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CK ASSET HOLDINGS LIMITED

長江實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1113)

THE CHAIRMAN'S STATEMENT FOR 2017

HIGHLIGHTS

	2017	2016	Change
	HK\$ Million	HK\$ Million	
Revenue ^{Note}	63,780	69,910	-9%
Profit before investment property revaluation	20,320	18,032	+13%
Investment property revaluation (net of tax)	9,805	1,383	
Profit attributable to shareholders	30,125	19,415	+55%
Earnings per share - profit before IP revaluation	HK\$5.44	HK\$4.69	+16%
- profit attributable to shareholders	HK\$8.07	HK\$5.05	+60%
Final dividend per share	HK\$1.28	HK\$1.15	+11%
Full year dividend per share	HK\$1.70	HK\$1.53	+11%

Note: Revenue includes the Group's revenue of HK\$57,546 million and the Group's share of revenue of joint ventures of HK\$6,234 million.

PROFIT FOR THE YEAR

The Group's audited profit attributable to shareholders for the year ended 31 December 2017 amounted to HK\$30,125 million (2016 – HK\$19,415 million). Earnings per share were HK\$8.07 (2016 – HK\$5.05).

DIVIDEND

The Directors recommend the payment of a final dividend of HK\$1.28 per share in respect of 2017 to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 16 May 2018. This together with the interim dividend of HK\$0.42 per share paid on 14 September 2017 gives a total of HK\$1.70 per share for the year (2016 – HK\$1.53 per share). The proposed final dividend will be paid on Thursday, 31 May 2018, following approval at the 2018 Annual General Meeting.

PROSPECTS

Building Value from Quality Assets

Business Review

2017 was a year of significant milestones for CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited). The Group has achieved remarkable progress recently by making a number of quality investments, following the strategy as stated in the Annual Report 2016, to create value for shareholders through the pursuit of quality investments worldwide with stable recurring revenue. These investments have strengthened the Group's diversified asset portfolio and income sources, and enhanced further its foundations for growth. Our new Company name better reflects our current investment policies and strategic positioning, and represents the advent of a new chapter of growth for the Group.

The Group has been progressing well in meeting its operating targets and executing its development strategy during the year under review. Solid performances were delivered by both our existing operations and our newly acquired businesses. For the year ended 31 December 2017, the Group's audited profit attributable to shareholders was HK\$30,125 million, 55% higher than the previous year. Profit before investment property revaluation was HK\$20,320 million, an increase of 13% over 2016. An increase in fair value of investment properties of HK\$9,805 million after tax was recorded, largely due to the rising market value of prime office buildings in Central. Our recently acquired businesses in the infrastructure and utility assets, together with aircraft leasing, have provided recurring revenue and profit contribution to the Group during the year.

Property Business

The Group's property business delivered good progress and solid results during the year under review:

Property Development

The Hong Kong residential property market performed favourably in 2017 with trading primarily led by transactions of first-hand residential properties. Solid increases in both transaction volume and consideration were recorded for the year as a whole. On the Mainland, the property markets in major cities remained stable as the regulatory policies based on specific situations of different cities have functioned well in stabilising the market. The Group achieved sound property sales performances in Hong Kong, the Mainland, the United Kingdom and Singapore with total sales for the year exceeding HK\$78 billion. We will continue to adopt a cautious and disciplined approach in the property development business.

Property Investment

The Group's retail leasing business was positively impacted as retail sales in Hong Kong returned to growth from March 2017 after nearly two years of decline. We anticipate stronger retail rentals upon completion of the new commercial project at Tsuen Wan acquired during the year. As a whole, contribution from property investment increased over 2016 due to solid rental revenue from our premium commercial and retail properties in Hong Kong and overseas markets. In November 2017, the Group entered into a sale and purchase agreement ("Agreement") for the disposal of its ownership in The Center. Completion of the transaction is subject to the fulfilment of certain conditions under the Agreement.

Hotel and Serviced Suite Operation

Visitor arrivals in Hong Kong improved in 2017 with increases in the number of visitors from the Mainland and certain non-Mainland markets. The strengthening of visitor demand has resulted in a modest improvement in the average hotel room occupancy rate and average achieved hotel room rate. Despite an increase in operating costs, the performance of the Group's hotel and serviced suite operation was in line with expectations for the year. There was a one-off gain generated from the disposal of the Group's interests in two hotels in Chongqing and Chengdu to Hui Xian Real Estate Investment Trust in 2017. Our hotel business portfolio is set to further expand and strengthen following the addition of a total of approximately 1,200 rooms from two hotel projects in Hong Kong.

New Business Ventures

Over the period from late 2016, the Group had achieved significant milestones in building up its investment portfolio of businesses with stable recurrent income through various acquisitions. This portfolio now represents a dominant segment of the Group's overall business. It includes: 1) December 2016: the Group purchased from CK Hutchison Holdings Limited the equity interests in CK Capital Limited and Harrier Global Limited, which engage in the aircraft leasing business; 2) May 2017: a joint venture which is held as to 40%, 40% and 20% respectively by the Group, CK Infrastructure Holdings Limited ("CKI") and Power Assets Holdings Limited, completed the acquisition of the DUET Group, an owner and operator of energy utility assets predominantly in Australia, but also in the United States, Canada, and the United Kingdom; 3) July 2017: the Group completed the acquisition of the building equipment services business (the "Business") which provides water heaters and related services under the consumer brand, "Reliance Home Comfort", in Canada. A 25% equity interest in the Business was disposed to CKI in September; and 4) October 2017: a joint venture between the Group (65%) and CKI (35%) acquired 100% of ista Luxemburg GmbH, a fully integrated energy management services provider with the main market being Germany. These investments have made a profit contribution during the year, enhancing further the Group's quality earnings base.

Outlook

While the global economy is expected to maintain a stable growth in 2018, one should remain cautious against potential global economic challenges that may arise from the unclear implications of the Brexit negotiations, monetary policies that direct global fund flows and the aggravation of trade competition. The global economic outlook should nevertheless remain positive.

China's GDP year-to-year growth in 2017 was 6.9% as the momentum for medium-to-high growth continued. Its economy is expected to be positive given the Central Government's determination to curb financial risks and improve the quality of economic growth. Its pledge to maintain prudent monetary policy and active financial policy is clear. From a long-term perspective, China's economic development will continue to be steady and healthy.

We are cautiously optimistic about Hong Kong's economic outlook for 2018 given the further strengthening of the global economy and the steady economic growth in China, despite the accelerated pace of the U.S. interest rate increases. China's blueprint on "One Belt, One Road" and the "Greater Bay Area" will be beneficial to Hong Kong's long-term economic prospects. The local property market is expected to remain stable in the coming year with solid demand from flat buyers. Government housing policies will nevertheless continue to be a determining factor for the property market.

Investments of over HK\$80 billion have been made by the Group since late 2016 which include property projects in Hong Kong and overseas markets, such as the acquisition of OP Mall at Tsuen Wan and the addition of a total of approximately 1,200 rooms from two Hong Kong hotel projects; infrastructure and utility assets in continental Europe, Australia, Canada and the United Kingdom; and the aircraft leasing business. Considerable recurring income and profit contribution are expected to be generated, and an increase of over 50% in recurrent profit contribution compared with 2016 is anticipated for 2018. Despite the acquisitions, the Group's debt ratio in 2017 was maintained at a healthy level of below 6%. Our operating and financial position continues to be strong and healthy.

Looking ahead, the Group will continue with the investment strategy to vigorously increase stable recurrent income. The recurrent earnings base of the Group is expected to consolidate further in the year ahead. Barring any unforeseen circumstances, profit contribution generated by the new streams of recurring income would compensate for the reduced contribution from property development. The Group is grounded on firm foundations for long-term growth, fully aligned with our fundamental guiding principle: "To advance while maintaining stability". This critical strategic platform offers us greater development flexibility, stronger resilience amid adversity, and ample capacity for future growth.

The Group has utilised a total of HK\$8.7 billion in share buy-backs since 2016 to reflect the underlying value of the Company, and signify the Group's confidence in its long-term growth prospects. We aim to maximise long-term value for shareholders by achieving stronger sustainable growth through quality investments worldwide. Building on our solid foundations of diversified businesses, prudent financial strategy and a stronger recurring income base, we are well placed to secure investments that generate long-term stable liquidity, provide income in the short to medium term, and strengthen further the Group's dividend distribution capability.

I have decided to step down as Chairman of the Company and retire from the position of executive director at the forthcoming Annual General Meeting of the Company.

Looking back at the past 68 years, since the founding of my business in 1950 and the listing of Cheung Kong (Holdings) Limited in 1972, I have led the Group on a steady path of diversification and globalisation through organic growth, mergers and acquisitions, and timely strategic reviews and reorganisations at appropriate junctures in order to maximise value and returns for shareholders. I would like to express my heart-felt appreciation to our shareholders for their unfailing confidence and support in the past years.

Going forward, the Board of Directors (the "Board") has requested and I have agreed to serve as Senior Advisor of the Company and in that capacity to continue to contribute to the Group on significant matters.

The Board has also proposed and elected Mr. Li Tzar Kuoi, Victor, who has worked side-by-side with me at the CK Group for 33 years, to succeed as Chairman of the Company whilst continuing with his present role as Managing Director. The senior management will continue to work with Mr. Victor Li in leading the Group towards the next new horizon of growth. I sincerely hope that all shareholders would give the same full support to Mr. Victor Li as they have always given to me. I am confident in the prospects of the Group.

Intelligent, creative, dedicated, experienced and loyal employees are the Group's most valuable asset in this extremely competitive and challenging global environment. We take this opportunity to thank our colleagues on the Board and our diligent employees for their hard work, loyal service and contributions during the year.

Li Ka-shing
Chairman

Hong Kong, 16 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Major Business Activities

1. Developments Completed during 2017:

Name	Location	Gross Floor Area (sq.ft.)	Group's Interest
90 Repulse Bay Road	The Remaining Portion of Rural Building Lot No. 177	71,182	100%
La Grande Ville Phases 3 and 4	Shun Yi District, Beijing	2,743,499	100%
Hupan Mingdi Land No. 911 South	Jiading District, Shanghai	750,973	100%
Regency Hills Land No. 11A	Yangjiashan, Chongqing	381,871	95%
The South Bay Phase 5B	Jinzhou New Area, Dalian	618,332	100%
Laguna Verona Phases D2a, H and G1b/G2a Zone 1	Hwang Gang Lake, Dongguan	2,216,696	99.8%
Cape Coral Phase 4B	Panyu District, Guangzhou	1,051,127	100%
Emerald City Phases 1B and 1C	Jianye District, Nanjing	330,452	100%
The Harbourfront Land No. 7	Shibei District, Qingdao	861,306	90%
The Greenwich Phase 4B	Xian Hi-Tech Industries Development Zone, Xian	568,463	100%
Chelsea Waterfront Claydon House	Chelsea/Fulham, London	64,776	95%


2. Developments in Progress and Scheduled for Completion in 2018:

Name	Location	Gross Floor Area (sq.ft.)	Group's Interest
Ocean Pride Development Ocean Pride and Ocean Supreme OP Mall	Tsuen Wan Town Lot No. 401	1,798,648 436,476	Joint Venture 100%*
Harbour Glory and Hotel Development	Inland Lot No. 8920	755,628	100%
Seanorama	Sha Tin Town Lot No. 574	562,171	100%
Borrett Road Project	Inland Lot No. 8949	435,296	100%
My Central	Inland Lot No. 9038	159,414	Joint Venture
Hupan Mingdi Land No. 905	Jiading District, Shanghai	1,633,820	100%
Yuhu Mingdi Phases 2(1) and 3	Huangpu District, Guangzhou	862,589	80%
Upper West Shanghai Phase 2 Tenders 1 and 2, Phase 3 Tender 1, Phase 4 Tenders 1 and 2, and Phase 5	Putuo District, Shanghai	6,765,277	60%
Noble Hills Phases 4A, 4B and 5B	Wangcheng District, Changsha	1,678,221	100%
Le Parc Phases 6C and 7B	Chengdu High-Tech Zone, Chengdu	2,668,285	100%
Regency Hills Land Nos. 13A and 13B	Yangjiashan, Chongqing	2,305,896	95%
Laguna Verona Phase G1b/G2a Zone 2	Hwang Gang Lake, Dongguan	687,878	99.8%
Noble Hills Phases 2A and 2B	Zengcheng, Guangzhou	1,077,972	100%
City Link	Jing An District, Shanghai	726,757	60%
Emerald Cove	Wuguishan, Zhongshan	687,802	100%
Chelsea Waterfront Chartwell House, Compton House and West Tower	Chelsea/Fulham, London	160,113	95%

*As the purchaser under an Agreement for Sale and Purchase dated 24 May 2017, pending completion of the relevant sale and purchase.

3. New Acquisitions and Joint Developments and Other Major Events:

- (1) January 2017: The Company, CK Infrastructure Holdings Limited (“CKI”) and Power Assets Holdings Limited (“PAH”) formed a joint venture with respective interests of 40%, 40% and 20% for the acquisition of all of the stapled securities in issue of the DUET Group, which is an owner and operator of energy utility assets in Australia, the United States, Canada and the United Kingdom. Upon fulfillment of all requisite conditions, the said acquisition was completed in May 2017.
- (2) March 2017: A wholly owned subsidiary of the Group reached a land exchange agreement with the Government in respect of the site at Hung Shui Kiu, Yuen Long, Lot No. 4328 in D.D.124 for an area of approximately 110,222 sq.ft. The site is designated for residential development and estimated to have a developable gross floor area of approximately 138,876 sq.ft.
- (3) March 2017: A wholly owned subsidiary of the Group (“Project Company”) entered into an agreement to acquire the building equipment services business which provides water heaters and related services under the consumer brand of “Reliance Home Comfort” in Canada, with the Company as the guarantor, at the adjusted consideration of approximately C\$2,800 million (equivalent to approximately HK\$17,160 million). Completion of the acquisition took place in mid-July 2017. Also in mid-July 2017, a wholly owned subsidiary of the Group (“Vendor”) entered into a sale and purchase agreement with a wholly owned subsidiary of CKI (“Purchaser”), pursuant to which, the Vendor sold to the Purchaser 25% equity interest in the Project Company in September 2017.
- (4) May 2017: A wholly owned subsidiary of the Group issued Guaranteed Senior Perpetual Capital Securities (“Securities”) in an aggregate principal amount of US\$1,500 million with an annual distribution rate of 4.60% which are guaranteed by the Company. The Securities are sold to professional investors only and are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).
- (5) January to June 2017: The Company bought back a total of 126,501,000 shares of a nominal value of HK\$1.00 each in the capital of the Company (“Shares”) in January, March, April, May and June 2017 on the Stock Exchange with the aggregate consideration paid (before expenses) amounting to HK\$6,981,950,600. All the Shares bought back were subsequently cancelled.

- (6) July 2017: The Group and CKI formed a joint venture with respective interests of 65% and 35% for the acquisition of 100% of ista Luxemburg GmbH (“ista”) at the consideration of approximately EUR4,500 million (equivalent to approximately HK\$41,400 million). ista is one of the world’s leading fully integrated energy management services providers with strong market positions in Europe including Germany, Denmark, the Netherlands, France, Italy and Spain. Upon fulfillment of all requisite conditions, the said acquisition was completed in October 2017.
- (7) The English name of the Company has been changed to “CK Asset Holdings Limited”, and the Chinese name of the Company has been changed to “長江實業集團有限公司” with effect from 24 August 2017. The Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company was issued by the Registrar of Companies in Hong Kong on 15 September 2017. As from that date, the logo of the Company has been changed to  and the website of the Company has been changed to www.ckah.com to reflect the new name. With effect from 9:00 a.m. on Wednesday, 20 September 2017, the shares of the Company have been trading under the new name of the Company on the Main Board of the Stock Exchange. The English stock short name of the Company has been changed to “CK ASSET” and the Chinese stock short name has been changed to “長實集團”. The stock code of the Company remains as “1113”.
- (8) September 2017: A wholly owned subsidiary of the Group (“Issuer”) updated the existing Euro Medium Term Note Programme (“Programme”) with an upsize of the Programme limit from US\$3,000 million to US\$5,000 million. Under the Programme, the Issuer may from time to time issue notes (“Notes”) denominated in any currency agreed between the Issuer and the relevant dealer. The payments of all amounts due in respect of the Notes will be guaranteed by the Company. The Programme provides that the Notes may be listed on the Stock Exchange or such other stock exchange(s) as may be agreed with the relevant dealer(s). As at 31 December 2017, Notes of an aggregate nominal amount of approximately US\$1,038 million were issued and outstanding under the Programme.
- (9) November 2017: A wholly owned subsidiary of the Group entered into a sale and purchase agreement with 中國港澳台僑和平發展亞洲地產有限公司 C.H.M.T. Peaceful Development Asia Property Limited (“CHMT”) for the sale of the entire issued share capital of, and the debt owing by, The Center (Holdings) Limited (“Target Company”) to CHMT at the total consideration of HK\$40.2 billion (subject to adjustments). The Target Company is the holding company of a group of wholly owned subsidiaries which hold various commercial and office properties and car parking spaces situated at “THE CENTER (中環中心)” No. 99 Queen’s Road Central, Hong Kong.

- (10) December 2017: In anticipation of the expiration of two master agreements both dated 5 May 2015 between the Company and CK Hutchison Holdings Limited (“CK Hutchison”) on 31 December 2017, the Company and CK Hutchison have on 15 December 2017 entered into two new master agreements which set out the framework terms governing respectively (i) the transactions entering into by CK Hutchison and its subsidiaries (“CK Hutchison Group”) of leases, tenancies or licences in respect of premises owned by the Group (including office space, car parks and building areas but excluding hotel premises) and (ii) purchasing by the Group of the goods (such as air-conditioners and other electrical appliances and gift/cash coupons) and services (such as printing of sales brochures and advertising materials) from members of the CK Hutchison Group for use in connection with the Group’s property development projects, for the period from 1 January 2018 to 31 December 2020.

Property Sales

Revenue of property sales (including share of joint ventures) recognised for the year was HK\$42,851 million (2016 – HK\$56,804 million), comprising mainly (i) sale of residential and commercial units of projects in Hong Kong – Stars by the Harbour, Yuccie Square and The Zumurud; (ii) sale of residential and commercial units of projects on the Mainland – La Grande Ville in Beijing, Cape Coral in Guangzhou, The Harbourfront in Qingdao, Millennium Waterfront in Wuhan, Laguna Verona in Dongguan, Hupan Mingdi in Shanghai and The Greenwich in Xian; and (iii) sale of residential units of Chelsea Waterfront in the United Kingdom, and is summarised by locations as follows:

Location	2017 HK\$ Million	2016 HK\$ Million
Hong Kong	12,792	20,882
The Mainland	29,555	35,914
Overseas	504	8
	42,851	56,804

Contribution from property sales (including share of joint ventures) for the year was HK\$16,251 million (2016 – HK\$17,667 million) and was derived from the following locations:

Location	2017 HK\$ Million	2016 HK\$ Million
Hong Kong	4,889	7,108
The Mainland	11,106	10,635
Overseas	256	(76)
	16,251	17,667

During the year, the presales of residential units of Seanorama, Harbour Glory, Ocean Pride and My Central in Hong Kong, Stars of Kovan in Singapore, and various projects on the Mainland including Regency Hills in Chongqing, Laguna Verona in Dongguan and Le Parc in Chengdu were well received. Profit contribution is expected when property sales are recognised upon completion of these projects.

Besides, the sale of the Group's 50% interest in the joint venture, which completed the development of Century Link in Shanghai, was completed in January 2018 and profit will be recognised in the first half of 2018.

At the year end date, the Group had a development land bank (including developers' interests in joint development projects but excluding agricultural land and completed properties) of approximately 117 million sq.ft., of which 6 million sq.ft., 107 million sq.ft. and 4 million sq.ft. were located in Hong Kong, on the Mainland and overseas respectively; and property sales contracted (including share of joint ventures) but not yet recognised were as follows:

Location	Contracted Sales HK\$ Million
Hong Kong	48,427
The Mainland	21,028
Overseas	3,306
	72,761

Property Rental

Revenue of property rental (including share of joint ventures) for the year was HK\$7,830 million (2016 – HK\$7,430 million), comprising rental income derived from leasing of office, retail, industrial and other properties as follows:

	2017	2016
Use of Property	HK\$ Million	HK\$ Million
Office	3,223	3,164
Retail	3,354	3,023
Industrial	785	791
Others	468	452
	7,830	7,430

The Group's investment properties are mostly located in Hong Kong, including The Center, Cheung Kong Center, China Building and Hutchison House in Central, 1881 Heritage in Tsimshatsui, Whampoa Garden in Hunghom, Hutchison Logistics Centre in Kwai Chung and others.

Contribution from property rental (including share of joint ventures) for the year was HK\$7,130 million (2016 – HK\$6,784 million), an increase of HK\$346 million when compared with last year, and was derived from the following locations:

	2017	2016
Location	HK\$ Million	HK\$ Million
Hong Kong	6,304	6,290
The Mainland	503	398
Overseas	323	96
	7,130	6,784

At the year end date, the Group had an investment property portfolio of approximately 17 million sq.ft. (including share of joint ventures but excluding car parking spaces) as follows:

	Office	Retail	Industrial	Total
Location	Million sq.ft.	Million sq.ft.	Million sq.ft.	Million sq.ft.
Hong Kong	4	3	7	14
The Mainland	1	1	-	2
Overseas	-	1	-	1
	5	5	7	17

An increase in fair value of investment properties of HK\$9,525 million (2016 – HK\$1,262 million), mainly due to increase in fair value of office properties in Hong Kong, was recorded at the year end date based on a professional valuation using capitalisation rates ranging from approximately 4% to 8%. The Group also shared an increase in fair value of investment properties of HK\$14 million (2016 – HK\$3 million) of joint ventures.

The Group has entered into a sale and purchase agreement for the disposal of The Center at the consideration of HK\$40.2 billion and, subject to conditions, the transaction will be completed in 2018. A profit on disposal of approximately HK\$11.6 billion will be recognised upon completion based on the carrying value of The Center at the year end date.

Hotel and Serviced Suite Operation

Revenue of hotel and serviced suite operation (including share of joint ventures) for the year was HK\$4,798 million (2016 – HK\$4,850 million), comprising revenue generated mainly by Harbour Grand Hotels, Harbour Plaza Hotels & Resorts and Horizon Hotels & Suites located in Hong Kong and operated by the Group.

Contribution (including share of joint ventures) after depreciation charge of HK\$395 million on properties was HK\$1,572 million (2016 – HK\$1,509 million), an increase of HK\$63 million when compared with last year, and was derived from the following locations:

Location	2017 HK\$ Million	2016 HK\$ Million
Hong Kong	1,745	1,619
The Mainland	(71)	(24)
Overseas	(102)	(86)
	1,572	1,509

During the year, the average occupancy rate of the Group's hotels and serviced suites was 89.0% (2016 – 84.2%) and the average hotel operating profit per square foot was HK\$20 per month, representing an annual yield of 18.8% on the carrying amount of the Group's completed hotel and serviced suite properties at the year end date.

In the first half of 2017, the Group's interests in 2 hotels on the Mainland, namely Harbour Plaza Chongqing and Sheraton Chengdu Lido Hotel, were disposed of to Hui Xian Real Estate Investment Trust at a profit of HK\$363 million.

At the year end date, the Group's completed hotel and serviced suite portfolio comprised 16 hotels and serviced suites in Hong Kong, including Hullett House at 1881 Heritage which has been operated by the Group since mid 2017, 2 hotels on the Mainland, 1 hotel in The Bahamas and a total of over 15,000 rooms.

Property and Project Management

Revenue of property and project management (including share of joint ventures) for the year was HK\$626 million (2016 – HK\$620 million), comprising mainly management fee received for provision of property management and related services to property projects developed and sold by the Group.

Contribution from property and project management (including share of joint ventures) for the year was HK\$275 million (2016 – HK\$267 million), an increase of HK\$8 million when compared with last year, and was derived from the following locations:

Location	2017 HK\$ Million	2016 HK\$ Million
Hong Kong	210	209
The Mainland	39	35
Overseas	26	23
	275	267

At the year end date, the total floor area of properties managed by the Group was approximately 269 million sq.ft. and this is expected to grow steadily following gradual completion of the Group's property development projects in the years ahead. The Group is committed to providing high quality services to the properties under its management.

Aircraft Leasing

Revenue of aircraft leasing (including share of joint ventures) for the year was HK\$2,192 million (2016 – HK\$206 million), an increase of HK\$1,986 million from last year during which the aircraft leasing operation commenced shortly before the year end, and comprised lease income derived from leasing of narrow body and wide body aircraft to airlines.

Contribution (including share of joint ventures) after depreciation charge of HK\$1,089 million on aircraft was HK\$984 million (2016 – HK\$84 million), an increase of HK\$900 million from last year's operation, and is analysed by location with reference to lessee's place of operation as follows:

Location	2017 HK\$ Million	2016 HK\$ Million
Asia	373	15
Europe	256	6
North America	224	43
Latin America	131	20
	984	84

At the year end date, the Group (including interest in joint ventures) owned a total of 81 narrow body and 5 wide body aircraft with an average age of 5.1 years and an average remaining lease term of 5.6 years, and was committed to acquiring another 59 aircraft for an aggregate consideration of approximately HK\$12.9 billion.

Infrastructure and Utility Asset Operation

In May 2017, the Group through a 40/40/20 joint venture with CKI and PAH successfully acquired the DUET Group, an owner and operator of energy utility assets in Australia, the United States, Canada and the United Kingdom.

During the second half of 2017, the Group completed the acquisition of a Canadian group of companies (the “Reliance Group”) which is principally engaged in the building equipment sector providing water heaters, HVAC (heating, ventilation and air conditioning) equipment, comfort protection plans and other services to homeowners in Canada, under the consumer brand identity of “Reliance Home Comfort”, and formed a 75/25 joint venture with CKI to own and operate the Reliance Group.

The Group also formed a 65/35 joint venture with CKI and completed the acquisition of the ista Group, a leading fully integrated energy management services provider in Europe which has made substantial investment in creating its sub-metering platform and generates value across all stages of the sub-metering value chain.

Since the completion of these acquisitions, the Group has begun to share the results of the joint ventures, and the Group’s share of revenue for the year is as follows:

	2017
	HK\$ Million
Joint Venture	
DUET Group	2,823
Reliance Group	1,565
ista Group	1,095
	5,483

The Group's share of contribution for the year amounted to HK\$1,969 million, and was derived from locations as follows:

	Australia	Europe	North America	Others	2017
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	Total
Joint Venture					HK\$ Million
DUET Group	1,238	23	3	-	1,264
Reliance Group	-	-	440	-	440
ista Group	-	262	-	3	265
	1,238	285	443	3	1,969

Interests in Real Estate Investment Trusts

At the year end date, the Group had effective interests in the following real estate investment trusts ("REITs") listed in Hong Kong:

	Principal Activities	Effective Interest
Hui Xian REIT	Investment in hotels and serviced suites, office and retail properties on the Mainland	32.1%
Fortune REIT	Investment in retail properties in Hong Kong	27.5%
Prosperity REIT	Investment in office, retail and industrial properties in Hong Kong	18.7%

During the year, the Group shared a profit of HK\$549 million (2016 – HK\$44 million) of Hui Xian REIT, an associate, and cash distribution of HK\$551 million (2016 – HK\$568 million) was received. Increase in share of profit of Hui Xian REIT was mainly due to exchange gain on translation of bank borrowings at the year end date.

Profit contribution from Fortune REIT and Prosperity REIT for the year amounted to HK\$841 million (2016 – HK\$303 million) including (i) cash distribution of HK\$312 million (2016 – HK\$303 million) received and (ii) increase in fair value of HK\$529 million (2016 – increase in fair value was recognised in reserve).

FINANCIAL REVIEW

Liquidity and Financing

The Group monitors its liquidity requirements on a short to medium term basis and arranges bank and other borrowings accordingly. During the year, the Group issued notes amounting to HK\$3.4 billion with 5-year and 10-year terms under the Euro Medium Term Note programme. The Group also issued perpetual capital securities with an annual distribution rate of 4.60% in the amount of US\$1.5 billion in May 2017. Redeemable at the Group's option on or after 18 May 2020, the perpetual capital securities have no fixed maturity and are taken as long term equity.

At the year end date, the Group's bank and other borrowings amounted to HK\$72.0 billion, an increase of HK\$1.8 billion from last year. The maturity profile was spread over a period of 10 years, with HK\$14.3 billion repayable within 1 year, HK\$47.7 billion within 2 to 5 years and HK\$10.0 billion beyond 5 years.

The Group's net debt to net total capital ratio at the year end date was approximately 5.2%. Net debt is arrived at by deducting bank balances and deposits of HK\$54.9 billion from bank and other borrowings, and net total capital is the aggregate of total equity and net debt.

With plenty of cash on hand as well as available banking facilities, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Treasury Policies

The Group maintains a conservative approach on foreign exchange exposure management and borrows principally on a floating rate basis. The Group manages and reviews its exposure to foreign exchange rates and interest rates on a regular basis. For investment overseas and at times of exchange rate and interest rate uncertainty or volatility, hedging instruments including swaps and forwards are used in the management of exposure to foreign exchange rate and interest rate fluctuations.

At the year end date, the Group's borrowings were primarily in HK\$ and US\$, bank loans in RMB were borrowed for property development projects on the Mainland and bank loans in AUD were borrowed for investments in infrastructure and utility assets in Australia. The Group derives its revenue from property sales and rental mainly in HK\$ and RMB and maintains cash balances substantially in HK\$ and RMB. Income in other foreign currencies is generated by the Group's overseas projects and investments, and cash in these foreign currencies is maintained for operational requirements.

Charges on Assets

At the year end date, (i) properties amounting to HK\$15,512 million (2016 – HK\$15,089 million) were charged to secure bank loans arranged for property projects on the Mainland; and (ii) aircraft amounting to HK\$12,075 million (2016 – HK\$12,733 million) were charged to secure bank loans arranged for aircraft acquisitions.

Contingent Liabilities

At the year end date, the Group provided guarantees to (i) land owner of a hotel project for its share of revenue amounting to HK\$552 million (2016 – HK\$564 million); and (ii) banks for mortgage loans provided to purchasers of properties developed and sold by the Group on the Mainland amounting to HK\$4,103 million (2016 – HK\$5,385 million).

Employees

At the year end date, the Group (including its subsidiaries) employed approximately 20,200 employees and remuneration for the year (excluding directors' emoluments) amounted to approximately HK\$5,860 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the Group's salary and bonus system. The Group does not have any share option scheme for employees.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2017, the Company bought back a total of 126,501,000 Shares on the Stock Exchange, with the aggregate consideration paid (before expenses) amounting to HK\$6,981,950,600. All the Shares bought back were subsequently cancelled. As at 31 December 2017, the total number of Shares in issue was 3,697,498,500.

Particulars of the share buy-backs during the year are as follows:

Month	Number of Shares bought back	Purchase price per Share		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
January 2017	23,805,000	52.40	49.15	1,218,199,525
March 2017	23,749,500	54.50	52.80	1,281,750,825
April 2017	33,925,500	55.45	52.35	1,818,529,225
May 2017	20,806,000	58.10	55.70	1,182,354,750
June 2017	24,215,000	61.85	59.10	1,481,116,275
	<u>126,501,000</u>			<u>6,981,950,600</u>

Save as disclosed above, during the year ended 31 December 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Board of Directors ("Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

Save as disclosed below, the Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the year ended 31 December 2017. In respect of code provisions A.5.1 to A.5.4 of the CG Code, the Company does not have a nomination committee. At present, the full Board is responsible for reviewing the structure, size and composition of the Board and the appointment of new Directors from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board as a whole is also responsible for reviewing the succession plan for the Directors, in particular the Chairman of the Board ("Chairman") and the Managing Director. In respect of code provision A.6.7 of the CG Code, two Independent Non-executive Directors were not in a position to attend the extraordinary general meeting of the Company ("EGM") held on 14 March 2017 due to an overseas commitment and indisposition respectively; two Independent Non-executive Directors were not in a position to attend the annual general meeting of the Company held on 11 May 2017 due to indisposition; three Independent Non-executive Directors were not in a position to attend the EGM held on 24 August 2017 due to overseas commitments and indisposition respectively; and an Independent Non-executive Director was not in a position to attend the EGM held on 11 October 2017 ("October EGM") due to indisposition while an Independent Non-executive Director attended October EGM via telephone conference.

The Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the CG Code, the Company has established the Procedures for Reporting Possible Improprieties in Matters of Financial Reporting, Internal Control or Other Matters. In addition, the Company has also established the Policy on Handling of Confidential Information, Information Disclosure, and Securities Dealing for compliance by the Company's employees.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee ("Audit Committee") on 26 February 2015 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code.

The Audit Committee comprises five Independent Non-executive Directors, namely, Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mr. Chow Nin Mow, Albert, Ms. Hung Siu-lin, Katherine, Mr. Colin Stevens Russel and Mr. Donald Jeffrey Roberts. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, risk management and internal control systems, review of the Group's financial information, review of the relationship with the external auditor of the Company and performance of the corporate governance functions delegated by the Board.

The Group's annual results for the year ended 31 December 2017 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

In compliance with the CG Code, the Company established its remuneration committee ("Remuneration Committee") on 26 February 2015 with a majority of the members thereof being Independent Non-executive Directors. The Remuneration Committee comprises the Chairman, Mr. Li Ka-shing and two Independent Non-executive Directors, namely, Ms. Hung Siu-lin, Katherine (Chairman of the Remuneration Committee) and Mr. Cheong Ying Chew, Henry.

ANNUAL GENERAL MEETING

The 2018 Annual General Meeting of the shareholders of the Company will be held at the Grand Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 10 May 2018 at 2:45 p.m. and the Notice of Annual General Meeting will be published and despatched to the shareholders in the manner as required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 7 May 2018 to Thursday, 10 May 2018, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the 2018 Annual General Meeting, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 4 May 2018.

The final dividend is payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Wednesday, 16 May 2018, being the record date for determination of entitlement to the final dividend. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 16 May 2018.

The Directors of the Company as at the date of this document are Mr. LI Ka-shing (*Chairman*), Mr. LI Tzar Kuoi, Victor (*Managing Director and Deputy Chairman*), Mr. KAM Hing Lam (*Deputy Managing Director*), Mr. IP Tak Chuen, Edmond (*Deputy Managing Director*), Mr. CHUNG Sun Keung, Davy, Mr. CHIU Kwok Hung, Justin, Mr. CHOW Wai Kam, Ms. PAU Yee Wan, Ezra and Ms. WOO Chia Ching, Grace as Executive Directors; and Mr. CHEONG Ying Chew, Henry, Mr. CHOW Nin Mow, Albert, Ms. HUNG Siu-lin, Katherine, Mr. YEH Yuan Chang, Anthony, Mr. Colin Stevens RUSSEL and Mr. Donald Jeffrey ROBERTS as Independent Non-executive Directors.

Consolidated Income Statement
For the year ended 31 December 2017

	2017 HK\$ Million	2016 HK\$ Million
Group revenue	57,546	69,300
Share of revenue of joint ventures	6,234	610
Total	63,780	69,910
Group revenue	57,546	69,300
Investment and other income	2,962	720
Operating costs		
Property and related costs	(26,503)	(38,301)
Salaries and related expenses	(3,807)	(3,990)
Interest and other finance costs	(1,222)	(645)
Depreciation	(1,573)	(779)
Other expenses	(543)	(530)
	(33,648)	(44,245)
Increase in fair value of investment properties	9,525	1,262
Increase in fair value of investments in securities	591	-
Profit on disposal of hotel properties	363	-
Share of profit of joint ventures	239	93
Share of profit of associates	549	44
Profit before taxation	38,127	27,174
Taxation	(7,239)	(7,365)
Profit after taxation	30,888	19,809
Profit attributable to		
Shareholders	30,125	19,415
Non-controlling interests and holders of perpetual capital securities	763	394
	30,888	19,809
Earnings per share	HK\$8.07	HK\$5.05

	2017 HK\$ Million	2016 HK\$ Million
Dividends		
Interim dividend paid	1,553	1,461
Final dividend proposed	4,733	4,291
	6,286	5,752
Dividends per share		
Interim dividend	HK\$0.42	HK\$0.38
Final dividend	HK\$1.28	HK\$1.15

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	2017 HK\$ Million	2016 HK\$ Million
Profit after taxation	30,888	19,809
Other comprehensive income (loss) - reclassifiable to profit or loss		
Translation of financial statements of operations outside Hong Kong		
Exchange gain (loss)	5,494	(5,982)
Exchange loss reclassified to profit or loss	166	-
Exchange loss on translation of bank loans for hedging	(48)	-
Derivative financial instruments - gain (loss) in fair value		
Net investment hedges	(2,075)	125
Cash flow hedges	18	(21)
Investments available for sale - gain in fair value	-	713
Investments in securities - gain in fair value	1	-
Share of other comprehensive income (loss) of joint ventures	730	(227)
Other comprehensive income (loss) - not reclassifiable to profit or loss		
Gain on remeasurement of defined benefit obligations	75	22
Share of other comprehensive loss of joint ventures	(12)	-
Other comprehensive income (loss)	4,349	(5,370)
Total comprehensive income	35,237	14,439
Total comprehensive income attributable to		
Shareholders	34,291	14,374
Non-controlling interests and holders of perpetual capital securities	946	65
	35,237	14,439

**Consolidated Statement of Financial Position
As at 31 December 2017**

	2017 HK\$ Million	2016 HK\$ Million
Non-current assets		
Fixed assets	35,337	33,695
Investment properties	135,998	125,306
Joint ventures	65,293	7,907
Associates	7,402	7,333
Investments in securities	6,706	6,233
Long term receivables and others	2,905	1,715
Deferred tax assets	2,720	1,843
	<u>256,361</u>	<u>184,032</u>
Current assets		
Stock of properties	135,589	137,548
Debtors, prepayments and others	4,979	12,655
Joint venture contracted for sale	1,493	-
Bank balances and deposits	54,917	62,601
	<u>196,978</u>	<u>212,804</u>
Current liabilities		
Bank and other loans	14,342	4,378
Creditors, accruals and others	19,958	17,396
Customers' deposits received	35,680	19,527
Provision for taxation	3,426	2,456
	<u>73,406</u>	<u>43,757</u>
Net current assets	<u>123,572</u>	<u>169,047</u>
Non-current liabilities		
Bank and other loans	57,650	65,798
Deferred tax liabilities	11,655	10,824
Pension obligations	131	183
Derivative financial instruments	1,317	-
	<u>70,753</u>	<u>76,805</u>
Net assets	<u>309,180</u>	<u>276,274</u>
Representing:		
Share capital	3,698	3,824
Share premium	242,177	249,179
Reserves	45,677	17,196
Shareholders' funds	<u>291,552</u>	<u>270,199</u>
Perpetual capital securities	11,670	-
Non-controlling interests	5,958	6,075
Total equity	<u>309,180</u>	<u>276,274</u>

Notes:

- (1) The principal activities of the Group are property development and investment, hotel and serviced suite operation, property and project management, aircraft leasing and joint ventures in infrastructure and utility asset operation.

Revenue for the year by principal activities is as follows:

	Group		Joint ventures		Total	
	2017	2016	2017	2016	2017	2016
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Property sales	42,825	56,475	26	329	42,851	56,804
Property rental	7,689	7,316	141	114	7,830	7,430
Hotel and serviced suite operation	4,774	4,823	24	27	4,798	4,850
Property and project management	511	500	115	120	626	620
Aircraft leasing	1,747	186	445	20	2,192	206
Infrastructure and utility asset operation	-	-	5,483	-	5,483	-
	57,546	69,300	6,234	610	63,780	69,910

and is derived from the following locations:

	2017	2016
	HK\$ Million	HK\$ Million
Hong Kong	24,576	32,305
The Mainland	30,917	37,065
Overseas	8,287	540
	63,780	69,910

Profit contribution for the year by principal activities after allocation of operating costs and other income is as follows:

	Group		Joint ventures		Total	
	2017	2016	2017	2016	2017	2016
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Property sales	16,235	17,490	16	177	16,251	17,667
Property rental	7,010	6,761	120	23	7,130	6,784
Hotel and serviced suite operation	1,588	1,521	(16)	(12)	1,572	1,509
Property and project management	232	223	43	44	275	267
Aircraft leasing	704	78	280	6	984	84
Infrastructure and utility asset operation	-	-	1,969	-	1,969	-
	25,769	26,073	2,412	238	28,181	26,311
Interest and other finance costs	(1,222)	(645)	(804)	(37)	(2,026)	(682)
	24,547	25,428	1,608	201	26,155	25,629
Interests in real estate investment trusts					1,390	347
Increase in fair value of investment properties						
Group					9,525	1,262
Joint ventures					14	3
Profit on disposal of hotel properties					363	-
Others					933	9
Taxation						
Group					(7,239)	(7,365)
Joint ventures					(253)	(76)
Profit attributable to non-controlling interests and holders of perpetual capital securities					(763)	(394)
Profit attributable to shareholders					30,125	19,415

- (2) Profit before taxation is arrived at after charging (crediting):

	2017	2016
	HK\$ Million	HK\$ Million
Interest and other finance costs		
Bank and other loans	1,894	1,326
Less: Amount capitalised	(672)	(681)
	1,222	645
Costs of properties sold	23,324	34,797
Gain on disposal of investment properties	(114)	-

- (3) Taxation

	2017	2016
	HK\$ Million	HK\$ Million
Current tax		
Hong Kong	1,694	2,024
Outside Hong Kong	5,962	3,841
Deferred tax	(417)	1,500
	7,239	7,365

- (4) During the year, the Company bought back 126,501,000 of its own issued shares on The Stock Exchange of Hong Kong Limited for a total consideration (including expenses) of HK\$7,002 million and cancelled all the shares bought back.

The calculation of earnings per share is based on profit attributable to shareholders and on the weighted average of 3,732,203,704 shares (2016 - 3,847,159,309 shares) in issue during the year.

- (5) Ageing analysis of trade debtors with reference to the terms of the agreements is as follows:

	2017 HK\$ Million	2016 HK\$ Million
Current to one month	502	9,057
Two to three months	48	46
Over three months	50	44
	<u>600</u>	<u>9,147</u>

Ageing analysis of trade creditors with reference to invoice dates and credit terms is as follows:

	2017 HK\$ Million	2016 HK\$ Million
Current to one month	4,852	5,814
Two to three months	54	36
Over three months	18	15
	<u>4,924</u>	<u>5,865</u>

- (6) The International Accounting Standards Board has issued a number of new and revised International Financial Reporting Standards ("IFRSs"). The adoption of those which are effective for the Group's annual accounting periods beginning on 1 January 2017 has no significant impact on the Group's results and financial position.

IFRS 9 "Financial Instruments", scheduled to be effective in 2018, has been early adopted in the preparation of the consolidated financial statements for the year ended 31 December 2017. The adoption of IFRS 9 has resulted in the following changes in accounting policies for investments in securities:

- In prior years, investments in securities were classified as either investments available for sale or investments held for trading and changes in fair value were recognised in other comprehensive income and profit or loss respectively.

Upon the adoption of IFRS 9, investments in securities are classified as either investments measured at fair value through other comprehensive income or investments measured at fair value through profit or loss depending on the nature and characteristics of the securities and changes in fair value are recognised in other comprehensive income and profit or loss respectively.

The above changes in accounting policies have been applied retrospectively and the comparative figures are not required to be restated in accordance with the transitional provisions of IFRS 9;

and its impacts on the Group's results and financial position are as follows:

- investments in securities amounting to HK\$6,169 million, previously classified as investments available for sale, have been reclassified as investments measured at fair value through profit or loss and the accumulated fair value gain of these investments in securities amounting to HK\$2,929 million in the investment revaluation reserve at 1 January 2017 were reclassified to retained profits;
- investments in securities amounting to HK\$64 million, previously classified as investments available for sale, have been reclassified as investments measured at fair value through other comprehensive income; and
- increase in profit attributable to shareholders and earnings per share for the year ended 31 December 2017:

	HK\$ Million
Changes in fair value of investments in securities recognised in profit or loss	<u>591</u>
Increase in profit attributable to shareholders	<u>591</u>
Increase in earnings per share	<u>HK\$0.16</u>

For the other IFRSs scheduled to be effective in 2018, the Group has assessed that they have no significant impact on the Group's results and financial position when they become effective. For the IFRSs effective for annual accounting periods beginning on 1 January 2019 and after, the Group is in the process of assessing their impact on the Group's results and financial position.

- (7) The annual results have been reviewed by the Audit Committee.