** | 6 |
| Current liabilities | | |
| Other payables and accruals | **60** | 47 |
| Net current assets | **9,349** | 9,427 |
| **Net assets** | **364,513** | 364,591 |
| **Capital and reserves** | | |
| Share capital (see note 29(a)) | **3,856** | 3,858 |
| Share premium (see note 29(a)) | **244,377** | 244,505 |
| Reserves – Retained profit [(c)] | **116,280** | 116,228 |
| **Shareholders' funds** | **364,513** | 364,591 |

**Fok Kin Ning, Canning**
*Director*

**Frank John Sixt**
*Director*

## 44 Statement of financial position of the Company, as at 31 December 2018 (continued)

(a) Particulars regarding the principal subsidiary companies are set forth on pages 283 to 286.

(b) Amounts due from subsidiary companies are interest-free, unsecured and repayable on demand.

(c) Reserves – Retained profit

| | HK$ million |
|---|---|
| At 1 January 2017 | 116,190 |
| Profit for the year | 10,550 |
| Dividends paid relating to 2016 | (7,503) |
| Dividends paid relating to 2017 | (3,009) |
| At 31 December 2017 | **116,228** |
| Profit for the year | **11,394** |
| Buy-back and cancellation of issued shares (see note 29(a)(i)) | **(1)** |
| Dividends paid relating to 2017 | **(7,985)** |
| Dividends paid relating to 2018 | **(3,356)** |
| At 31 December 2018 | **116,280** |

(d) The Company does not have an option scheme for the purchase of ordinary shares in the Company.

(e) The net profit of the Company is HK$11,394 million (2017 – HK$10,550 million) and is included in determining the profit attributable to ordinary shareholders of the Company in the consolidated income statement.

(f) At 31 December 2018, the Company's share premium and retained profit amounted to HK$244,377 million (2017 – HK$244,505 million) and HK$116,280 million (2017 – HK$116,228 million) respectively, and subject to a solvency test, they are available for distribution to shareholders.

## 45 Approval of financial statements

The financial statements set out on pages 170 to 286 were approved and authorised for issue by the Board of Directors on 21 March 2019.