



中信  
CITIC

**CITIC LIMITED**  
HALF-YEAR REPORT 2018

Stock code 00267

# Our Company

CITIC Limited (SEHK: 00267) is one of China's largest conglomerates and a constituent of the Hang Seng Index. Among our diverse global businesses, we focus primarily on financial services, resources and energy, manufacturing, engineering contracting and real estate. As China's economy matures and is increasingly weighted towards consumption and services, CITIC is building upon its existing consumer platform, expanding into complementary businesses that reflect these trends and opportunities.

Tracing our roots to the beginning of China's opening and reform, we are driven today by the same values on which we were founded: a pioneering spirit, a commitment to innovation and a focus on the long-term. We embrace world-class technologies and aim for international best practice. We are guided by a strategy that is consumer-centric, commercially-driven, and far-sighted in the allocation of capital and resources.

Our platform is unique in its diversity and scale, allowing CITIC to capture emerging opportunities in China and around the world. Guiding us as we grow is our fundamental commitment to create long-term value for all of our shareholders.

## Our Businesses

### Financial Services

CITIC Bank (65.97%)  
CITIC Trust (100%)  
CITIC-Prudential (50%)  
CITIC Securities (16.50%)

### Manufacturing

CITIC Pacific Special Steel (90%)  
CITIC Dicastal (100%)  
CITIC Heavy Industries (67.27%)

### Real Estate

CITIC Pacific Properties (100%)  
CITIC Urban Development & Operation (100%)

### Resources & Energy

CITIC Resources (59.50%)  
CITIC Mining International (100%)  
CITIC Metal Group (100%)  
Sunburst Energy (100%)

### Engineering Contracting

CITIC Construction (100%)  
CITIC Engineering Design (100%)

### Others

CITIC Telecom International (59.72%)  
Dah Chong Hong (56.35%)  
CITIC Industrial Investment (100%)  
CITIC Environment (100%)

As at 30 June 2018



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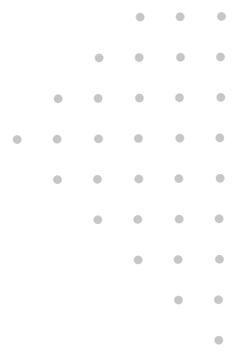


# Highlights

<i>HK\$ million</i>	Year ended 30 June		
	2018	2017 (Restated)	Increase/ (Decrease)
Revenue	258,323	199,990	58,333
Profit before taxation	56,597	53,741	2,856
Net profit attributable to ordinary shareholders	30,668	32,234	(1,566)
Earnings per share (HK\$)	1.05	1.11	(0.06)
Dividend per share (HK\$)	0.15	0.11	0.04
Net cash generated from/(used in) operating activities	11,427	(92,504)	103,931
Capital expenditure	17,349	9,939	7,410
	<b>30 June</b>	31 December	Increase/ (Decrease)
<i>HK\$ million</i>	<b>2018</b>	2017	
Total assets	7,628,950	7,520,739	108,211
Total liabilities	6,814,272	6,727,098	87,174
Total ordinary shareholders' funds and perpetual capital securities	566,204	550,951	15,253

Business <i>HK\$ million</i>	Business assets		Revenue from External customer		Profit attributable to ordinary shareholders	
	30 June 2018	Increase/ (Decrease) (Note)	Half-year ended 30 June 2018	Increase/ (Decrease)	Half-year ended 30 June 2018	Increase/ (Decrease)
<b>FINANCIAL SERVICES</b>	7,010,250	85,174	103,068	13,125	24,256	2,980
<b>RESOURCES AND ENERGY</b>	129,313	(125)	34,994	2,822	1,279	1,545
<b>MANUFACTURING</b>	138,195	7,814	61,125	20,188	2,406	655
<b>ENGINEERING CONTRACTING</b>	46,260	133	4,015	362	704	394
<b>REAL ESTATE</b>	159,637	(27)	5,270	4,042	4,747	(944)
<b>OTHERS</b>	158,456	(5,379)	49,822	17,785	2,498	(4,586)

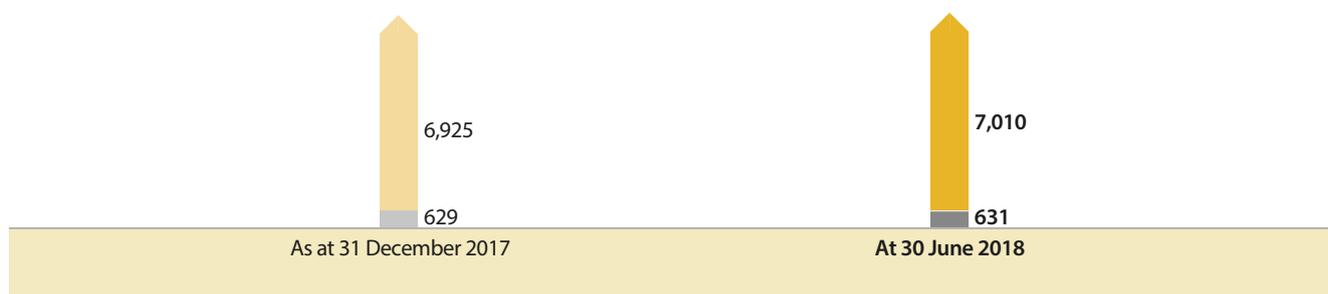
Note: As compared with total balances as at 31 December 2017.



## Business assets

- ◆ Financial services
- ◆ Non-financial businesses

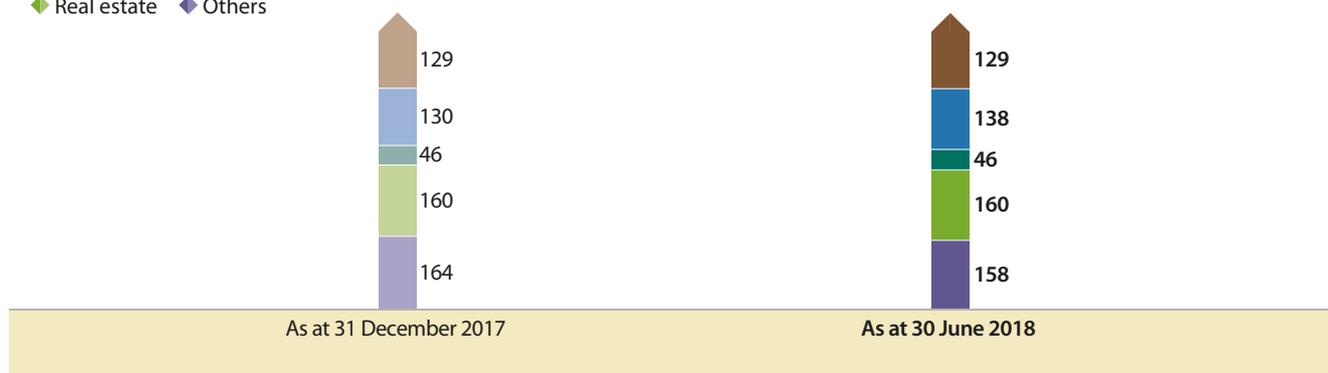
HK\$ billion



## Assets of non-financial businesses

- ◆ Resources and energy
- ◆ Manufacturing
- ◆ Engineering contracting
- ◆ Real estate
- ◆ Others

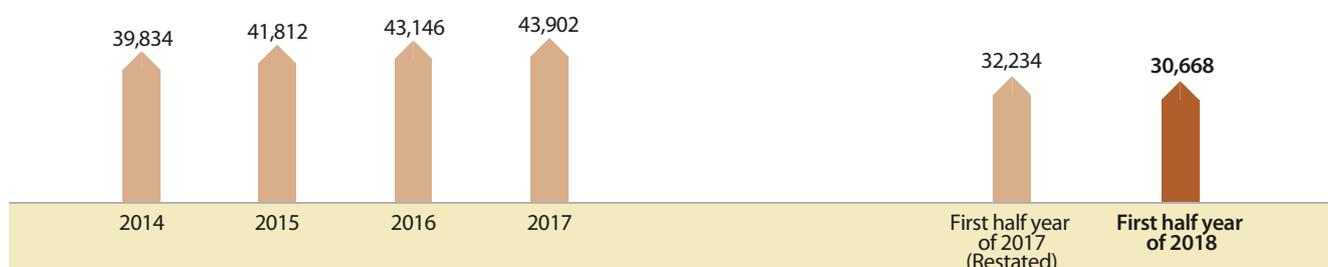
HK\$ billion



## Net profit attributable to ordinary shareholders

- ◆ Net profit attributable to ordinary shareholders

HK\$ million



# Chairman's Letter to Shareholders



Dear Shareholders,

For the first six months of 2018, CITIC Limited recorded a profit attributable to ordinary shareholders of HK\$30.7 billion, 5% less than the same period in 2017, which included revaluation gains of HK\$5.4 billion. When excluding the 2017 gains as well as the RMB to HK dollar exchange rate effect, profit grew 6%. The growth in earnings was driven by the solid performance of our businesses, particularly contributions from the investments we have made in recent years.

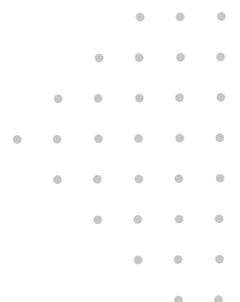
The board has decided to raise the interim dividend by HK\$0.04 to HK\$0.15 per share. Our intention is to increase the dividend steadily over time.

## **Business Performance**

Our financial services segment recorded HK\$24.3 billion in profit for the first six months of 2018. Excluding the RMB to HK dollar exchange rate effect, this is 5% more than the corresponding period in 2017. The increase came primarily from CITIC Bank and CITIC Securities.

CITIC Bank's profit rose 7% to RMB25.7 billion compared with the same period in 2017. Non-interest income continued its upward trend, contributing 39% of revenue compared with 35% a year ago as a result of the bank's ongoing efforts to improve its income mix. During the period, CITIC Bank remained focused on optimising its asset structure. The low-yielding interbank business was further reduced, while more resources were allocated to its lending business. Net interest margin improved 12 basis points to 1.89%.

CITIC Trust's core business remained stable, but its overall profit declined 24% due to mark-to-market loss recognised from its investment in China Hongqiao Group. CITIC-Prudential's premium and investment income experienced double-digit growth; however, its net profit declined 5% as a result of higher income tax. During the reporting period, CITIC Securities outperformed the market with a 13% increase in net profit to RMB5.6 billion.



Profit from our manufacturing business rose by 37% to HK\$2.4 billion, driven by strong results at CITIC Pacific Special Steel and CITIC Dicastal. Special steel profit grew 31% to HK\$1.6 billion. In the first half of 2018, a total of 5.7 million tonnes of special steel products were sold by our three plants, 34% more than last year. The increase in tonnage sold was primarily due to the contribution from newly-acquired Qingdao Special Steel. In June, we acquired Hualing Special Steel, which has been renamed Jingjiang Special Steel. Strategically located by the Yangtze River in Jiangsu province, Jingjiang Special Steel adds 600,000 tonnes of annual seamless steel tube production capacity and another 600,000 tonnes of bar steel capacity each year.

Driven by strong demand for its aluminium wheels and casting products, CITIC Dicastal's strong performance continued in the first half of 2018, with profit climbing 30% to RMB597 million. A total of 27 million aluminium wheels and 40,000 tonnes of castings were sold during the period, up 10% and 3.4% respectively year-on-year. To meet increasing demand, CITIC Dicastal has been expanding its production facilities at its Qinhuangdao headquarters as well as in Chengdu and Wuxi. It is also improving the production utilisation rate at its plant in the United States.

CITIC Heavy Industries recorded a profit of RMB63 million for the first six months of 2018, mainly from its specialty robotics business, which has seen tremendous demand for its products. Its heavy machinery business also showed an improvement.

Our resources and energy business recorded a profit of HK\$1.3 billion for the first six months of 2018, as higher commodity prices and a reduced loss at Sino Iron benefited the sector. CITIC Resources achieved a profit of HK\$529 million, a growth of 186% driven

primarily by higher oil prices and stringent ongoing cost control. CITIC Metal's profit also registered an impressive expansion of 41% to HK\$776 million for the same period. In June this year, CITIC Metal signed an agreement to acquire a 19.5% stake in Canadian company Ivanhoe Mines. Upon completion of the transaction, CITIC Metal will become the single-largest shareholder in Ivanhoe Mines, which is developing projects in Southern Africa.

At our Sino Iron mine in Western Australia, the operational focus has been on increasing production and improving efficiencies. I am glad to report that for the first six months of this year, we achieved record production of magnetite concentrate with more than 9.4 million wet metric tonnes exported, 20% higher than the same period a year ago. The number of shipments also increased by 18% due to greater landside automation at the port and the introduction of a self-unloading vessel, which complements our existing transshipment operations. The mine's operating costs continue to trend downwards as a result of rising production across all six processing lines and ongoing cost-reduction measures, which include optimisation of processes and technology.

We are experiencing strong demand for Sino Iron's magnetite concentrate product, which has around 65% iron content, as steel mills seek out quality feedstock in an effort to lower carbon emissions and enhance plant efficiency. The spread in price between high grade and low grade iron ore products continues to increase and, as a producer of premium concentrate, Sino Iron is benefiting from this shift in the market.

Despite improvements in price and our operational achievements, Sino Iron must still overcome distinct challenges to become financially viable. Our costs



have increased as a result of last year's judgment in the Supreme Court of Western Australia, related to the payment of Royalty Component B to tenement-holder Mineralogy. We have appealed this decision. Another matter is Mineralogy's refusal to submit to the Government vital approval requests that are required for the continuation of operations, including for storage of waste material and tailings. This situation has resulted in costly and suboptimal workarounds, which are temporary in nature. As I've said previously, the cooperation, understanding and support of all stakeholders is vital to secure the future of Sino Iron. This is in everyone's interests.

The engineering contracting business division recorded a profit of over HK\$700 million, mainly due to solid results at CITIC Engineering Design, but also from tax savings and investment gains at CITIC Construction. Both companies continued to make inroads securing new projects. New contracts signed at CITIC Construction in the first half of 2018 included a road project in Kazakhstan, a social housing development project in the Maldives and an integrated resort in Korea, totalling over RMB15 billion. Leveraging its strong design capabilities, CITIC Engineering Design won its largest design contract ever to build a logistics centre in Hubei province for RMB700 million.

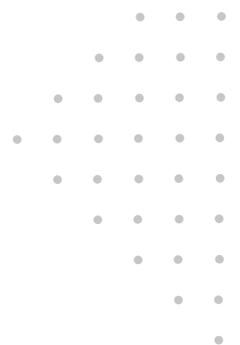
Profit contribution from our property business was HK\$4.7 billion, a 17% reduction from the same period in 2017, which was higher than 2018 owing to the booking of two office buildings in Shanghai. The profit for the first six months of 2018 was principally attributable to our 10% interest in China Overseas Land and Investment (COLI) and the delivery of units at Kadooria, a luxury residential development in Hong Kong.

## Seizing Opportunities for Value Accretion

The improved performance of our businesses drove our earnings growth in this period, and our results reflect sound management and operations across the board. We've invested and expanded strategically in businesses that can leverage CITIC's resources and expertise, and these investments are now making a meaningful contribution to our bottom line. Let me give you two examples.

McDonald's mainland China and Hong Kong business became part of the CITIC family a little over a year ago. Together with our partners, we've achieved tangible operational progress in terms of the number of stores opened, as well as improved profitability. McDonald's has benefited from CITIC's knowledge of the real estate market and its relationships with major property developers, having signed agreements with Evergrande, COLI, Country Garden and Sunac that have enabled McDonald's to secure prime locations. More than 300 new McDonald's restaurants were opened in mainland China in the last twelve months, bringing the new total to more than 3,000 nationwide. CITIC also assisted McDonald's in securing cooperation agreements with Tencent and SF Express, which have enabled McDonald's to further digitise the dining experience and food delivery.

The other example is special steel. Since the acquisition of Qingdao Special Steel last year, we've leveraged our existing special steel production expertise across multiple areas, both technical and managerial. Enhanced production efficiency, product quality, centralised raw material procurement, and better sales team incentives have collectively contributed to a profitable Qingdao Special Steel. The recently acquired Jingjiang Special



Steel, whose thin-to-medium walled seamless steel tubes complement our existing medium-to-thick walled product, gives us a full steel tube product offering. All of the above solidify the leading position of our special steel business.

Our strategies have also included the disposal of assets that are not essential to our future development. Early this year, we sold three toll roads in mainland China, generating a total of HK\$1.3 billion in profit. Partnering with industry leaders to realise better returns on assets led to the divestment of our mainland China residential property assets to COLI which in turn gave us a 10% stake in that business. Over 9% of our profit in the first half of 2018 can be credited to the COLI transaction and recent investment decisions.

### In Conclusion

I am pleased with the results we have achieved. We pride ourselves on being good managers and solid operators, and I would like to thank all the employees who contributed to our results. We hope we've demonstrated to you that our businesses are sound and well-positioned. Our board and management team will remain vigilant in identifying additional opportunities to create value for shareholders.



**Chang Zhenming**

*Chairman*

Hong Kong, 29 August 2018

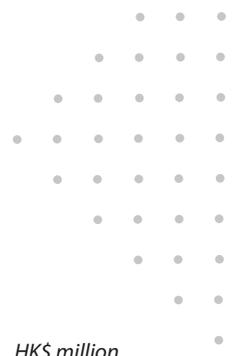
## Overview

### Profit attributable to ordinary shareholders

During the first half of 2018, the Group achieved net profit attributable to ordinary shareholders of HK\$30,668 million, representing a year-on-year decrease of HK\$1,566 million, or 4.9%, from the first half of 2017. This was mainly due to revaluation gains of approximately HK\$5,446 million from deemed disposal of Guoan Football Club which introduced in a strategic investor and equity investment in SINOPEC SSC in the first half of 2017. Our net profit grew by HK\$1.6 billion, or 6.0%, year-on-year, excluding the revaluation gains and currency translation effect due to appreciation of the average RMB exchange rate for the current period.

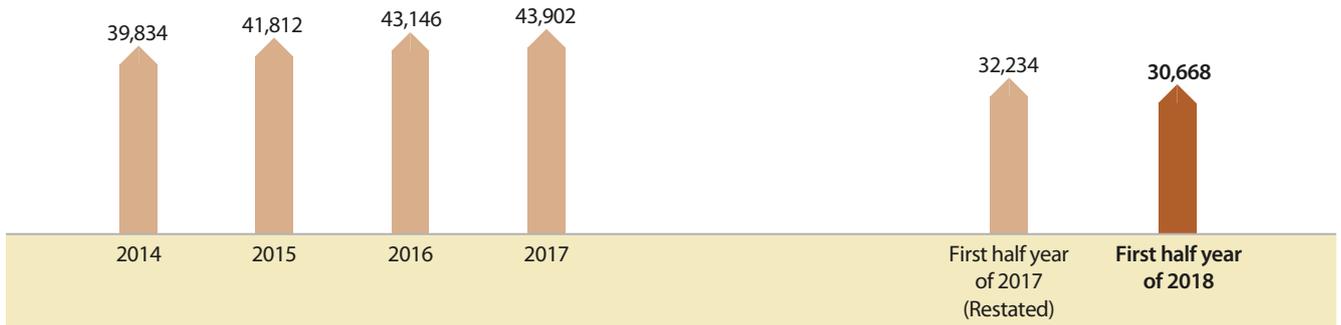
The financial services segment recorded net profit attributable to ordinary shareholders of HK\$24,256 million, an increase of 14%. Excluding the currency translation effect, the corresponding increase in net profit would have been 5.0%. Our banking business continued to make structural improvements, with the proportion of non-interest income increasing by 3.3 percentage points to 38.8% and net profit attributable to the bank's shareholders rising 7.1% year-on-year. CITIC Securities recorded steady development, with the net profit increasing by 13% year-on-year and with all its major businesses retaining their leading positions in the industry. Our insurance business recorded double-digit growth in premium and investment income; however, net profit declined by 4.6% due to the increase in income tax. The net profit of CITIC Trust recorded a year-on-year decrease of 24%, mainly due to a mark-to-market loss from the investment in China Hongqiao.

In the non-financial segments, our resource and energy business turned from loss to profit, with net profit attributable to ordinary shareholders of HK\$1,279 million. This was primarily due to that net loss for the Sino Iron Project has decreased as compared to the same period of last year, achieved through higher production volume and cost control, as well as the significantly improved performance of the crude oil business due to higher oil prices. The manufacturing business reported a net profit attributable to ordinary shareholders of HK\$2,406 million, representing a corresponding increase of 37%. During the review period, this business benefited from higher sales prices and sales volumes in special steel, aluminium wheels and castings, together with the steady growth in the robotics and intelligent equipment business. The real estate business achieved net profit attributable to ordinary shareholders of HK\$4,747 million, mainly as a result of the share of net profit from COLI, the sale of residential units in the Kadooria project in Hong Kong and the settlement of a land development project in Shantou Binhai New Town. The net profit of the real estate business dropped 17% due to a share of profit of approximately HK\$2.7 billion from the Shanghai Lujiazui Project in the corresponding period last year. Our engineering contracting business recorded net profit attributable to ordinary shareholders of HK\$704 million, representing a year-on-year increase of HK\$394 million. This was mainly due to the profit increase from EPC projects, a tax gain following the adjustment in the PRC's income tax policy on overseas projects, and an increase in investment income. In addition, the gain on the disposal of the toll roads business contributed approximately HK\$1,310 million to the net profit of the Group during the first half of 2018.



◆ Profit attributable to ordinary shareholders

HK\$ million



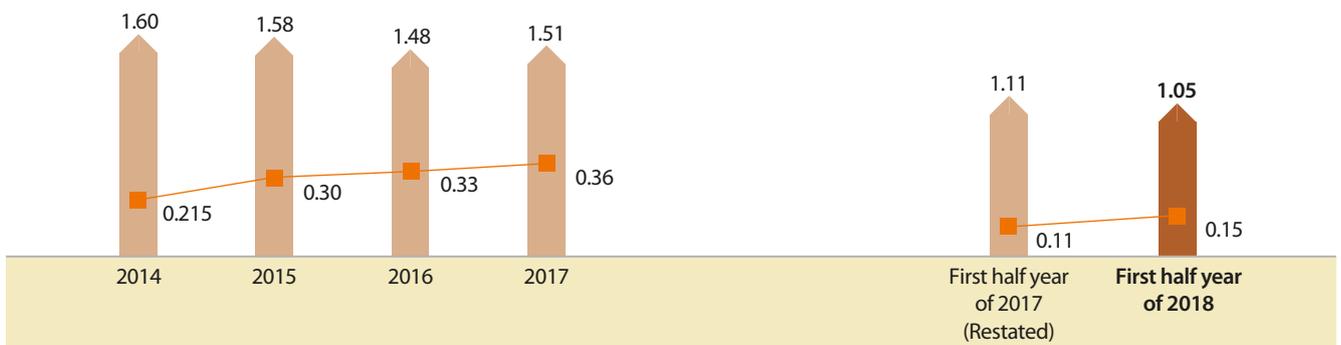
### Earnings per share and dividends

Earnings per share of net profit attributable to ordinary shareholders was HK\$1.05 in the first half of 2018, representing an decrease of 4.9% from HK\$1.11 in the first half of 2017. As at 30 June 2018, the number of ordinary shares outstanding was 29,090,262,630.

HK\$4,364 million in cash will be distributed as interim dividend. The interim dividend per share of 2018 is HK\$0.15 (first half of 2017: HK\$0.11 per share).

◆ Earnings per share  
■ Dividend per share

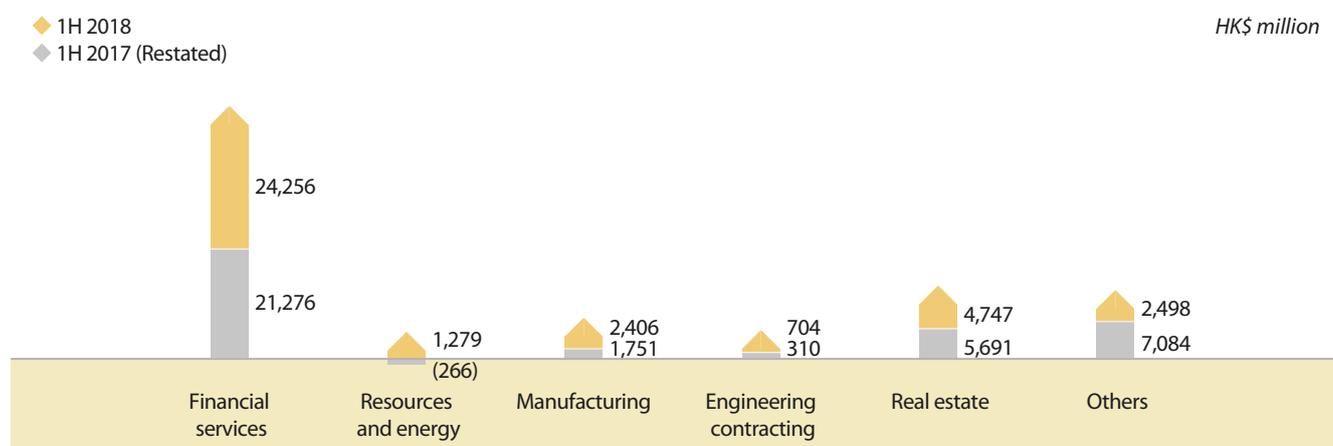
HK\$ million



## Profit/(loss) and assets by segment

HK\$ million	Profit/(loss) Half-year ended 30 June		Assets	
	2018	2017 (Restated)	As at 30 June 2018	As at 31 December 2017
Financial services	35,564	30,692	7,010,250	6,925,076
Resources and energy	1,726	(53)	129,313	129,438
Manufacturing	2,639	1,857	138,195	130,381
Engineering contracting	699	309	46,260	46,127
Real estate	5,230	5,819	159,637	159,664
Others	3,840	7,638	158,456	163,835
<b>Total</b>	<b>49,698</b>	<b>46,262</b>	<b>7,642,111</b>	<b>7,554,521</b>
Operation management	(4,015)	(3,298)		
Elimination	(883)	22		
Net profit attributable to non-controlling interests and holders of perpetual capital securities	14,132	10,752		
Net profit attributable to ordinary shareholders	30,668	32,234		

## Net profit/(loss) attributable to ordinary shareholders





## Financial services:

In the first half of 2018, the financial services segment recorded net profit attributable to ordinary shareholders of HK\$24,256 million, representing a year-on-year increase of HK\$2,980 million, or 14%. Excluding the effect of currency translation, the net profit attributable to ordinary shareholders would have increased by HK\$1,062 million, or 5.0%, year-on-year.

The banking business remained the principal contributor to the profit growth of the financial services segment in the first half of 2018. As CITIC Bank continued to adjust its business structure and improve asset turnover, non-interest income grew 16% with the proportion increasing by 3.3 percentage points to 38.8%. Income from the retail banking business grew 11%, with the proportion increasing by 1.6 percentage points to 34.6%. Also during the period, net interest margin increased by 12 basis points to 1.89% year-on-year through measures that included the disposal of under-performing assets and the optimisation of the deposit structure. As a result, net profit attributable to shareholders recorded a year-on-year increase of 7.1%. CITIC Securities achieved steady performance with all its major businesses retaining their leading industry positions, and with net profit increasing by 13% year-on-year. Our insurance business recorded double-digit growth in premium and investment income, but net profit was down by 4.6% due to an increase in income tax. As an industry leader in terms of assets under management and revenue, CITIC Trust continued its business transformation with an increase in the proportion of the active management business. However, a mark-to-market loss was recognised from the investment in China Hongqiao, and the net profit attributable to ordinary shareholders recorded a year-on-year decrease of 24%.

## Resources and energy:

In the first half of 2018, this business segment turned from loss to profit, recording net profit attributable to ordinary shareholders of HK\$1,279 million.

Sino Iron Project's six production lines have been operating smoothly. Measures to increase production volume, improve product quality and reduce costs have resulted in production of approximately 9.51 million wet metric tonnes of iron ore concentrate in the first half of 2018, representing an increase of over 26% in comparison to the same period of last year, while the average iron ore grade has reached over 65%. Net loss for the Sino Iron Project reduced significantly as compared to the same period of last year, due to the reduction in the unit operating cost per tonne.

Due to the higher average crude oil realized prices and ongoing cost controls, the profitability of the crude oil business grew rapidly. The restoration in production capacity for the aluminium smelting business also led to a turnaround to profitability. Niobium and iron ore trading business recorded a steady improvement, which contributed to an increase in net profit for CITIC Metal Group of HK\$227 million year-on-year. In first half of 2018, the Las Bambas copper mine in Peru, in which CITIC Metal Group holds a 15% interest, contributed a profit of approximately HK\$202 million to the Group. The heat supply and power generation business maintained steady.



## Manufacturing:

The manufacturing business recorded net profit attributable to ordinary shareholders of HK\$2,406 million in the first half of 2018, representing a year-on-year increase of HK\$655 million, or 37%. The average sales price and sales volume of special steel increased by 12% and 34% year-on-year, respectively. Steady improvements in product quality and product mix together with enhanced production-marketing integration led to a higher gross profit in per tonne steel with an increase in net profit of 31% year-on-year. In Qingdao Special Steel, through improvements in production and marketing system, technology, product quality, management and operating efficiency have been significantly improved, recorded a profit of approximately HK0.27 billion for the first half of 2018. The sales volume and sales prices of aluminium wheels and castings increased, which helped to maintain the momentum of this business with a net profit increase of 30% year-on-year. The performance of the special robotics and intelligent equipment business also improved to become a major contributor to the net profit increase of CITIC Heavy Industries.

## Engineering contracting:

In the first half of 2018, this segment recorded net profit attributable to ordinary shareholders of HK\$704 million, representing a year-on-year increase of HK\$394 million, or 127%. Due to a tax gain that resulted from an adjustment in the PRC's income tax policy for overseas projects together with a rise in investment gain, the net profit of CITIC Construction recorded a year-on-year increase. Projects such as the PPP project of Industrial New Town of Tianfu International Airport Linkong Economic Zone at Ziyang City and K.K. Phase II Grand Municipality Project in the Republic of Angola were delayed, therefore no profits were contributed by these projects. The EPC business developed rapidly as a result of the enhanced investment from CITIC Engineering, with a net profit growth of 142% recorded year-on-year.

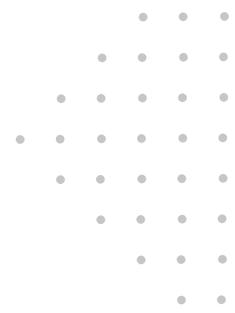
## Real Estate:

The real estate business recorded net profit attributable to ordinary shareholders of HK\$4,747 million in the first half of 2018, representing a year-on-year decrease of HK\$944 million, or 17%, due to a share of profit of approximately HK\$2.7 billion from the Shanghai Lujiazui Project in the corresponding period last year. The net profit for the current period mainly consisted of the share of net profit from COLI, the sale of residential units in the Kadooria project in Hong Kong and the settlement of a land development project in Shantou Binhai New Town.

The occupancy rate for investment properties was approximately 95% as at 30 June 2018, which was comparable with preceding years.

## Others:

The net profit attributable to ordinary shareholders in the first half of 2018 decreased by HK\$4,586 million, or 65%, to HK\$2,498 million as compared with the corresponding period last year. This was mainly due to revaluation gains of approximately HK\$5,446 million from deemed disposal of Guoan Football Club which introduced in a strategic investor and equity investment in SINOPEC SSC in the first half of 2017. Initiatives to promote brand synergy and improve the management of the McDonald's Mainland China and Hong Kong businesses led to a dramatic increase in performance. Aside from the McDonald's business, the net profit contribution came mainly from the international telecommunications, environmental protection, tunnel, Dah Chong Hong and publishing businesses.



The net profit of CITIC International Telecom increased by 7.5% year-on-year. Benefiting from increased sales of its bio-membrane system and the settlement of EPC projects, CITIC Environment recorded a significantly increased net profit of 256% as compared with the corresponding period last year. Dah Chong Hong recorded a year-on-year increase of 19% in net profit, mainly attributable to its automobile trading business in Mainland China. CITIC Press recorded a net profit increase for the first half of 2018 as a result of rapid growth in its publishing business and its expansion into culture-related retail businesses and education, along with the integration of high-quality international resources.

## Group Financial Results

### Revenue

In the first half of 2018, CITIC Limited achieved revenue of HK\$258,323 million, representing an increase of HK\$58,333 million, or 29%, as compared with the same period last year.

The financial services business recorded revenue of HK\$103,068 million, up by 15%. Excluding the effect of currency translation, the increase would have been HK\$4,949 million, or 5.5%, mainly due to continuing improvements in its business structure and the accelerated asset turnover of CITIC Bank, leading to an increase in the proportion of non-interest income and the retail banking business.

The resource and energy business reported revenue of HK\$34,994 million, representing an increase of HK\$2,822 million, or 8.8%, from the same period last year. Revenue for the Sino Iron Project has increased as compared to the same period of last year, due to higher production volume and high-grade iron ore concentrate premium. Due to higher international commodity prices, businesses such as aluminium smelting, crude oil production, and metal trading (iron ore and niobium products) all recorded growth in revenue.

The manufacturing business reported revenue of HK\$61,125 million, representing an increase of HK\$20,188 million, or 49%, from the same period last year, which was mainly driven by higher sales volumes and sales prices in the special steel business and aluminium wheels and castings business. Qingdao Special Steel, which was acquired in 2017, also contributed to the growth in revenue. The robotics and intelligent manufacturing business and heavy equipment business grew rapidly during the review period, which was partially offset by the reduction of revenue from EPC projects.

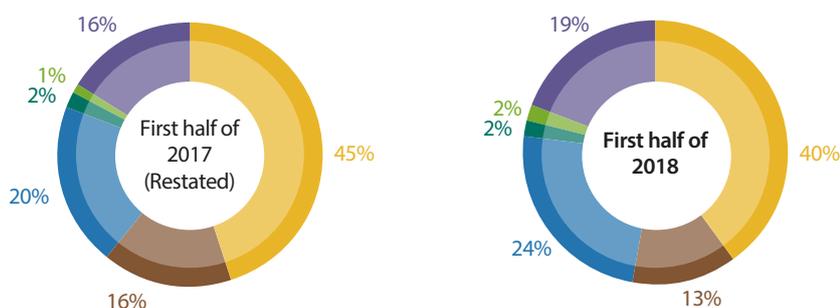
The engineering contracting business reported revenue of HK\$4,015 million, representing an increase of HK\$362 million, or 9.9%, over the same period last year. The revenue of CITIC Engineering increased by 45% year-on-year, mainly due to the investment-driven growth of the EPC business. However, the revenue of CITIC Construction decreased owing to the delay of projects such as the PPP project of Industrial New Town of Tianfu International Airport Linkong Economic Zone at Ziyang City and K.K. Phase II Grand Municipality Project in the Republic of Angola.

Due to the increase in sales of residential units in the Kadooria project in Hong Kong and the settlement of a land development project in Shantou Binhai New Town, the real estate business reported revenue of HK\$5,270 million, representing an increase of HK\$4,042 million, or 329%, from the same period last year.

Revenue from other businesses amounted to HK\$49,822 million, representing a year-on-year increase of HK\$17,785 million, or 56%, mainly attributable to the McDonald's Mainland China and Hong Kong businesses acquired on July 31 2017. Owing to the increase in sales of its bio-membrane system and the settlement of EPC projects, the revenue of CITIC Environment increased by HK\$1,863 million, as compared with the corresponding period last year. Revenue from Dah Chong Hong increased by HK\$1.5 billion due to the rapid growth of its automobile trading business. Driven by the growth in mobile handset sales, the revenue of CITIC Telecom International increased by 37% year-on-year.

HK\$ million	Year ended 30 June		Increase/(decrease)	
	2018	2017 (Restated)	Amount	%
Financial services	103,068	89,943	13,125	15%
Resources and energy	34,994	32,172	2,822	9%
Manufacturing	61,125	40,937	20,188	49%
Engineering contracting	4,015	3,653	362	10%
Real estate	5,270	1,228	4,042	329%
Others	49,822	32,037	17,785	56%

◆ Financial services ◆ Resources and energy ◆ Manufacturing ◆ Engineering contracting ◆ Real estate ◆ Others

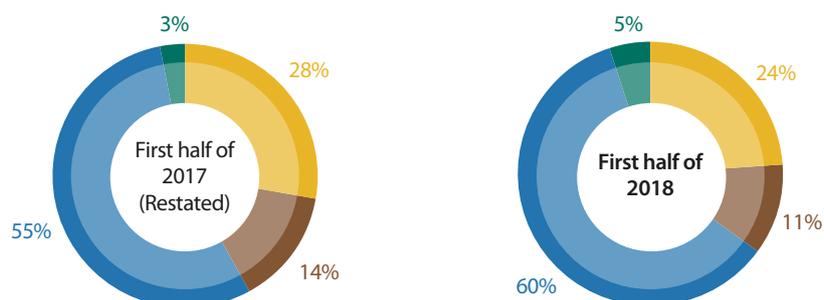


## Revenue by nature

HK\$ million	Year ended 30 June		Increase/(decrease)	
	2018	2017 (Restated)	Amount	%
Net interest income	62,213	56,757	5,456	10%
Net fee and commission income	29,314	28,038	1,276	5%
Sales of goods and services	155,244	110,045	45,199	41%
Sales of goods	136,645	94,646	41,999	44%
Services from construction contracts	4,482	3,819	663	17%
Services from other services	14,117	11,580	2,537	22%
Other revenue	11,552	5,150	6,402	124%



◆ Net interest income   ◆ Net fee and commission income   ◆ Sales of goods and service   ◆ Other revenue



## Impairments

In the first half of 2018, the Group recorded expected credit loss and asset impairment of HK\$31.9 billion, an increase of 15% from the same period last year. Of the total impairment, CITIC Bank accounted for HK\$32.1 billion, which mainly includes a HK\$29.0 billion impairment on its loans and advances to customers.

## Net finance charges

Finance costs of the Group increased HK\$788 million, or 15% from the first half of 2017 to HK\$6,153 million in the first half of 2018, as a result of an increase in borrowings of operation management business.

In the first half of 2018, finance income from operation management business and subsidiaries under non-financial business amounted to HK\$805 million, mainly came from interest income on bank deposits of operation management business, an increase of HK\$154 million, or 24% from the first half of 2017.

## Interest expense capitalized

In the first half of 2018, the Group recorded capitalized interest expense of 88 million, an 39% decrease from the first half of 2017. This was mainly because bank borrowing reduced as some Mainland China real estate projects have completed, thus interest expense capitalized decreased correspondingly.

## Income tax

Income tax of the Group in the first half of 2018 was HK\$11,797 million, an increase of HK\$1,042 million compared with the same period last year. This was mainly due to profit before tax increased.

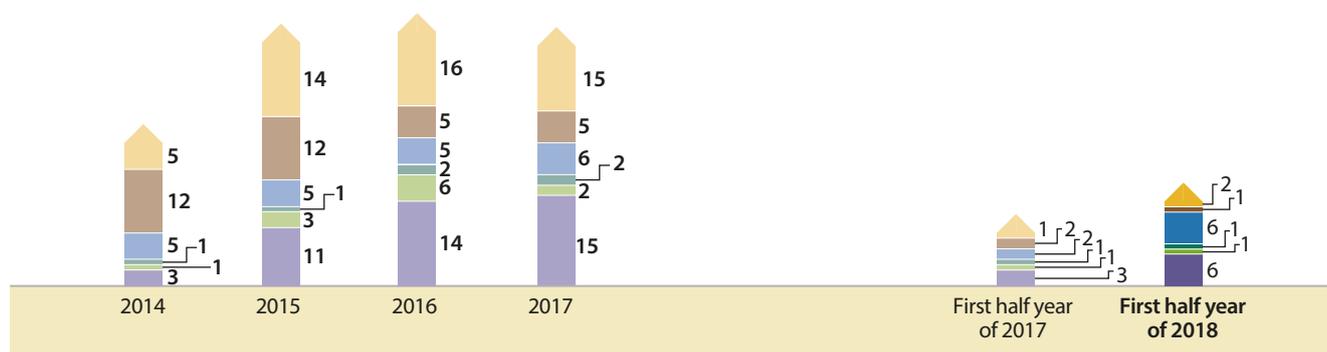
## Group Cash Flows

HK\$ million	CITIC Limited Half-year ended 30 June				Including: CITIC Bank Half-year ended 30 June			
	2018	2017 (Restated)	Increase/ (Decrease)	%	2018	2017	Increase/ (Decrease)	%
<b>Net cash generated from/(used in) operating activities</b>	<b>11,427</b>	(92,504)	103,931	112%	<b>15,231</b>	(98,969)	114,200	115%
<b>Net cash (used in)/generated from investing activities</b>	<b>(178,471)</b>	(71,203)	(107,268)	(151%)	<b>(163,387)</b>	(57,422)	(105,965)	(185%)
Including: Proceeds from disposal and redemption of financial investments	<b>437,580</b>	696,943	(259,363)	(37%)	<b>405,245</b>	674,494	(269,249)	(40%)
Payments for purchase financial investments	<b>(608,204)</b>	(763,279)	155,075	20%	<b>(566,719)</b>	(728,676)	161,957	22%
<b>Net cash generated from/(used in) financing activities</b>	<b>121,943</b>	84,024	37,919	45%	<b>111,753</b>	87,607	24,146	28%
Including: Proceeds from new bank and other loans and new debt instruments issued	<b>766,145</b>	508,138	258,007	51%	<b>696,961</b>	453,121	243,840	54%
Repayment of bank and other loans and debt instruments issued	<b>(620,776)</b>	(402,128)	(218,648)	(54%)	<b>(556,411)</b>	(356,608)	(199,803)	(56%)
Interest paid on bank and other loans and debt instruments issued	<b>(19,960)</b>	(14,167)	(5,793)	(41%)	<b>(14,165)</b>	(8,901)	(5,264)	(59%)
Dividends paid to ordinary shareholders of the Company	<b>–</b>	(6,691)	6,691	100%	<b>(14,453)</b>	–	(14,453)	N/A
Dividends/distribution paid to non-controlling interests/holders of perpetual capital securities	<b>(6,508)</b>	(1,232)	(5,276)	(428%)	<b>(179)</b>	(6)	(173)	(2,883%)
<b>Net decrease in cash and cash equivalents</b>	<b>(45,101)</b>	(79,683)	34,582	43%	<b>(36,403)</b>	(68,784)	32,381	47%
<b>Cash and cash equivalents at 1 January</b>	<b>491,363</b>	494,179	(2,816)	(0.6%)	<b>404,248</b>	430,801	(26,553)	(6%)
<b>Effect of exchange rate changes</b>	<b>(290)</b>	10,134	(10,424)	(103%)	<b>(355)</b>	8,753	(9,108)	(104%)
<b>Cash and cash equivalents at 30 June</b>	<b>445,972</b>	424,630	21,342	5%	<b>367,490</b>	370,770	(3,280)	(1%)

## Capital expenditure

◆ Financial services 
 ◆ Resources and energy 
 ◆ Manufacturing 
 ◆ Engineering contracting  
◆ Real estate 
 ◆ Others

HK\$ billion



HK\$ million	Half-year ended 30 June		Increase/(Decrease)	
	2018	2017	Amount	%
Financial services	1,734	1,027	707	69%
Resources and energy	835	2,419	(1,584)	(65%)
Manufacturing	6,479	1,798	4,681	260%
Engineering contracting	1,010	922	88	10%
Real estate	1,016	869	147	17%
Others	6,275	2,904	3,371	116%
Total	17,349	9,939	7,410	75%

## Capital commitments

As at 30 June 2018, the contracted capital commitments of the Group amounted to approximately HK\$17.0 billion, details of which are set out in Note 28(f) to the financial statements.

## Group Financial Position

<i>HK\$ million</i>	As at 30 June 2018	As at 31 December 2017	Increase/(Decrease) Amount	%	Note to the Financial Statements
<b>Total assets</b>	<b>7,628,950</b>	7,520,739	108,211	1%	
Loans and advances to customers and other parties	<b>3,904,130</b>	3,721,886	182,244	5%	18
Investments in financial assets	<b>1,804,469</b>	N/A	1,804,469	N/A	19
Cash and deposits	<b>822,519</b>	924,584	(102,065)	(11%)	15
Available-for-sale financial assets	<b>N/A</b>	807,912	(807,912)	N/A	
Investments classified as receivables	<b>N/A</b>	644,789	(644,789)	N/A	
Held-to-maturity investments	<b>N/A</b>	261,654	(261,654)	N/A	
Placements with banks and non-bank financial institutions	<b>244,419</b>	205,346	39,073	19%	
Fixed assets	<b>198,438</b>	196,047	2,391	1%	
<b>Total liabilities</b>	<b>6,814,272</b>	6,727,098	87,174	1%	
Deposits from customers	<b>4,226,730</b>	4,056,158	170,572	4%	24
Deposits from banks and non-bank financial institutions	<b>812,023</b>	954,638	(142,615)	(15%)	22
Debt instruments issued	<b>777,729</b>	653,371	124,358	19%	26
Borrowing from central banks	<b>315,621</b>	284,818	30,803	11%	
Trade and other payables	<b>249,753</b>	226,110	23,643	10%	23
Bank and other loans	<b>147,031</b>	142,442	4,589	3%	25
<b>Total ordinary shareholders' funds and perpetual capital securities</b>	<b>566,204</b>	550,951	15,253	3%	

### Total assets

Total assets increased from HK\$7,520,739 million as at 31 December 2017 to HK\$7,628,950 million as at 30 June 2018, which was mainly attributed to an increase in loans and advances to customers and other parties, placements with banks and non-bank financial institutions, trade and other receivables and financial assets held under resale agreements compared with 31 December 2017.

## By geography

◆ Mainland China ◆ Hong Kong, Macau and Taiwan ◆ Overseas



## Loans and advances to customers and other parties

As at 30 June 2018, the net loans and advances to customers and other parties of the Group was HK\$3,904.1 billion, an increase of HK\$182.2 billion, or 5% compared with 31 December 2017. The proportion of loans and advances to customers and other parties to total assets was 51.18%, an increase of 1.69% compared with 31 December 2017.

<i>HK\$ million</i>	As at 30 June 2018	As at 31 December 2017	Increase/(Decrease) Amount	%
<b>Loans and advances to customers and other parties at amortized cost</b>				
Corporate loans	2,249,219	2,231,671	17,548	1%
Discounted bills	173,225	130,190	43,035	33%
Personal loans	1,536,732	1,473,346	63,386	4%
<b>Total loans and advances to customers and other parties at amortized cost</b>	<b>3,959,176</b>	<b>3,835,207</b>	<b>123,969</b>	<b>3%</b>
Allowances for impairment losses	(113,353)	(113,321)	(32)	(0.03%)
<b>Carrying amount of loans and advances to customers and other parties at amortized cost</b>	<b>3,845,823</b>	<b>3,721,886</b>	<b>123,937</b>	<b>3%</b>
<b>Loans and advances to customers and other parties at FVOCI</b>				
Corporate loans	461	N/A	N/A	N/A
Discounted bills	57,846	N/A	N/A	N/A
<b>Carrying amount of loans and advances to customers and other parties at FVOCI</b>	<b>58,307</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>Net amount of loans and advances to customers and other parties</b>	<b>3,904,130</b>	<b>3,721,886</b>	<b>182,244</b>	<b>5%</b>

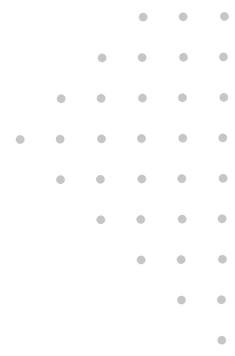
## Deposits from customers

As at 30 June 2018, total deposits from customers of the financial institutions under the Group was HK\$4,226.7 billion, an increase of HK\$170.6 billion, or 4% compared with 31 December 2017. The proportion of deposits from customers to total liabilities was 62.03%, an increase of 1.73% compared with 31 December 2017.

<i>HK\$ million</i>	<b>As at 30 June 2018</b>	As at 31 December 2017	Increase/(Decrease) Amount	%
<b>Corporate deposits</b>				
Time deposits	<b>1,626,325</b>	1,463,098	163,227	11%
Demand deposits	<b>1,807,798</b>	1,947,517	(139,719)	(7%)
<b>Subtotal</b>	<b>3,434,123</b>	3,410,615	23,508	0.7%
<b>Personal deposits</b>				
Time deposits	<b>461,976</b>	357,069	104,907	29%
Demand deposits	<b>317,377</b>	281,084	36,293	13%
<b>Subtotal</b>	<b>779,353</b>	638,153	141,200	22%
<b>Outward remittance and remittance payables</b>	<b>13,254</b>	7,390	5,864	79%
<b>Total</b>	<b>4,226,730</b>	4,056,158	170,572	4%

## Bank and other loans

<i>HK\$ million</i>	<b>As at 30 June 2018</b>	As at 31 December 2017	Increase/(Decrease) Amount	%
Financial services	<b>5,114</b>	7,176	(2,062)	(29%)
Resources and energy	<b>39,851</b>	43,900	(4,049)	(9%)
Manufacturing	<b>32,002</b>	28,130	3,872	14%
Engineering contracting	<b>2,353</b>	1,267	1,086	86%
Real estate	<b>7,936</b>	7,898	38	0.5%
Others	<b>33,138</b>	41,934	(8,796)	(21%)
Operation management	<b>52,312</b>	34,605	17,707	51%
Elimination	<b>(25,675)</b>	(22,468)	(3,207)	(14%)
<b>Total</b>	<b>147,031</b>	142,442	4,589	3%



## Debt instruments issued

<i>HK\$ million</i>	<b>As at 30 June 2018</b>	As at 31 December 2017	Increase/(Decrease) Amount	%
Financial services	<b>662,613</b>	529,238	133,375	25%
Resources and energy	–	598	(598)	(100%)
Manufacturing	<b>150</b>	2,632	(2,482)	(94%)
Engineering contracting	–	–	–	–
Real estate	–	–	–	–
Others	<b>3,862</b>	5,175	(1,313)	(25%)
Operation management	<b>111,104</b>	115,728	(4,624)	(4%)
Elimination	–	–	–	–
<b>Total</b>	<b>777,729</b>	653,371	124,358	19%

## Total ordinary shareholders' funds and perpetual capital securities

As at 30 June 2018, total ordinary shareholders' funds and perpetual capital securities of the Group was HK\$566.2 billion, an increase of HK\$15.2 billion compared with 31 December 2017, which was mainly attributed to net profits occurred in the first half of 2018 and other comprehensive income, such as fair value change of financial asset during the period.

# Risk Management

CITIC Limited has established a risk management and internal control system covering all business segments to identify, assess and manage various risks in the Group's business activities. The business, operating results, financial position and profitability of CITIC Limited may be subject to a number of risk factors and uncertainties, directly or indirectly, relating to the Group. The risk factors set out below are not exhaustive and CITIC Limited, in addition to these risk factors, may also be exposed to other unknown risks or risks that may not be material at present but may become material in future.

## Financial Risk

As a sub-committee of the Executive Committee, the Asset and Liability Management Committee ("ALCO") has been established to monitor financial risks of the Group in accordance with the relevant treasury and financial risk management policies.

### Asset and liability management

CITIC Limited's sources of funds for different businesses include long-term and short-term debt and equity, of which ordinary shares, preferred shares and perpetual securities are the alternative forms of equity financing instruments. CITIC Limited manages its capital structure to finance its overall operations and growth by using different sources of funds. The type of funding is targeted to match the characteristics of our underlying business.

#### 1. Debt

ALCO centrally manages and regularly monitors the existing and projected debt levels of CITIC Limited and its major non-financial subsidiaries to ensure that the Group's debt size, structure and cost are at reasonable levels.

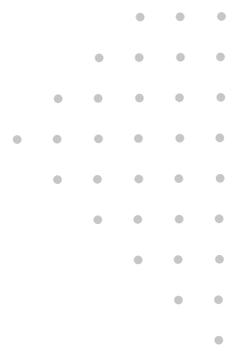
As at 30 June 2018, consolidated debt of CITIC Limited<sup>(1)</sup> was HK\$924,760 million, including loans of HK\$147,031 million and debt instruments issued<sup>(2)</sup> of HK\$777,729 million. Debt of the head office of CITIC Limited<sup>(3)</sup> accounted for HK\$90,761 million and debt of CITIC Bank<sup>(4)</sup> HK\$658,876 million. In addition, the head office of CITIC Limited had cash and deposits of HK\$10,168 million and available committed facilities from banks of HK\$16,826 million.

The details of debt are as follows:

<b>As at 30 June 2018</b>	<i>HK\$ million</i>
Consolidated debt of CITIC Limited	924,760
Among which: Debt of the head office of CITIC Limited	90,761
Debt of CITIC Bank	658,876

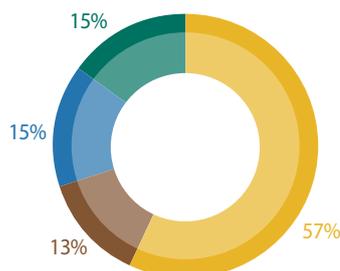
Note:

- (1) Consolidated debt of CITIC Limited is the sum of "bank and other loans" and "debt instruments issued" in the Consolidated Balance Sheet of CITIC Limited;
- (2) Debt instruments issued include corporate bonds, notes, subordinated bonds, certificates of deposit and certificates of interbank deposit issued;
- (3) Debt of the head office of CITIC Limited is the sum of "bank and other loans", "long-term borrowings" and "debt instruments issued" in the Balance Sheet of CITIC Limited;
- (4) Debt of CITIC Bank refers to CITIC Bank's consolidated debt securities issued, including long-term debt securities, subordinated bonds, certificates of deposit and certificates of interbank deposit issued.



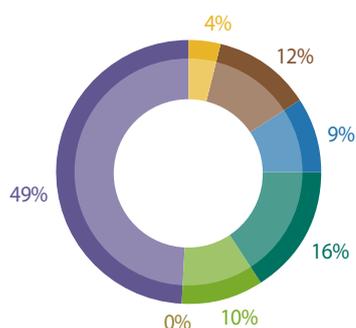
### Consolidated debt by maturity as at 30 June 2018

◆ Within one year or on demand   ◆ Between one and two years   ◆ Between two and five years   ◆ Over five years



### Consolidated debt by type as at 30 June 2018

◆ Loan within one year or on demand   ◆ Loan over one year   ◆ Corporate bonds issued   ◆ Notes issued  
 ◆ Subordinated bonds issued   ◆ Certificates of deposit issued   ◆ Certificates of interbank deposit issued



The debt to equity ratio of CITIC Limited as at 30 June 2018 is as follows:

<i>HK\$ million</i>	<b>Consolidated</b>	<b>Head office</b>
Debt	924,760	90,761
Total equity <sup>(5)</sup>	814,678	395,300
Debt to equity ratio	114%	23%

Note:

(5) Total consolidated equity is based on the "total equity" in the Consolidated Balance Sheet; Total equity of head office is based on the "total ordinary shareholders' funds and perpetual capital securities" in the Balance Sheet.



## 2. Liquidity risk management

The objective of liquidity risk management is to ensure that CITIC Limited always has sufficient cash to repay its maturing debt, perform other payment obligations and meet other funding requirements for normal business development.

CITIC Limited's liquidity management involves the regular cash flow forecast for the next three years and the consideration of its liquid assets level and new financings necessary to meet future cash flow requirements.

CITIC Limited centrally manages its own liquidity and that of its major non-financial subsidiaries and improves the efficiency of fund utilisation. With flexible access to domestic and overseas markets, CITIC Limited seeks to diversify sources of funding through different financing instruments, in order to raise low-cost funding of medium and long terms, maintain a mix of staggered maturities and minimise refinancing risk.

Details of liquidity risk management are set out in Note 29(b) to the consolidated financial statements.

## 3. Contingent liabilities and commitments

Details of contingent liabilities and commitments of CITIC Limited as at 30 June 2018 are set out in Note 28 to the consolidated financial statements.

## 4. Pledged loan

Details of cash and deposits, inventories, trade and other receivables, fixed assets, intangible assets and other assets pledged as security for CITIC Limited's loan as at 30 June 2018 are set out in Note 25(d) to the consolidated financial statements.

## 5. Credit ratings

	Standard & Poor's	Moody's
30 Jun 2018	BBB+/Stable	A3/Stable

## Treasury risk management

Treasury risk management essentially covers the following financial risks inherent in CITIC Limited's businesses:

- Interest rate risk
- Currency risk
- Counterparty risk for financial products
- Commodity risk
- Market price risk

CITIC Limited manages the above risks by using appropriate financial derivatives or other means, and priority will be given to simple, cost-efficient and effective hedge instruments which meet the HKFRS 9 in performing treasury risk management responsibilities. To the extent possible, gains and losses of the derivatives offset the losses and gains of the assets, liabilities or transactions being hedged.



CITIC Limited is committed to establishing a comprehensive and uniform treasury risk management system. Within the group-wide treasury risk management framework, member companies are required to, according to their respective business characteristics and regulatory requirements, implement suitable treasury risk management strategies and procedures and submit reports on a regular and ad hoc basis.

## 1. Interest rate risk

CITIC Limited regularly monitors current and projected interest rate changes, with each of the operating entities of the Group implementing its own interest rate risk management system covering identification, measurement, monitoring and control of market risks. Interest rate risk is managed by taking into account market conditions and controlled at a reasonable level.

For our financial subsidiaries, repricing risk and benchmark risk are the main sources of interest rate risk. Observing the principle of prudent risk appetite, they closely track changes in the macroeconomic situation and internal business structure, continue to optimise the maturity structure of deposits, make timely adjustments to the loan repricing lifecycle, and take the initiative to manage sensitive gaps in interest rates for the overall objective of achieving steady growth both in net interest income and economic value within a tolerable level of interest rate risk.

For our head office and non-financial subsidiaries, the interest rate risk arises primarily from debt. Borrowings at floating rates expose CITIC Limited to cash flow interest rate risk, while borrowings at fixed rates expose CITIC Limited to fair value interest rate risk. Based on its balance sheet and market conditions, CITIC Limited and its non-financial subsidiaries will conduct analysis and sensitivity testing on interest rate risk, adopt a flexible approach in choosing financing instruments at floating and fixed rates, or choose to employ, at the suitable time, the interest rate swaps and other derivative instruments approved for use by the ALCO to manage interest rate risk.

Details of interest risk management are set out in Note 29(c) to the consolidated financial statements.

## 2. Currency risk

CITIC Limited has major operations in mainland China, Hong Kong and Australia, with Renminbi (“RMB”), Hong Kong dollar (“HKD”) and United States dollar (“USD”) as functional currencies respectively. The Group’s member companies are exposed to currency risk from gaps between financial assets and liabilities, future commercial transactions and net investments in foreign operations that are denominated in a currency that is not the member company’s functional currency. The reporting currency of the consolidated financial statements of CITIC Limited is HKD. Translation exposures from the consolidation of subsidiaries, whose functional currency is not HKD, are not hedged by using derivative instruments as no cash exposures are involved.

CITIC Limited measures its currency risk mainly by currency gap analysis. Where it is appropriate, the Group seeks to lower its currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currency or using forward contracts and cross currency swaps, provided that hedging is only considered for firm commitments and highly probable forecast transactions.

Details of currency risk management are set out in Note 29(d) to the consolidated financial statements.



### 3. Counterparty risk for financial products

CITIC Limited has business with various financial institutions, including deposits, interbank lending, financial investment products and derivative financial instruments. To mitigate the risk of non-recovery of deposited funds or financial instrument gains, member companies of CITIC Limited approve and adjust the list of counterparties and credit limits of approved financial institutions through internal credit extension processes. A regular report is required.

### 4. Commodity risk

Some businesses of CITIC Limited involve the production, procurement, and trading of commodities, and they face exposure to price risks of commodities such as iron ore, crude oil, gas and coal.

To manage some of its raw material exposures such as supply shortages and price volatility, CITIC Limited has entered into long-term supply contracts for certain inputs or used plain vanilla futures or forward contracts for hedging. While CITIC Limited views that natural offsetting is being achieved to a certain extent across its different business sectors, it performs a continual risk management review to ensure commodity risks are well understood and controlled within its business strategies.

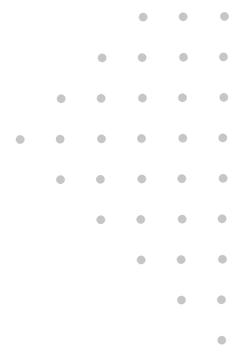
### 5. Market price risk

CITIC Limited holds investments in financial assets classified as Derivative financial instruments or Investments in financial assets in the consolidated balance sheet. To control price risks arising from such investments, the Group actively monitors the price changes and diversifies the relevant investment risks through appropriate asset allocation.

## Economic Environment

CITIC Limited operates diversified businesses globally in various countries and regions. As a result, its financial condition, operational results and business prospects are, to a significant degree, subject to the development of both international and domestic economies, as well as the political and legislative environment.

As China's economy is undergoing structural changes, the formation of new growth drivers involves further reforms in a variety of areas, including politics, economy, technology, culture and society. The global economy is still on the way of recovery, but the performances in main economic entities and regions are divergent, and challenges from trade friction and other aspects are increasing. The growth prospect is with uncertainty. If negative economic factors appear in countries and regions in which CITIC Limited operates, there might be an adverse impact on its operational results, financial condition and profitability.



## Operational Risk

The financial services segment of the Group covers various sectors, including banking, securities, trust, insurance and asset management. As information technology is widely applied in the modern financial services industry, the reliability of computer systems, computer networks and information management software is essential to both traditional financial and innovative businesses. Unreliable information technology systems or underdeveloped network technologies may result in inefficient trading systems, business interruption, or loss of important information, thus affecting the reputation and service quality of financial institutions and even incurring economic losses and legal disputes.

CITIC Limited carries out resources and energy, manufacturing, engineering contracting, real estate, and other businesses in countries and regions across the world, and these businesses might continue to encounter a diversity of operational difficulties. Certain difficulties, if beyond the control of CITIC Limited, might result in production delays or increases in production costs. These operational risks include delay of government payments, deterioration of tax policies, labour disputes, unforeseen technical failures, various disasters and emergencies, unexpected changes in mineral, geological or mining conditions, pollution and other environmental damage, as well as potential disputes with foreign partners, customers, subcontractors, suppliers or local residents or communities. Such risks would cause damage or loss to the relevant businesses of CITIC Limited, which in turn could adversely affect its operations, financial condition and profitability.

## Credit Risk

With the proliferation of new market entities, innovative business models, new products, businesses and counterparties, credit risks could increase in both width and complexity. In this unpredictable economic climate, with extensive business operations and counterparties, the Group pays close attention to market developments and credit risks arising from business partners. If the Group fails to investigate and prevent such risks, they may have an adverse impact on its operations, financial condition and profitability.

## Competitive Markets

CITIC Limited operates in highly competitive markets. Failure to compete in terms of product specifications, service quality, reliability or price may have an adverse impact on the Group.

- The financial services business faces fierce competition from domestic and international commercial banks and other financial institutions.
- The engineering contracting business is challenged by global peers as well as China's large state-owned enterprises and private companies.
- Resources and energy, manufacturing, real estate operations, and other businesses in different sectors also face severe competition over resources, technologies, prices and services.

Intensification of competition might result in lower product prices, narrower profit margins as well as loss of market share for CITIC Limited.



## Other External Risks and Uncertainties

### Impact of local, national and international laws and regulations

CITIC Limited faces local business risks in different countries and regions. Such risks might have a significant impact on the financial condition, operations and business prospects of CITIC Limited in the relevant markets. The investments of CITIC Limited in countries and regions across the world might at present or in future be affected by changes in local, national or international political, social, legal, tax, regulatory and environmental requirements from time to time. In addition, new government policies or measures, if introducing changes in fiscal, tax, regulatory, environmental or other aspects that may affect competitiveness, could result in an additional or unforeseen increase in operating expenses and capital expenditures, produce risks to the overall return on investment of CITIC Limited, and delay or impede its business operations and hence adversely affect revenue and profit.

### Impact of new accounting standards

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) issues new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) from time to time. As the accounting standards continue to evolve, HKICPA might further issue new and revised HKFRSs in the future. The new accounting policies, if required to be adopted by CITIC Limited, could have a significant impact on its financial condition and operations.

### Natural disasters or events, terrorism and diseases

The business of CITIC Limited could be affected by events such as earthquakes, typhoons, tropical cyclones, inclement weather, acts or threats of terrorism, or outbreaks of highly contagious diseases, which would directly or indirectly reduce the supply of essential goods or services or reduce economic activities on a local, regional or global scale. Any of these disasters might damage the businesses of CITIC Limited, which would have a material adverse impact on the financial condition and operations of CITIC Limited.



# Human Resources

## Equality

The labour contracts with our employees have been entered into and modified in strict compliance with relevant laws and regulations to safeguard the legal rights of our staff and to establish harmonious and stable employment relationships with them. In recruitment, we provide equal opportunities for all candidates in accordance with the principle of “Open Selection Based on Merit”. Child labour and forced labour are strictly forbidden, and no discrimination in relation to, amongst others, race, nationality, religion, physical disability and gender would be tolerated.

## Incentives

The remuneration management system of the Company and its subsidiaries which has been formulated in accordance with the guiding remuneration policies of local governments is designed to provide our employees with competitive and fair remuneration based on their individual performance and prevailing market condition, with reference to remuneration statistics provided by professional consultancy firm. We have been constantly improving our insurance coverage, benefit scheme, working hours and leave benefit system. Substantially all the employees have been covered by basic social insurance, and most of our subsidiaries are offering the staff supplement pension insurance and supplement medical insurance. We continued to optimise our performance appraisal and remuneration management mechanism. Under the principle of managing based on different classification, we conducted differential performance appraisal with a focus on the value and shareholder return created by the subsidiaries, the results of which would be closely linked to remuneration incentives.

## Training

In line with our people-oriented philosophy and with the advantage of being a consolidated group and synergy effects, we arrange for staff postings and exchanges between our headquarters and subsidiaries, among subsidiaries, and between CITIC and relevant provincial and municipal governments. This has broadened the training of our staff and given them greater exposure to our diverse operations. To implement our Talent Strategy during the 13th FYP period, we formed five talent teams.

## Caring

The quality of life of our employees is one of our most significant concerns. In order to improve employees' sense of achievement and enhance their cohesion, we have taken various measures including providing public recognition, giving publicity, organizing cultural and sports activities, conducting visit at special time points and offering regular help and caring.



## Past Performance and Forward-looking Statements

Performance and results of the operations of CITIC Limited for previous years described within this Half-Year Report are historical in nature. Past performance is no guarantee of the future results of CITIC Limited. This Half-Year Report may contain forward-looking statements and opinions, and therefore risks and uncertainties are involved. Actual results may differ materially from expectations discussed in such forward-looking statements and opinions. None of CITIC Limited, the Directors, employees or agents assumes (a) any obligation to correct or update any forward-looking statements or opinions contained in this Half-Year Report; and (b) any liability arising from any forward-looking statements or opinions that do not materialise or prove to be incorrect.

# Consolidated Income Statement



For the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June	
		2018 HK\$ million	2017 HK\$ million (Restated)
Interest income		139,019	125,331
Interest expenses		(76,806)	(68,574)
<b>Net interest income</b>	5(a)	<b>62,213</b>	56,757
Fee and commission income		32,300	30,278
Fee and commission expenses		(2,986)	(2,240)
<b>Net fee and commission income</b>	5(b)	<b>29,314</b>	28,038
Sales of goods and services	5(c)	155,244	110,045
Other revenue	5(d)	11,552	5,150
		<b>166,796</b>	115,195
<b>Total revenue</b>		<b>258,323</b>	199,990
Cost of sales and services	6	(126,526)	(97,013)
Other net income	7	3,067	8,639
Impairment losses		(249)	(27,885)
Expected credit losses		(31,696)	N/A
Other operating expenses	9	(46,859)	(33,081)
Net valuation gain on investment properties		543	400
Share of profits of associates, net of tax		4,030	3,506
Share of profits of joint ventures, net of tax		1,312	3,899
<b>Profit before net finance charges and taxation</b>		<b>61,945</b>	58,455
Finance income		805	651
Finance costs		(6,153)	(5,365)
<b>Net finance charges</b>	8	<b>(5,348)</b>	(4,714)
<b>Profit before taxation</b>	9	<b>56,597</b>	53,741
Income tax	10	(11,797)	(10,755)
<b>Profit for the period</b>		<b>44,800</b>	42,986



# Consolidated Income Statement

For the six months ended 30 June 2018

		Unaudited Six months ended 30 June	
	Note	2018 HK\$ million	2017 HK\$ million (Restated)
<b>Profit for the period</b>		<b>44,800</b>	42,986
<b>Attributable to:</b>			
– Ordinary shareholders of the Company		<b>30,668</b>	32,234
– Holders of perpetual capital securities		<b>336</b>	336
– Non-controlling interests		<b>13,796</b>	10,416
<b>Profit for the period</b>		<b>44,800</b>	42,986
<b>Basic and diluted earnings per share for profit attributable to ordinary shareholders of the Company during the period (HK\$):</b>	12	<b>1.05</b>	1.11

The notes on pages 41 to 135 form part of these condensed unaudited consolidated interim accounts.

# Consolidated Statement of Comprehensive Income



For the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June	
		2018 HK\$ million	2017 HK\$ million (Restated)
<b>Profit for the period</b>		<b>44,800</b>	42,986
<b>Other comprehensive (loss)/income for the period (after tax and reclassification adjustments)</b>	13		
Items that have been reclassified or may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets: net movement in the fair value reserve		N/A	(3,901)
Fair value changes on financial assets at fair value through other comprehensive income		4,365	N/A
Loss allowance on financial assets at fair value through other comprehensive income		142	N/A
Cash flow hedge: net movement in the hedging reserve		239	433
Share of other comprehensive (loss)/income of associates and joint ventures		(374)	730
Exchange differences on translation of financial statements and others		(7,383)	19,682
Items that have not been reclassified or may not be reclassified subsequently to profit or loss:			
Reclassification of owner-occupied property as investment property: revaluation gain		–	19
Fair value changes on investments in equity instruments designated at fair value through other comprehensive income		(730)	N/A
<b>Other comprehensive (loss)/income for the period, net of tax</b>		<b>(3,741)</b>	16,963
<b>Total comprehensive income for the period</b>		<b>41,059</b>	59,949
<b>Attributable to:</b>			
– Ordinary shareholders of the Company		27,726	44,814
– Holders of perpetual capital securities		336	336
– Non-controlling interests		12,997	14,799
<b>Total comprehensive income for the period</b>		<b>41,059</b>	59,949

The notes on pages 41 to 135 form part of these condensed unaudited consolidated interim accounts.



# Consolidated Balance Sheet

As at 30 June 2018

	Note	30 June 2018 HK\$ million (Unaudited)	31 December 2017 HK\$ million (Audited)
<b>Assets</b>			
Cash and deposits	15	822,519	924,584
Placements with banks and non-bank financial institutions		244,419	205,346
Financial assets at fair value through profit or loss		N/A	91,350
Derivative financial instruments	16	46,016	79,339
Trade and other receivables	17	171,278	149,204
Amounts due from customers for contract work		N/A	1,820
Contract assets		3,436	N/A
Inventories		60,956	58,552
Financial assets held under resale agreements		80,986	65,349
Loans and advances to customers and other parties	18	3,904,130	3,721,886
Investments in financial assets	19		
– Financial assets at fair value through profit and loss		405,874	N/A
– Financial assets at fair value through other comprehensive income		588,631	N/A
– Financial assets at amortised cost		809,964	N/A
Available-for-sale financial assets		N/A	807,912
Held-to-maturity investments		N/A	261,654
Investments classified as receivables		N/A	644,789
Interests in associates	20	100,735	98,644
Interests in joint ventures	21	40,144	37,418
Fixed assets		198,438	196,047
Investment properties		33,068	33,073
Intangible assets		13,444	23,721
Goodwill		23,705	23,989
Deferred tax assets		46,442	48,585
Other assets		34,765	47,477
<b>Total assets</b>		<b>7,628,950</b>	<b>7,520,739</b>

# Consolidated Balance Sheet

As at 30 June 2018



	Note	30 June 2018 HK\$ million (Unaudited)	31 December 2017 HK\$ million (Audited)
<b>Liabilities</b>			
Borrowing from central banks		315,621	284,818
Deposits from banks and non-bank financial institutions	22	812,023	954,638
Placements from banks and non-bank financial institutions		80,095	90,131
Financial liabilities at fair value through profit and loss		2,334	–
Derivative financial instruments	16	45,205	80,075
Trade and other payables	23	249,753	226,110
Amounts due to customers for contract work		N/A	3,334
Contract liabilities		5,159	N/A
Financial assets sold under repurchase agreements		83,393	160,902
Deposits from customers	24	4,226,730	4,056,158
Employee benefits payables		17,751	20,429
Income tax payable		8,862	13,446
Bank and other loans	25	147,031	142,442
Debt instruments issued	26	777,729	653,371
Provisions		11,356	5,474
Deferred tax liabilities		9,075	9,438
Other liabilities		22,155	26,332
<b>Total liabilities</b>		<b>6,814,272</b>	<b>6,727,098</b>
<b>Equity</b>			
Share capital	27	381,710	381,710
Perpetual capital securities		7,873	7,873
Reserves		176,621	161,368
<b>Total ordinary shareholders' funds and perpetual capital securities</b>		<b>566,204</b>	<b>550,951</b>
Non-controlling interests		248,474	242,690
<b>Total equity</b>		<b>814,678</b>	<b>793,641</b>
<b>Total liabilities and equity</b>		<b>7,628,950</b>	<b>7,520,739</b>

Approved and authorised for issue by the board of directors on 29 August 2018.

Director: Chang Zhenming

Director: Wang Jiong

The notes on pages 41 to 135 form part of these condensed unaudited consolidated interim accounts.



# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

Note	Perpetual		Capital reserve	Investment		General reserve	Retained earnings	Exchange reserve	Total	Non- controlling interests	Total equity
	Share capital HK\$ million	capital securities HK\$ million		Hedging reserve HK\$ million	related reserves HK\$ million						
<b>Six months ended 30 June 2018 (unaudited)</b>											
Balance at 31 December 2017	381,710	7,873	(62,523)	1,917	(7,603)	45,088	191,554	(7,065)	550,951	242,690	793,641
Changes in accounting policies	2(c)	-	-	-	3,220	14	(8,495)	-	(5,261)	(2,708)	(7,969)
<b>Balance at 1 January 2018</b>	<b>381,710</b>	<b>7,873</b>	<b>(62,523)</b>	<b>1,917</b>	<b>(4,383)</b>	<b>45,102</b>	<b>183,059</b>	<b>(7,065)</b>	<b>545,690</b>	<b>239,982</b>	<b>785,672</b>
Profit for the period	9	336	-	-	-	-	30,668	-	31,004	13,796	44,800
Other comprehensive income/(loss) for the period	13	-	-	358	1,989	-	-	(5,289)	(2,942)	(799)	(3,741)
<b>Total comprehensive income/(loss) for the period</b>		<b>336</b>	<b>-</b>	<b>358</b>	<b>1,989</b>	<b>-</b>	<b>30,668</b>	<b>(5,289)</b>	<b>28,062</b>	<b>12,997</b>	<b>41,059</b>
Capital injection by non-controlling interests		-	-	-	-	-	-	-	-	202	202
Dividend distribution to ordinary shareholders of the Company	11	-	-	-	-	-	(7,273)	-	(7,273)	-	(7,273)
Dividend distribution to non-controlling interests		-	-	-	-	-	-	-	-	(6,549)	(6,549)
Distribution to holders of perpetual capital securities		(336)	-	-	-	-	-	-	(336)	-	(336)
Disposal of subsidiaries	33	-	-	-	-	-	-	-	-	(816)	(816)
Transactions with non-controlling interests		-	157	-	-	-	-	-	157	2,683	2,840
Others		-	(96)	-	-	-	-	-	(96)	(25)	(121)
<b>Other changes in equity</b>		<b>(336)</b>	<b>61</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,273)</b>	<b>-</b>	<b>(7,548)</b>	<b>(4,505)</b>	<b>(12,053)</b>
<b>Balance at 30 June 2018</b>		<b>381,710</b>	<b>7,873</b>	<b>(62,462)</b>	<b>2,275</b>	<b>(2,394)</b>	<b>45,102</b>	<b>206,454</b>	<b>(12,354)</b>	<b>566,204</b>	<b>248,474</b>

# Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017



	Note	Share capital HK\$ million	Perpetual capital securities HK\$ million	Capital reserve HK\$ million	Hedging reserve HK\$ million	Investment related reserves HK\$ million	General reserve HK\$ million	Retained earnings HK\$ million	Exchange reserve HK\$ million	Total HK\$ million	Non-controlling interests HK\$ million	Total equity HK\$ million
<b>Six months ended 30 June 2017</b>												
<b>(unaudited)</b>												
Balance at 1 January 2017 (Previously reported)		381,710	7,873	(62,209)	1,203	(2,445)	44,497	158,040	(38,036)	490,633	205,218	695,851
Business combination under common control	2(a)	-	-	299	-	-	-	94	(24)	369	453	822
<b>Balance at 1 January 2017 (Restated)</b>		<b>381,710</b>	<b>7,873</b>	<b>(61,910)</b>	<b>1,203</b>	<b>(2,445)</b>	<b>44,497</b>	<b>158,134</b>	<b>(38,060)</b>	<b>491,002</b>	<b>205,671</b>	<b>696,673</b>
Profit for the period	9	-	336	-	-	-	-	32,234	-	32,570	10,416	42,986
Other comprehensive profit/(loss) for the period	13	-	-	-	234	(1,412)	-	-	13,758	12,580	4,383	16,963
<b>Total comprehensive income/(loss) for the period</b>		<b>-</b>	<b>336</b>	<b>-</b>	<b>234</b>	<b>(1,412)</b>	<b>-</b>	<b>32,234</b>	<b>13,758</b>	<b>45,150</b>	<b>14,799</b>	<b>59,949</b>
Capital injection by non-controlling interests		-	-	-	-	-	-	-	-	-	104	104
Dividend distribution to ordinary shareholders of the Company	11	-	-	-	-	-	-	(6,691)	-	(6,691)	-	(6,691)
Dividend distribution to non-controlling interests		-	-	-	-	-	-	-	-	-	(6,434)	(6,434)
Distribution to holders of perpetual capital securities		-	(336)	-	-	-	-	-	-	(336)	-	(336)
New subsidiaries	2(a)	-	-	5,303	-	-	-	(5,159)	-	144	(2)	142
Disposal of subsidiaries	33	-	-	-	-	-	-	-	-	-	(5)	(5)
Others		-	-	(310)	-	-	-	-	-	(310)	(74)	(384)
<b>Other changes in equity</b>		<b>-</b>	<b>(336)</b>	<b>4,993</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,850)</b>	<b>-</b>	<b>(7,193)</b>	<b>(6,411)</b>	<b>(13,604)</b>
<b>Balance at 30 June 2017</b>		<b>381,710</b>	<b>7,873</b>	<b>(56,917)</b>	<b>1,437</b>	<b>(3,857)</b>	<b>44,497</b>	<b>178,518</b>	<b>(24,302)</b>	<b>528,959</b>	<b>214,059</b>	<b>743,018</b>

The notes on pages 41 to 135 form part of these condensed unaudited consolidated interim accounts.



# Consolidated Cash Flow Statement

For the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June	
		2018 HK\$ million	2017 HK\$ million (Restated)
<b>Cash flows from operating activities</b>			
Profit before taxation		56,597	53,741
Adjustments for:			
– Depreciation and amortisation	9(b)	7,457	6,274
– Expected credit losses		31,696	N/A
– Impairment losses		249	27,885
– Net valuation gain on investment properties		(543)	(400)
– Net valuation loss/(gain) on investments		6,291	(1,688)
– Share of profits of associates and joint ventures, net of tax		(5,342)	(7,405)
– Interest expenses on debt instruments issued	5(a)	13,973	10,013
– Finance income	8	(805)	(651)
– Finance costs	8	6,153	5,365
– Net gain on available-for-sale financial assets		N/A	(1,884)
– Net gain on investments in financial assets		(1,937)	N/A
– Net gain on disposal of subsidiaries, associates and joint ventures		(1,699)	(6,411)
		112,090	84,839
<b>Changes in working capital</b>			
Decrease in deposits with central banks, banks and non-bank financial institutions		57,033	25,791
Decrease in placements with banks and non-bank financial institutions		595	82,397
Decrease in financial assets at fair value through profit or loss		N/A	16,319
Increase in trade and other receivables		(29,085)	(19,837)
Decrease in amounts due from customers for contract work		N/A	129
Decrease in contract assets		90	N/A
Increase in inventories		(1,712)	(8,215)
(Increase)/decrease in financial assets held under resale agreements		(16,846)	167,330
Increase in loans and advances to customers and other parties		(255,015)	(266,282)
Decrease in investments classified as receivables		N/A	217,523
Decrease in investments in financial assets		128,447	N/A
Decrease in other assets		7,587	2,089
Decrease in deposits from banks and non-bank financial institutions		(139,112)	(116,631)
Decrease in placements from banks and non-bank financial institutions		(8,924)	(17,469)
Increase in financial liabilities at fair value through profit or loss		2,348	–

# Consolidated Cash Flow Statement

For the six months ended 30 June 2018



	Note	Unaudited Six months ended 30 June	
		2018 HK\$ million	2017 HK\$ million (Restated)
<b>Cash flows from operating activities (Continued)</b>			
<b>Changes in working capital (Continued)</b>			
Increase/(decrease) in trade and other payables		16,006	(6,430)
Decrease in amounts due to customers for contract work		N/A	(1,009)
Increase in contract liabilities		451	N/A
Decrease in financial assets sold under repurchase agreements		(78,852)	(60,430)
Increase/(decrease) in deposits from customers		209,451	(200,567)
Increase in borrowing from central bank		34,415	11,055
(Decrease)/increase in other liabilities		(11,152)	11,785
Decrease in employee benefits payables		(2,678)	(2,658)
Increase in provisions		911	399
<b>Cash generated from/(used in) operating activities</b>		<b>26,048</b>	<b>(79,872)</b>
Income tax paid		(14,621)	(12,632)
<b>Net cash generated from/(used in) operating activities</b>		<b>11,427</b>	<b>(92,504)</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal and redemption of financial investments		437,580	696,943
Proceeds from disposal of fixed assets, intangible assets and other assets		1,008	411
Proceeds from disposal of associates and joint ventures		1,667	287
Net cash received from disposal of subsidiaries	33	1,809	58
Dividends received from equity investments, associates and joint ventures		2,327	1,971
Payments for purchase of financial investments		(608,204)	(763,279)
Payments for purchase of fixed assets, intangible assets and other assets		(7,466)	(5,076)
Net cash payment for acquisition of subsidiaries, associates and joint ventures		(7,192)	(2,518)
<b>Net cash used in investing activities</b>		<b>(178,471)</b>	<b>(71,203)</b>



# Consolidated Cash Flow Statement

For the six months ended 30 June 2018

	Note	Unaudited Six months ended 30 June	
		2018 HK\$ million	2017 HK\$ million (Restated)
<b>Cash flows from financing activities</b>			
Capital injection received from non-controlling interests		202	104
Transactions with non-controlling interests		2,840	–
Proceeds from borrowings		57,594	41,463
Repayment of borrowings and debt instruments issued		(620,776)	(402,128)
Proceeds from issuance of debt instruments		708,551	466,675
Interest paid on borrowings and debt instruments issued		(19,960)	(14,167)
Dividends paid to non-controlling interests		(6,172)	(896)
Dividends paid to ordinary shareholders of the Company		–	(6,691)
Distribution paid to holders of perpetual capital securities		(336)	(336)
<b>Net cash generated from financing activities</b>		<b>121,943</b>	<b>84,024</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(45,101)</b>	<b>(79,683)</b>
Cash and cash equivalents at 1 January		491,363	494,179
Effect of exchange rate changes		(290)	10,134
<b>Cash and cash equivalents at 30 June</b>		<b>445,972</b>	<b>424,630</b>

The notes on pages 41 to 135 form part of these condensed unaudited consolidated interim accounts.

# Notes to the Consolidated Financial Statements



For the six months ended 30 June 2018

## 1 General information

CITIC Limited (the “Company”) was incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

The parent and the ultimate holding company of the Company is CITIC Group Corporation (“CITIC Group”).

These condensed unaudited consolidated interim accounts (the “Accounts”) are presented in millions of Hong Kong dollars (“HK\$”), unless otherwise stated.

The financial information relating to the year ended 31 December 2017 that is included in the Accounts as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is abstracted from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

## 2 Basis of preparation and changes in significant accounting policies

### (a) Basis of preparation

The Accounts have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Accounts should be read in conjunction with the Company’s annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (a) Basis of preparation (continued)

On 19 September and 24 October 2017, the Group acquired control of Star Thrive Investment Limited (“Star Thrive”) and Qingdao Special Iron and Steel Co., Ltd. (“Qingdao Special Steel”) respectively through business combination under common control. Qingdao Special Steel was acquired by CITIC Group from Qingdao Steel Holding Group Co., Ltd. on 15 May 2017. The financial statements of Star Thrive and Qingdao Special Steel are included in the Group’s comparative interim accounts as at 30 June 2017 and for the six-month period then ended as if the combination had occurred from the date when the ultimate controlling party first obtained control. The comparative interim accounts were prepared and restated using the carrying amount of the assets and liabilities of Star Thrive and Qingdao Special Steel respectively.

The accounting policies adopted in the preparation of the Accounts are consistent with those adopted in the Company’s annual financial statements for the year ended 31 December 2017, except for the adoption of the following new standards and amendments:

HKFRS 9	Financial Instruments <sup>(1)</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>(1)</sup>
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions <sup>(2)</sup>
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instrument with HKFRS 4 Insurance Contracts <sup>(2)</sup>
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards <sup>(2)</sup>
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures <sup>(2)</sup>
HKAS 40 (Amendments)	Transfers of Investment Property <sup>(2)</sup>
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration <sup>(2)</sup>

(1) The impact of the adoption of the new standards are disclosed in Note 2(c).

(2) Adoption of the amendments and interpretation does not have a significant impact on the Accounts.



## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (a) Basis of preparation (continued)

The Group has not applied the following amendments to standards and new standards which are not yet effective for the financial year beginning on or after 1 January 2018 and which have not been early adopted in the Accounts:

HKFRS 16	Leases <sup>(1)</sup>
HK (IFRIC) 23	Uncertainty Over Income Tax Treatments <sup>(1)</sup>
HKAS 28 and HKFRS 10 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture <sup>(2)</sup>

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

(2) Originally effective for annual periods beginning on or after 1 January 2016. The effective date has not been determined.

None of the above amendments to standards and new standards are expected to have a significant effect on the consolidated financial statements of the Group, except as set out below:

HKFRS 16 will affect primarily the accounting for the Group's operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments amounted to HK\$27,861 million (Note 28(g)).

### (b) Changes in significant accounting policies and accounting estimates

#### HKFRS 9 Financial Instruments

The Group has adopted HKFRS 9 Financial Instruments ("HKFRS 9") replacing HKAS 39 Financial Instruments: Recognition and measurement ("HKAS 39") with a date of initial application as 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the Accounts. The Group did not early adopt HKFRS 9 in previous periods.

As permitted by the transition provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application were recognised in the opening balance of equity of the current period.

The adoption of HKFRS 9 has resulted in changes in the Group's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Set out below are specific HKFRS 9 accounting policies applied in the current period. The impact of the adoption of HKFRS 9 on the Group are described in Note 2(c).



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **Financial Instruments**

Financial instruments refer to a contract that forms one party's financial asset and another party's liabilities or equities. Financial assets and financial liabilities are recognised when the Group becomes a party of the financial instrument contracts.

#### (i) **Financial assets**

##### (1) Classification and Measurement

The Group classifies its financial assets into the following categories based on their business model and the contractual cash flow characteristics:

- Financial assets at amortised cost;
- Financial assets at fair value through other comprehensive income ("FVOCI");
- Financial assets at fair value through profit or loss ("FVPL").

At initial recognition, the Group measures a financial asset at its fair value. For financial assets that are at FVPL, the transaction costs are expensed in profit or loss; for financial assets with other categories, the transaction costs are recognised in the initial carrying amounts. For trade and other receivables arising from rendering goods or services with no significant financing component, the Group measures their initial carrying amount as the cash flows that the Group is entitled and expected to receive.

#### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, and are measured at the following three categories:



## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **Financial Instruments** (continued)

##### (i) **Financial assets** (continued)

###### (1) **Classification and Measurement** (continued)

###### *Debt instruments* (continued)

###### – Amortised cost:

The business model the Group manages these financial assets is to collect the contractual cash flows where those cash flows' characteristics are consistent with those of the basic loans arrangement, i.e, the contractual cash flows of these financial assets at certain date represent solely payments of principal and interest based on the principal amount ("SPPI"). Interest income from these financial assets is recognised using the effective interest rate method.

###### – FVOCI:

The business model the Group manages these financial assets is to collect contractual cash flows and to sell the assets, and those cash flows' characteristics are consistent with those of the basic loans arrangements. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, foreign exchange gains and losses and interest income on the instrument's amortised cost which are recognised in profit or loss.

###### – FVPL:

Assets that do not meet the criteria for amortised cost or FVOCI are at FVPL. The Group may also irrevocably designate financial assets as at FVPL at initial recognition to eliminate or significantly reduce an accounting mismatch.

###### *Equity instruments*

The Group subsequently measures all equity investments at FVPL, except where the Group has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is made, fair value gains and losses are recognised in other comprehensive income ("OCI") and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, are recognised in profit or loss when the Group's right to receive payments is established.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **Financial Instruments** (continued)

##### (i) **Financial assets** (continued)

##### (2) **Impairment**

The Group assesses on a forward-looking basis the expected credit losses (“ECL”) associated with its financial assets at amortised cost, debt instruments assets carried at FVOCI, contract assets and financial guarantee contracts.

When calculating the probability-weighted present value of the difference between the contractual and forecasted cash flows to be received, the Group takes reasonable and supportable information such as the past events, current conditions and forecasts of future economic conditions into consideration and uses probabilities of default as the weightings. The difference is recognised as the ECL.

At each balance sheet date, the Group calculates the ECL of financial instruments in different stages. Stage 1 refers to financial instruments that have not had a significant increase in credit risk since initial recognition; Stage 2 refers to financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment; Stage 3 refers to financial assets for which there are objective evidence of impairment at the reporting date since initial recognition. For these assets at Stage 1, 12-month ECL are recognised and for assets at stage 2 and 3, life-time ECL are recognised.

For financial assets in stage 1 and stage 2, interest income is calculated based on the gross carrying amount of the asset, that is, without deduction for credit allowance, and the effective interest rates. For financial assets in stage 3, interest income is calculated on the net carry amount, that is, net of credit allowances, and the effective interest rates.

The Group recognises the provision and reversal of ECL in profit or loss. For debt instrument at FVOCI, the Group makes relevant adjustments to other comprehensive income at the same time as recognising ECL in profit and loss.

For trade and other receivables and contract assets, whether there is significant financial component or not, the Group recognises life-time ECL.



## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **Financial Instruments** (continued)

##### (i) **Financial assets** (continued)

##### (3) Derecognition

The Group derecognises a financial asset if the portion being considered for derecognition meets one of the following conditions:

- The contractual rights to receive the cash flows from the financial asset expire;
- The financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of such financial asset;
- The financial asset has been transferred, the Group has not retained any control over the financial asset, even if the Group neither transfers nor retains substantially all the risks and rewards of ownerships of the financial asset.

For the Group's equity instruments not held for trading purposes and those designated at FVOCI, when they are derecognised, the difference between the carrying amount and the consideration is recognised in retained earnings, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to the retained earnings; for other financial assets measured at FVOCI, the difference between the carrying amount and the consideration is recognised in profit and loss, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to profit and loss.

##### (ii) **Financial liabilities**

The financial liabilities are classified into those measured at amortised cost and those at fair value through profit and loss at initial recognition.

The Group's major financial liabilities are those measured at amortised cost which are measured initially at fair value less transaction costs and are measured subsequently using the effective interest method.

Financial liabilities or a portion thereof, are derecognised when their current obligation are fully or partially expired. The difference between the carrying amount of the derecognised portion and the consideration is recognised in profit or loss.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **HKFRS 15 Revenue from Contracts with Customers**

The Group has adopted HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") replacing HKAS 18 Revenue ("HKAS 18") and HKAS 11 Construction Contracts ("HKAS 11") with a date of initial application as 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the Accounts. The Group did not early adopt HKFRS 15 in previous periods.

As permitted by the transition provisions of HKFRS 15, the Group elected not to restate comparative figures. The impact at the date of initial application were recognised in the opening balance of equity of the current period.

Set out below are specific HKFRS 15 accounting policies applied in the current period. The impact of the adoption of HKFRS 15 on the Group are described in Note 2(c).

#### **Revenue**

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good to a customer, which is when the customer obtains control of a good, has the ability to direct the use of, and obtain substantially all of the remaining benefits from that good. If the control of the goods and services is transferred over a period of time, the Group recognises revenue by reference to the extent of progress toward completion in fulfilling its performance obligations during the entire contract period.

For the amounts of revenue recognised for goods transferred and services provided, the Group recognises any unconditional rights to consideration separately as a receivable and the rest as a contract asset, and recognises provisions for loss allowance of the receivable and the contract asset based on ECL; if the consideration received or receivable exceeds the obligation performed by the Group, a contract liability is recognised. The Group presents a net contract asset or a net contract liability under each contract.



## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **Revenue** (continued)

Contract costs include costs to fulfill a contract and of obtaining a contract. The cost incurred for providing services by the Group is recognised as the costs to fulfill a contract, and is amortised based on the progress towards completion of the service provided when recognising revenue. The incremental cost incurred by the Group of obtaining a contract is recognised as the costs of obtaining a contract. For costs of obtaining a contract that will be amortised within one year, the Group recognises it in profit and loss. For the costs of obtaining a contract that will be amortised for more than one year period, it is amortised in profit and loss based on same progress towards completion as recognising revenue. The Group recognises the excess of the carrying amounts of contract costs over the expected remaining consideration less any costs not yet recognised as an impairment loss. As at the balance sheet date, the Group presents the costs to fulfill and of obtaining a contract, in the net amount after deducting relevant asset impairment provisions, as other assets.

The Group recognises revenue for each of its activities in the income statement in accordance with below policies:

#### (i) **Interest Income**

Interest income is recognised according to HKFRS 9, refer to note 2(b) financial instruments for details.

#### (ii) **Fee and commission income**

Fee and commission income is recognised when the corresponding service is provided.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (b) Changes in significant accounting policies and accounting estimates (continued)

#### **Revenue** (continued)

##### **(iii) Sales of goods**

Revenue from the sale of goods is recognised when the goods are transferred to and accepted by a customer.

When volume discounts are provided to customers, the Group, based on historical experiences, estimates the volume discounts using the expected value method, and recognises revenue net of the estimated volume discounts.

When the customer has a right to return the product within a given period, the Group recognises a provision for returns using the expected value method based on historical experience, and reduce the revenue by the expected value of the returns. The Group recognises a refund liability for the expected refunds to customers; meanwhile, a return receivable is to be recognised according to the carry amount of the goods expected to be returned, deducting the expected cost for taking the related goods back.

The Group offers warranties for specific products. If the duration and terms of the warranties are offered in accordance with the requirements of laws and regulations and the Group does not provide any additional services or warranties, such warranties are not recognised as separate performance obligation.

##### **(iv) Services rendered to customers**

Revenue for construction services of the Group is recognised over the period of the contract by reference to the progress towards completion. Progress towards completion is calculated based on actual costs incurred as to the end of each period as a proportion to the total forecasted costs of the contract. As at each balance sheet date, the Group reassesses the progress towards completion to reflect the changes in performance.

Revenue for other services provided by the Group is recognised based on the pattern of performance obligation of specific services, either over the period in which the services are rendered or at the point of service completion. For revenue recognised over the period by reference to the progress towards completion, progress towards completion is calculated based on actual costs incurred as to the end of each period as a proportion to the total forecasted costs of the contract. As at each balance sheet date, the Group reassesses the estimate of the progress towards completion to reflect the changes in performance.

# Notes to the Consolidated Financial Statements



For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (c) Impact of changes in significant accounting policies

#### (i) Impact of the Group's adoption of HKFRS 9 and HKFRS 15 on the consolidated balance sheet

	As at 31 December 2017 HK\$ million	Impact of first-time adoption of HKFRS 9 HK\$ million (Note 2(c) (ii)(iii))	Impact of first-time adoption of HKFRS 15 HK\$ million	As at 1 January 2018 HK\$ million
Cash and deposits	924,584	(72)	–	924,512
Placements with banks and non-bank financial institutions	205,346	(196)	–	205,150
Financial assets at FVPL	91,350	(91,350)	–	–
Derivative financial instruments	79,339	–	–	79,339
Trade and other receivables	149,204	(8,563)	(2,089)	138,552
Amounts due from customers for contract work	1,820	–	(1,820)	–
Contract assets	–	–	3,526	3,526
Financial assets held under resale agreements	65,349	(44)	–	65,305
Loans and advances to customers and other parties	3,721,886	(8,374)	–	3,713,512
Investments in financial assets				
– At FVPL	–	531,754	–	531,754
– At FVOCI	–	512,451	–	512,451
– At amortised cost	–	774,199	–	774,199
Available-for-sale financial assets	807,912	(807,912)	–	–
Held-to-maturity investments	261,654	(261,654)	–	–
Investments classified as receivables	644,789	(644,789)	–	–
Interests in associates	98,644	14	(497)	98,161
Deferred tax assets	48,585	555	5	49,145
Other assets	47,477	(188)	–	47,289
<b>Total assets</b>	<b>7,520,739</b>	<b>(4,169)</b>	<b>(875)</b>	<b>7,515,695</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (c) Impact of changes in significant accounting policies (continued)

#### (i) Impact of the Group's adoption of HKFRS 9 and HKFRS 15 on the consolidated balance sheet (continued)

	As at 31 December 2017 HK\$ million	Impact of first-time adoption of HKFRS 9 HK\$ million (Note 2(c) (ii)(iii))	Impact of first-time adoption of HKFRS 15 HK\$ million	As at 1 January 2018 HK\$ million
Trade and other payables	226,110	–	(1,825)	224,285
Amounts due to customers for contract work	3,334	–	(3,334)	–
Contract liabilities	–	–	4,708	4,708
Income tax payable	13,446	(1,752)	(8)	11,686
Provisions	5,474	4,971	–	10,445
Other liabilities	26,332	–	165	26,497
<b>Total liabilities</b>	<b>6,727,098</b>	<b>3,219</b>	<b>(294)</b>	<b>6,730,023</b>
Reserves	161,368	(4,711)	(550)	156,107
Non-controlling interests	242,690	(2,677)	(31)	239,982
<b>Total equity</b>	<b>793,641</b>	<b>(7,388)</b>	<b>(581)</b>	<b>785,672</b>
<b>Total liabilities and equity</b>	<b>7,520,739</b>	<b>(4,169)</b>	<b>(875)</b>	<b>7,515,695</b>

Note:

Only items affected by the first-time adoption of HKFRS 9 and HKFRS 15 are disclosed above.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (c) Impact of changes in significant accounting policies (continued)

#### (ii) Reconciliation from HKAS 39 to HKFRS 9 for balance sheet items

The Group performed a detailed analysis of its business models for managing financial assets and of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with the HKAS 39 to their new measurement categories upon initial application of HKFRS 9 on 1 January 2018:

	As at 31 December 2017 HKAS 39 carrying amount HK\$ million	Reclassification HK\$ million	Remeasurement HK\$ million	As at 1 January 2018 HKFRS 9 carrying amount HK\$ million
Cash and deposits				
– At amortised cost	924,584	–	(72)	924,512
Placements with banks and non-bank financial institutions				
– At amortised cost	205,346	–	(196)	205,150
Derivative financial instruments				
– At FVPL	79,339	–	–	79,339
Financial assets held under resale agreements				
– At amortised cost	65,349	–	(44)	65,305
Trade and other receivables (note (a))				
– At amortised cost	149,204	(7,336)	(1,227)	140,641
Loans and advances to customers and other parties				
– At amortised cost	3,721,886	(7,068)	(8,368)	3,706,450
– At FVOCI	–	7,068	(6)	7,062
	3,721,886	–	(8,374)	3,713,512



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (c) Impact of changes in significant accounting policies (continued)

#### (ii) Reconciliation from HKAS 39 to HKFRS 9 for balance sheet items (continued)

	As at 31 December 2017 HKAS 39 carrying amount HK\$ million	Reclassification HK\$ million	Remeasurement HK\$ million	As at 1 January 2018 HKFRS 9 carrying amount HK\$ million
Financial assets at FVPL				
– At FVPL	75,560	(75,560)	–	–
– Designated as measured at FVPL	15,790	(15,790)	–	–
Available-for-sale financial assets				
– At FVOCI	807,912	(807,912)	–	–
Held-to-maturity investments				
– At amortised cost	261,654	(261,654)	–	–
Investments classified as receivables				
– At amortised cost	644,789	(644,789)	–	–
Investments in financial assets				
– At FVPL	–	524,283	7,471	531,754
– At FVOCI	–	507,884	(463)	507,421
– Designated as measured at FVOCI	–	5,363	(333)	5,030
– At amortised cost	–	768,175	6,024	774,199
	1,805,705	–	12,699	1,818,404

Note:

- (a) The amount for trade and other receivables as at 1 January 2018 is after the adjustments related to the adoption of HKFRS 9 but before those related to the adoption of HKFRS 15.



## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (c) Impact of changes in significant accounting policies (continued)

#### (iii) Reconciliation from HKAS 39 to HKFRS 9 for loss allowances

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

	As at 31 December 2017			As at 1 January 2018
	Loss allowances under HKAS 39 / Provision under HKAS 37 HK\$ million	Reclassification HK\$ million	Remeasurement HK\$ million	Loss allowances under HKFRS 9 HK\$ million
Cash and deposits	–	–	72	72
Placements with banks and non-bank financial institutions	1	–	196	197
Financial assets held under resale agreements	–	–	44	44
Trade and other receivables	9,699	–	1,227	10,926
Loans and advances to customers and other parties				
– At amortised cost	113,321	–	8,368	121,689
– At FVOCI (note (b))	–	–	8	8
Available-for-sale financial assets	1,653	(1,653)	–	–
Investments classified as receivables				
– At amortised cost	4,064	(4,064)	–	–
Investments in financial assets				
– At FVPL	–	900	(900)	–
– At FVOCI (note (b))	–	403	733	1,136
– Designated as measured at FVOCI	–	240	(240)	–
– At amortised cost	–	4,174	431	4,605
	128,738	–	9,939	138,677
Off-balance sheet credit assets	481	–	4,971	5,452
	129,219	–	14,910	144,129

Note:

- (b) The loss allowances for loans and advances to customers and other parties and investments in financial assets that are at FVOCI are recognised in other comprehensive income and do not affect the carrying amount of the assets in the balance sheet.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 2 Basis of preparation and changes in significant accounting policies

(continued)

### (c) Impact of changes in significant accounting policies (continued)

#### (iv) Reconciliation of equity due to first-time adoption of HKFRS 9 and HKFRS 15

The following table reconciles balance of equity as at 31 December 2017 to the amounts upon initial application of HKFRS 9 and HKFRS 15 on 1 January 2018:

	Retained earnings HK\$ million	Investment related reserves HK\$ million	General reserve HK\$ million	Non-controlling interests HK\$ million
As at 31 December 2017	191,554	(7,603)	45,088	242,690
Reclassification under HKFRS 9	(198)	198	-	-
Remeasurement under HKFRS 9	(7,956)	3,231	-	(2,677)
Impact on general reserve under HKFRS 9	(14)	-	14	-
Shares of the impact on associates and joint ventures adopting HKFRS 9	223	(209)	-	-
<b>Total impact of HKFRS 9</b>	<b>(7,945)</b>	<b>3,220</b>	<b>14</b>	<b>(2,677)</b>
Impact of changes in points/periods for revenue recognition	(17)	-	-	(1)
Impact of adjustment to the stage of completion for revenue recognition	(36)	-	-	(30)
Shares of the impact on associates and joint ventures adopting HKFRS 15	(497)	-	-	-
<b>Total impact of HKFRS 15</b>	<b>(550)</b>	<b>-</b>	<b>-</b>	<b>(31)</b>
As at 1 January 2018	183,059	(4,383)	45,102	239,982



## 3 Critical accounting estimates and judgment

In addition to those described below, the accounting estimates and judgements required to be made in preparation of the Accounts are consistent with those set out in the Company's annual financial statements for the year ended 31 December 2017.

### (a) Measurement of ECL

Measurement of ECL for financial assets at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 29(a).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 29(a).

### (b) Metallurgical Corporation of China ("MCC") claim

MCC was appointed as the EPC (engineering, procurement and construction) contractor for the processing area and related facilities at the Group's Sino Iron project in Western Australia ("Sino Iron Project"). The fixed price contract amount was US\$3.4 billion.

On 30 January 2013, MCC announced that it had incurred costs over the value of the contract and had provided additional funding of US\$858 million to MCC Mining (Western Australia) Pty Ltd ("MCC WA"), its wholly owned subsidiary company responsible for delivering MCC's obligations under the contract.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 Critical accounting estimates and judgment (continued)

### (b) Metallurgical Corporation of China (“MCC”) claim (continued)

As at the date of issuance of the Accounts, MCC has not claimed any additional costs from Sino Iron Pty Ltd (“Sino Iron”) or its subsidiary companies, other than minor contract variations in the normal course of operations, and the Group believes it has satisfied all of its obligations under the contract.

Under the contract, the Group has a right to claim liquidated damages from MCC WA for certain delays in the completion of their project scope at a daily amount of 0.15% of the value of the main contract (approximately US\$5 million per day, with a cap of approximately US\$530 million in total). As at balance sheet date the cumulative days delay that has been incurred has resulted in the contractual cap to the liquidated damages being reached.

As set out in the Company’s announcement dated 24 December 2013, Sino Iron and MCC WA entered into a supplemental contract pursuant to which Sino Iron will take over the management of the construction and commissioning of the remaining four production lines of the Sino Iron Project. An independent audit will opine on various matters including the contract price for the hand over pursuant to the supplemental contract and related fees and expenses, the value of the supporting services provided by Sino Iron to MCC WA in carrying out its responsibilities under the contract, the extent of the works completed by MCC WA in respect of the first two production lines, and the liability of MCC WA in respect of the extensive delays on completion of the works under the contract. By reference to such findings of the independent audit, Sino Iron and MCC WA expect to enter into further negotiations to determine the amount of liabilities to be borne between the parties. Outcomes are not yet known as at 30 June 2018.

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes

Each of Sino Iron and Korean Steel Pty Ltd (“Korean Steel”), subsidiary companies of the Company, is a party to a Mining Right and Site Lease Agreement (“MRSLA”) with Mineralogy. Among other things, those agreements, together with other project agreements, provide Sino Iron and Korean Steel the right to construct and operate the Sino Iron Project and take an aggregate of two billion tonnes of magnetite ore.

A number of disputes have arisen in relation to the MRSLAs and associated agreements, a number of which are described below. The Group intends to contest all claims vigorously.



## 3 Critical accounting estimates and judgment *(continued)*

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes *(continued)*

#### **Option Agreement Dispute**

The Company is a party to an Option Agreement with Mineralogy and Mr. Clive Palmer, pursuant to which it has options to acquire up to four further companies, each holding the right to mine one billion tonnes of magnetite ore in the vicinity of the Sino Iron Project. The Company exercised the first option under the Option Agreement on 13 April 2012. Following the exercise of the first option, Mineralogy alleged that the Option Agreement had been repudiated by the Company, purported to accept that repudiation and stated that the Option Agreement was at an end.

The Company (and its affected subsidiaries, Sino Iron and Korean Steel) (together referred to as the “CITIC Parties”) commenced a legal proceeding in the Supreme Court of Western Australia. On 30 September 2015, the Court made the declarations sought by the Company, including that the Company had not repudiated the Option Agreement as initially asserted by Mineralogy and Mr. Palmer.

Notwithstanding the making of these declarations, Mineralogy has not taken the action necessary to permit completion of the transaction resulting from the Company’s exercise of the first option under the Option Agreement. On 31 March 2016, the CITIC Parties commenced a proceeding in the Supreme Court of Western Australia seeking orders compelling Mineralogy and Mr. Palmer to take the steps necessary under the Option Agreement to complete the transfer of a further company having the right to mine one billion tonnes of magnetite ore.

On 26 February 2018, Justice Kenneth Martin granted leave for Cape Preston Resource Holdings Pty Ltd (“Cape Preston”), a subsidiary of the Company, to be added as a plaintiff to the proceeding and for the writ to be amended for that purpose. On 19 March 2018, the CITIC Parties and Cape Preston filed an amended statement of claim that addressed issues arising from the joinder of Cape Preston and certain other matters. On 31 May 2018, Mineralogy and Mr. Palmer filed their defence and counterclaim and, on 31 July 2018, Mineralogy and Mr. Palmer filed an amended defence and amended counterclaim.

No trial date has been set for this proceeding.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 Critical accounting estimates and judgment (continued)

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes (continued)

#### **Royalty Component B Dispute**

The MRSLAs provide that Sino Iron and Korean Steel must pay a royalty to Mineralogy, a component of which (“Royalty Component B”) is payable on products produced and calculated by reference to ‘prevailing published annual FOB prices’ for certain iron ore products. Sino Iron and Korean Steel’s position was that, among other things, because this phrase refers to the Annual Benchmark Pricing System (“Benchmark”), which ceased to exist in early 2010, it is no longer possible to calculate Royalty Component B. Mineralogy’s position was that the phrase is not limited to a reference to the Benchmark and Royalty Component B is still ascertainable from other published data. Mineralogy commenced a proceeding in the Supreme Court of New South Wales that was transferred to the Supreme Court of Western Australia following a successful application by the CITIC Parties. In the proceeding transferred to the Supreme Court of Western Australia (“Proceeding CIV 1808/2013”), Mineralogy pursued a claim against Sino Iron and Korean Steel for payment of sums for Royalty Component B on products produced up to 31 March 2017, damages for alleged breaches of the MRSLAs and certain other relief.

The trial in Proceeding CIV 1808/2013 commenced on 14 June 2017 and ran for 10 sitting days. On 24 November 2017, Justice Kenneth Martin delivered his reasons for decision in that proceeding, finding in favour of Mineralogy. In particular, his Honour found in favour of Mineralogy as to the proper construction of the relevant clauses of the MRSLAs and the calculation of Royalty Component B.

Following delivery of the reasons for decision in Proceeding CIV 1808/2013, Mineralogy commenced a further proceeding in the Supreme Court of Western Australia against the CITIC Parties (“Proceeding CIV 3024/2017”) seeking the same relief as that sought in Proceeding CIV 1808/2013. On 18 December 2017, Justice Kenneth Martin ordered, among other things, that Proceeding CIV 1808/2013 and Proceeding CIV 3024/2017 be consolidated and that all claims be determined in the as consolidated proceeding.

Also on 18 December 2017, Justice Kenneth Martin made final orders in the consolidated proceeding. His Honour ordered, among other things, that judgment be entered for Mineralogy:

- (i) against each of Sino Iron and Korean Steel in the amount of US\$82,409,227.91 (including US\$7,702,492.91 interest); and
- (ii) against the Company in the amount of US\$153,859,032.00 (including US\$4,445,562.00 interest), pursuant to the guarantee in the Fortescue Coordination Deed (“FCD”).

Justice Kenneth Martin ordered that the obligations to pay the above amounts to Mineralogy be suspended until the close of business on 15 January 2018.



## 3 Critical accounting estimates and judgment *(continued)*

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes *(continued)*

#### **Royalty Component B Dispute** *(continued)*

Mineralogy could have enforced the judgment against either Sino Iron and Korean Steel, on the one hand, or against the Company, on the other. However, it could not recover the judgment sums from both Sino Iron/Korean Steel and the Company.

On 12 January 2018, Sino Iron paid to Mineralogy the judgment sums plus interest ordered by Justice Kenneth Martin on behalf of itself and Korean Steel. On the same day, Sino Iron paid Mineralogy the sum of US\$113,332,300 in respect of payments of Royalty Component B for the quarters ended 30 June 2017, 30 September 2017 and 31 December 2017 in conformity with the judgment in Proceedings CIV 1808/2013 and CIV 3024/2017.

The CITIC Parties have appealed the consolidation orders and final orders made by Justice Kenneth Martin on 18 December 2017. The Court of Appeal is considering listing the hearing of the appeals on 4 and 5 December 2018.

#### **FCD Indemnity Disputes**

Mineralogy and Mr. Palmer have commenced and threatened to commence proceedings to pursue claims pursuant to an indemnity given by the Company under the FCD to Mineralogy and Mr. Palmer that extends to losses suffered by Mineralogy and Mr. Palmer in relation to failure by Sino Iron and Korean Steel to perform their obligations under the project agreements.

#### (i) **Queensland Nickel FCD Indemnity Claim**

On 29 June 2017, the final day of the trial of Proceeding CIV 1808/2013, Mr. Palmer commenced a proceeding against the Company in the Supreme Court of Western Australia claiming damages in the sum of AUD2.324 billion (now reduced by an amended statement of claim to AUD1.8065 billion). This amount is alleged to represent the reduction in the value of the assets of the Joint Venture business carried on by Queensland Nickel group of companies (“Queensland Nickel”) controlled by Mr. Palmer. The Joint Venture business was a nickel and cobalt refinery located at Yabulu in North Queensland.

Mr. Palmer’s claim purports to be made pursuant to an indemnity given by the Company under the FCD to Mr. Palmer and Mineralogy, that extends to losses suffered by Mr. Palmer and Mineralogy in relation to failure by Sino Iron and Korean Steel to perform their obligations under the project agreements.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 Critical accounting estimates and judgment (continued)

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes (continued)

#### **FCD Indemnity Disputes** (continued)

##### (i) **Queensland Nickel FCD Indemnity Claim** (continued)

Mr. Palmer claims that, in or around November 2015, Mineralogy agreed and/or determined to provide to Queensland Nickel Pty Limited, the manager of the Queensland Nickel joint venture, AUD28 million and such further funds as it might require for working capital, funded from the payment of Royalty Component B, to enable it to continue to manage and operate the Joint Venture business, while nickel prices remained low. As Sino Iron and Korean Steel had not paid amounts sought by Mineralogy on account of Royalty Component B, Mr. Palmer claims that Mineralogy did not, and was unable to, provide the funds to Queensland Nickel Pty Limited to enable it to continue managing and operating the Joint Venture business. Mr. Palmer alleges that Queensland Nickel Pty Limited was subsequently placed in administration, followed by liquidation, because it did not receive those funds from Mineralogy.

On 5 February 2018, the Company filed and served its defence and counterclaim in the proceeding. The Company has pleaded a number of defences, including that there has been no breach of the project agreements, construction arguments, causation and mitigation.

On 26 February 2018, Justice Kenneth Martin made, inter alia, orders adding Mineralogy (as a plaintiff) and Sino Iron and Korean Steel (as defendants) in the proceeding.

For the first half of 2018, the plaintiffs and defendants delivered their respective pleadings. At a directions hearing on 31 May 2018, Justice Martin made programming orders to deal with issues including the timetabling of this claim and the Palmer Petroleum FCD Indemnity Claim. A further directions hearing has been listed for 21 September 2018.

No trial date has been set for this proceeding.



## 3 Critical accounting estimates and judgment *(continued)*

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes *(continued)*

#### **FCD Indemnity Disputes** *(continued)*

##### (ii) **Palmer Petroleum FCD Indemnity Claim**

On 16 February 2018, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia, Proceeding CIV 1267/2018, in which it claims damages in the sum of AUD2.675 billion. The statement of claim pleads that Mineralogy had agreed to provide:

- (1) from December 2009, funding; and
- (2) in or about 2013, all future working capital,

to its wholly owned subsidiary, Palmer Petroleum Pty Ltd (now named Aspenglow Pty Ltd) (“Palmer Petroleum”). As the CITIC Parties had not paid Royalty Component B from the fourth quarter of 2013 to the second quarter of 2016, it is claimed that Mineralogy did not, and was unable to, provide the funds to Palmer Petroleum.

Mineralogy alleges that as a result, Palmer Petroleum was wound up in insolvency. The statement of claim pleads that Palmer Petroleum subsequently lost rights to a Papua New Guinea exploration licence and suffered a diminution in value, equivalent to the sale value of oil that allegedly would have been recoverable under the exploration licence. Mineralogy claims that it suffered a loss equivalent to the diminution in value of its shareholding in Palmer Petroleum.

On 24 April 2018, the CITIC parties filed and served a defence. The CITIC Parties have pleaded a number of defences, including that there has been no breach of the project agreements, construction arguments, causation and mitigation.

At a directions hearing on 31 May 2018, Justice Martin made programming orders to deal with issues including the timetabling of this claim and the Queensland Nickel FCD Indemnity Claim. A further directions hearing has been listed for 21 September 2018.

No trial date has been set for this proceeding.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 3 Critical accounting estimates and judgment (continued)

### (c) Mineralogy Pty Ltd. (“Mineralogy”) disputes (continued)

#### **FCD Indemnity Disputes** (continued)

##### **(iii) Other Threatened FCD Indemnity Claims**

Mr. Palmer and Mineralogy have also foreshadowed further claims under the indemnity in the FCD relating to other losses alleged to have been suffered by various other entities controlled by Mr. Palmer.

##### *Minimum Production Royalty Dispute*

On 21 December 2017, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia, Proceeding CIV 3166/2017, in which it revived its claim for the minimum production royalty. Mineralogy sought, among other things, payment by Sino Iron and Korean Steel each of US\$97,802,036, and payment by the Company of US\$195,604,070 pursuant to the guarantee and indemnity in the FCD.

The MRSLAs required each of Sino Iron and Korean Steel to produce a minimum of six million tonnes of product by 21 March 2013, unless prevented from doing so by factors outside their control. If Sino Iron and Korean Steel failed to do so, they were each required, within one month of that date, to pay Mineralogy the equivalent of the Mineralogy Royalty on six million tonnes of product.

Mineralogy served the CITIC Parties with a Notice of Discontinuance on 15 April 2018, and indicated that it would bring a new claim (with further parties included). On 8 May 2018, Mineralogy filed the notice of discontinuance at the Supreme Court of Western Australia. Mineralogy has not, to our knowledge, commenced a new minimum production royalty proceeding as foreshadowed in its letter dated 15 April 2018.



## 4 Taxation

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the six months ended 30 June 2018 is 16.5% (six months ended 30 June 2017: 16.5%).

Except for the preferential tax treatments, the income tax rate applicable to the Group's other subsidiaries in Mainland China for the six months ended 30 June 2018 is 25% (six months ended 30 June 2017: 25%).

Taxation for other overseas subsidiaries is charged at the rates of taxation prevailing in the countries/ jurisdiction in which the overseas subsidiaries operate.

## 5 Revenue

As a multi-industry conglomerate, the Group is principally engaged in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

For financial services segment, revenue mainly comprises net interest income, net fee and commission income and net trading gain (see Notes 5(a), 5(b) and 5(d)). For non-financial services segment, revenue mainly comprises total invoiced value of sales of goods and services rendered to customers (see Note 5(c)).

The Group's customer base is diversified and there is no single customer with which transactions have exceeded 10% of the Group's revenue.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 5 Revenue (continued)

### (a) Net interest income

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
<b>Interest income arising from:</b>		
Deposits with central banks, banks and non-bank financial institutions	6,452	6,133
Placements with banks and non-banks financial institutions	5,419	3,051
Financial assets held under resale agreements	801	684
Investments in financial assets	29,140	N/A
Investments classified as receivables	N/A	24,315
Loans and advances to customers and other parties	97,135	76,823
Investments in debt securities	N/A	14,286
Others	72	39
	<b>139,019</b>	<b>125,331</b>
<b>Interest expenses arising from:</b>		
Borrowing from central banks	(4,942)	(2,947)
Deposits from banks and non-bank financial institutions	(16,583)	(23,407)
Placements from banks and non-bank financial institutions	(2,067)	(1,500)
Financial assets sold under repurchase agreements	(1,392)	(1,330)
Deposits from customers	(37,700)	(29,361)
Debt instruments issued	(13,973)	(10,013)
Others	(149)	(16)
	<b>(76,806)</b>	<b>(68,574)</b>
<b>Net interest income</b>	<b>62,213</b>	<b>56,757</b>

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 5 Revenue (continued)

### (b) Net fee and commission income

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Guarantee and advisory fees	3,386	4,147
Bank card fees	19,313	15,295
Settlement and clearing fees	849	731
Agency fees and commission	3,005	2,920
Trustee commission and fees	5,404	6,998
Others	343	187
	<b>32,300</b>	<b>30,278</b>
Fee and commission expenses	(2,986)	(2,240)
<b>Net fee and commission income</b>	<b>29,314</b>	<b>28,038</b>

### (c) Sales of goods and services

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Sales of goods	136,645	94,646
Services rendered to customers		
– Revenue from construction contracts	4,482	3,819
– Revenue from other services	14,117	11,580
	<b>155,244</b>	<b>110,045</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 5 Revenue (continued)

### (d) Other revenue

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Net trading gain (note (i))	4,304	3,929
Net gain on investments in financial assets under financial services segment	3,775	603
Net gain from securitisation of financial assets	3,769	246
Others	(296)	372
	11,552	5,150

### (i) Net trading gain

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Trading profit:		
– debt securities and certificates of deposits	2,900	1,429
– foreign currencies	1,680	127
– derivatives	(276)	2,373
	4,304	3,929

## 6 Cost of sales and services

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Costs of goods sold	114,007	85,655
Costs of services rendered		
– Costs of construction contracts	3,797	3,382
– Costs of other services	8,722	7,976
	126,526	97,013

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 7 Other net income

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Net gain on disposal/deemed disposal of subsidiaries, associates and joint ventures	1,697	6,411
Net gain on investments in financial assets under non-financial services segment	228	1,286
Commissions income, net foreign exchange gain and others	1,142	942
	<b>3,067</b>	<b>8,639</b>

## 8 Net finance charges

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Finance costs		
– Interest on bank and other loans	3,123	2,245
– Interest on debt instruments issued	2,958	3,103
	<b>6,081</b>	<b>5,348</b>
Less: interest expense capitalised	(88)	(145)
	<b>5,993</b>	<b>5,203</b>
Other finance charges	160	162
	<b>6,153</b>	<b>5,365</b>
Finance income	(805)	(651)
	<b>5,348</b>	<b>4,714</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 9 Profit before taxation

Profit before taxation is arrived at after charging below costs and expenses in cost of sales and services and other operating expenses:

### (a) Staff costs

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Salaries and bonuses	22,127	15,893
Contributions to defined contribution retirement schemes	2,301	1,868
Others	4,249	3,658
	<b>28,677</b>	<b>21,419</b>

### (b) Other items

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Amortisation	1,262	1,233
Depreciation	6,195	5,041
Operating lease charges	4,066	2,761
Tax and surcharges	1,318	1,137
Property management fees	565	401
Non-operating expenses	144	134
Professional fees	515	445
	<b>14,065</b>	<b>11,152</b>

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 10 Income tax expense

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
<b>Current tax – Mainland China</b>		
Provision for enterprise income tax	9,756	10,848
Land appreciation tax	141	12
	<b>9,897</b>	<b>10,860</b>
<b>Current tax – Hong Kong</b>		
Provision for Hong Kong profits tax	1,017	480
<b>Current tax – Overseas</b>		
Provision for the period	71	259
	<b>10,985</b>	<b>11,599</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	812	(844)
	<b>11,797</b>	<b>10,755</b>

The particulars of the applicable income tax rates are disclosed in Note 4.

## 11 Dividends

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
2017 Final dividend paid: HK\$0.25 (2016: HK\$0.23) per share	7,273	6,691
2018 Interim dividend proposed: HK\$0.15 (2017: HK\$0.11) per share	4,364	3,200



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 12 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company of HK\$30,668 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$32,234 million), calculated as follows:

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Profit attributable to ordinary shareholders of the Company:	30,668	32,234
Weighted average number of ordinary shares (in million)	29,090	29,090

The diluted earnings per share for the six months ended 30 June 2018 and 2017 are the same as the basic earnings per share. As at 30 June 2018, there are no share options or other equity securities of the Company in issue which if exercised would have a dilutive effect on the issued ordinary share capital as at 30 June 2018 (30 June 2017: Nil).

The basic and diluted earnings per share for the six months ended 30 June 2018 are HK\$1.05 (six months ended 30 June 2017: HK\$1.11).

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 13 Other comprehensive (loss)/income

Components of other comprehensive (loss)/income, including reclassification adjustments

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million (Restated)
Fair value loss of available-for-sale financial assets	N/A	(5,748)
Less: Net amounts previously recognised in other comprehensive loss transferred to profit or loss in the current period	N/A	148
Tax effect	N/A	1,699
	N/A	(3,901)
Fair value changes on financial assets at FVOCI	5,968	N/A
Less: Net amounts previously recognised in other comprehensive income transferred to profit or loss in the current period	(62)	N/A
Loss allowance on financial assets at FVOCI	180	N/A
Tax effect	(1,579)	N/A
	4,507	N/A
Gains arising from cash flow hedge	220	588
Less: Net amounts previously recognised in other comprehensive loss transferred to profit or loss in the current period	–	55
Tax effect	19	(210)
	239	433
Share of other comprehensive (loss)/income of associates and joint ventures	(374)	730
Exchange differences on translation of financial statements and others	(7,383)	19,682
Reclassification of owner-occupied property as investment property: revaluation gain	–	25
Less: Tax effect	–	(6)
	–	19
Fair value changes on investments in equity instruments designated at FVOCI	(803)	N/A
Less: Tax effect	73	N/A
	(730)	N/A
	(3,741)	16,963



# Notes to the Consolidated Financial Statements

*For the six months ended 30 June 2018*

## 14 Segment reporting

The Group has presented six reportable operating segments which are financial services, resources and energy, manufacturing, engineering contracting, real estate and others. Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance is regularly reviewed by the board of directors to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available. The details of these six reportable segments are as follows:

- Financial services: this segment includes banking, trust, asset management, securities and insurance services;
- Resources and energy: the major businesses in this segment include exploration, processing and trading of resources and energy products, including crude oil, coal and iron ore;
- Manufacturing: this segment includes manufacturing of special steels, heavy machineries, aluminum wheels and other products;
- Engineering contracting: this segment provides contracting and design services for infrastructure, real estate and industrial projects, etc;
- Real estate: this segment includes development, sale and holding of properties;
- Others: others include various businesses including investment and operation of infrastructures, telecommunication services, motor and food and consumer products business, commercial aviation services, publication services, environment protection services and others.



## 14 Segment reporting *(continued)*

### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources among segments, the board of directors monitors the results, assets and liabilities, revenue and expenses attributable to each reportable segment on the following bases:

Segment assets are those assets that are attributable to a segment, and segment liabilities are those liabilities that are attributable to a segment.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The measure used for reporting segment profit is “profit for the period”. To arrive at segment results, the Group’s profit is further adjusted for items not specially attributed to individual segments, such as share of results of associates and joint ventures.

Inter-segment pricing is based on similar terms as those available to other external parties.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 14 Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the board of directors for the purposes of resources allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below:

	Six months ended 30 June 2018								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
Revenue from external customers	103,068	34,994	61,125	4,015	5,270	49,822	29	-	258,323
Inter-segment revenue	(220)	2,065	111	63	3,123	624	-	(5,766)	-
<b>Reportable segment revenue</b>	<b>102,848</b>	<b>37,059</b>	<b>61,236</b>	<b>4,078</b>	<b>8,393</b>	<b>50,446</b>	<b>29</b>	<b>(5,766)</b>	<b>258,323</b>
Share of profits/(losses) of associates, net of tax	1,167	695	51	54	2,169	(134)	28	-	4,030
Share of profits of joint ventures, net of tax	200	694	18	-	31	369	-	-	1,312
Finance income (Note 8)	-	159	188	177	166	71	680	(636)	805
Finance costs (Note 8)	-	(1,040)	(680)	(22)	(303)	(903)	(3,711)	506	(6,153)
Depreciation and amortisation (Note 9(b))	(1,728)	(1,405)	(2,109)	(68)	(106)	(2,011)	(30)	-	(7,457)
Impairment losses	1	(88)	(113)	-	-	(49)	-	-	(249)
Expected credit losses	(31,707)	22	(33)	1	62	(41)	-	-	(31,696)
<b>Profit/(loss) before taxation</b>	<b>44,228</b>	<b>2,084</b>	<b>3,391</b>	<b>739</b>	<b>6,395</b>	<b>4,836</b>	<b>(3,920)</b>	<b>(1,156)</b>	<b>56,597</b>
Income tax	(8,664)	(358)	(752)	(40)	(1,165)	(996)	(95)	273	(11,797)
<b>Profit/(loss) for the period</b>	<b>35,564</b>	<b>1,726</b>	<b>2,639</b>	<b>699</b>	<b>5,230</b>	<b>3,840</b>	<b>(4,015)</b>	<b>(883)</b>	<b>44,800</b>
Attributable to:									
- Ordinary shareholders of the Company	24,256	1,279	2,406	704	4,747	2,498	(4,339)	(883)	30,668
- Non-controlling interests and holders of perpetual capital securities	11,308	447	233	(5)	483	1,342	324	-	14,132

	As at 30 June 2018								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
<b>Reportable segment assets</b>	<b>7,010,250</b>	<b>129,313</b>	<b>138,195</b>	<b>46,260</b>	<b>159,637</b>	<b>158,456</b>	<b>183,941</b>	<b>(197,102)</b>	<b>7,628,950</b>
Including:									
Interests in associates	35,488	14,776	978	688	37,163	10,649	993	-	100,735
Interests in joint ventures	7,509	6,389	192	-	20,043	6,011	-	-	40,144
<b>Reportable segment liabilities</b>	<b>6,437,663</b>	<b>166,905</b>	<b>84,389</b>	<b>32,884</b>	<b>94,246</b>	<b>84,901</b>	<b>202,223</b>	<b>(288,939)</b>	<b>6,814,272</b>
Including:									
Bank and other loans	5,114	39,851	32,002	2,353	7,936	33,138	52,312	(25,675)	147,031
Debt instruments issued	662,613	-	150	-	-	3,862	111,104	-	777,729

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 14 Segment reporting (continued)

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

	Six months ended 30 June 2017 (Restated)								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
Revenue from external customers	89,943	32,172	40,937	3,653	1,228	32,037	20	-	199,990
Inter-segment revenue	(233)	1,821	119	106	55	494	-	(2,362)	-
<b>Reportable segment revenue</b>	<b>89,710</b>	<b>33,993</b>	<b>41,056</b>	<b>3,759</b>	<b>1,283</b>	<b>32,531</b>	<b>20</b>	<b>(2,362)</b>	<b>199,990</b>
Share of profits of associates, net of tax	1,065	363	28	-	2,003	45	2	-	3,506
Share of profits of joint ventures, net of tax	304	543	-	-	2,786	266	-	-	3,899
Finance income (Note 8)	-	178	151	89	291	47	430	(535)	651
Finance costs (Note 8)	-	(1,082)	(457)	(42)	(218)	(686)	(3,281)	401	(5,365)
Depreciation and amortisation (Note 9(b))	(1,663)	(1,462)	(1,716)	(70)	(93)	(1,223)	(47)	-	(6,274)
Impairment losses	(27,625)	58	(66)	2	(81)	(173)	-	-	(27,885)
<b>Profit/(loss) before taxation</b>	<b>39,037</b>	<b>264</b>	<b>2,348</b>	<b>362</b>	<b>6,250</b>	<b>8,701</b>	<b>(3,245)</b>	<b>24</b>	<b>53,741</b>
Income tax	(8,345)	(317)	(491)	(53)	(431)	(1,063)	(53)	(2)	(10,755)
<b>Profit/(loss) for the period</b>	<b>30,692</b>	<b>(53)</b>	<b>1,857</b>	<b>309</b>	<b>5,819</b>	<b>7,638</b>	<b>(3,298)</b>	<b>22</b>	<b>42,986</b>
Attributable to:									
- Ordinary shareholders of the Company	21,276	(266)	1,751	310	5,691	7,084	(3,634)	22	32,234
- Non-controlling interests and holders of perpetual capital securities	9,416	213	106	(1)	128	554	336	-	10,752

	As at 31 December 2017								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
<b>Reportable segment assets</b>	<b>6,925,076</b>	<b>129,438</b>	<b>130,381</b>	<b>46,127</b>	<b>159,664</b>	<b>163,835</b>	<b>177,797</b>	<b>(211,579)</b>	<b>7,520,739</b>
Including:									
Interests in associates	35,567	14,524	951	370	36,150	9,959	1,123	-	98,644
Interests in joint ventures	6,362	4,995	177	-	19,929	5,955	-	-	37,418
<b>Reportable segment liabilities</b>	<b>6,362,774</b>	<b>170,212</b>	<b>77,721</b>	<b>33,626</b>	<b>94,851</b>	<b>95,165</b>	<b>188,253</b>	<b>(295,504)</b>	<b>6,727,098</b>
Including:									
Bank and other loans	7,176	43,900	28,130	1,267	7,898	41,934	34,605	(22,468)	142,442
Debt instruments issued	529,238	598	2,632	-	-	5,175	115,728	-	653,371



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 14 Segment reporting (continued)

### (b) Geographical information

An analysis of the Group's revenue and total assets by geographical area are as follows:

	Revenue from external customers Six months ended 30 June		Reportable segment assets	
	2018 HK\$ million	2017 HK\$ million (Restated)	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Mainland China	212,973	159,335	6,992,838	6,902,597
Hong Kong, Macau and Taiwan	28,351	26,595	521,810	505,686
Overseas	16,999	14,060	114,302	112,456
	<b>258,323</b>	<b>199,990</b>	<b>7,628,950</b>	<b>7,520,739</b>

## 15 Cash and deposits

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Cash	7,214	8,150
Bank deposits	82,698	56,367
Balances with central banks (note (i)):		
– Statutory deposit reserve funds (note (ii))	506,689	555,449
– Surplus deposit reserve funds (note (iii))	101,110	106,815
– Fiscal deposits (note (iv))	4,375	4,884
– Foreign exchange reserves (note (v))	1,844	6,515
Deposits with banks and non-bank financial institutions	118,679	186,404
	<b>822,609</b>	<b>924,584</b>
Less: allowance for impairment losses on deposits with banks and non-bank financial institutions	(90)	–
	<b>822,519</b>	<b>924,584</b>



## 15 Cash and deposits (continued)

### Notes:

(i) The balances with central banks represent deposits placed with central banks by China CITIC Bank Corporation Limited ("CITIC Bank") and CITIC Finance Company Limited ("CITIC Finance").

(ii) CITIC Bank and CITIC Finance place statutory deposit reserves with the People's Bank of China and overseas central banks where they have operations. The statutory deposit reserves are not available for use in their daily business.

As at 30 June 2018, the statutory deposit reserve placed by CITIC Bank with the People's Bank of China was calculated at 13.5% (31 December 2017: 15%) of eligible RMB deposits for domestic branches of CITIC Bank, and at 13.5% (31 December 2017: 15%) of eligible RMB deposits from overseas financial institutions respectively. In addition, CITIC Bank is required to deposit an amount equivalent to 5% (31 December 2017: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve as at 30 June 2018.

As at 30 June 2018, the statutory RMB deposit reserve rate applicable to Zhejiang Lin'an CITIC Rural Bank Corporation Limited, a subsidiary of CITIC Bank, was at 9% (31 December 2017: 9%).

The amounts of statutory deposit reserve funds placed with the central banks of overseas countries are determined by local jurisdictions. The statutory deposit reserve funds are interest bearing except for the foreign currency reserve deposits placed with the People's Bank of China.

As at 30 June 2018, the statutory deposit reserve funds placed by CITIC Finance with the People's Bank of China was calculated at 7% (31 December 2017: 7%) of eligible RMB deposits from the customers of CITIC Finance. As at 30 June 2018, CITIC Finance is also required to deposit an amount equivalent to 5% (31 December 2017: 5%) of its foreign currency deposits from the customers as statutory deposit reserve funds.

(iii) The surplus deposit reserve funds are maintained with the People's Bank of China for the purposes of clearing.

(iv) Fiscal deposits placed with the People's Bank of China are not available for use in the Group's daily operations, and are non-interest bearing.

(v) The foreign exchange reserve is maintained with the People's Bank of China in accordance with the related notice issued by the People's Bank of China on 31 August 2015. The reserve is payable on a monthly basis at 20% (31 December 2017: 20%) of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the notice. According to the notice issued by the People's Bank of China on 8 September 2017, since 11 September 2017, the rate of the foreign exchange reserve for forward transactions has been reduced to 0%. The foreign exchange reserve remained in the account will be released on maturity.

(vi) In addition to the statutory deposit reserve funds, fiscal deposits and foreign exchange reserves, HK\$1,658 million (31 December 2017: HK\$1,601 million) included in cash and deposits as at 30 June 2018 were restricted in use. They mainly include guaranteed deposits.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 16 Derivative financial instruments

The Group's subsidiaries under the financial services segment act as an intermediary to offer derivative products including forwards and swap of interest rate and currency to its customers. These derivative positions are managed through entering back-to-back deals with external parties to ensure the remaining exposures are within acceptable risk levels. Meanwhile, derivatives are also used for proprietary trading purposes.

Subsidiaries under non-financial services segment of the Group enter into forward and swap contracts to hedge their exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

The following tables and notes provide an analysis of the nominal amounts of derivatives and the corresponding fair values as at the balance sheet date. The nominal amounts of the derivatives indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk. Hedging instruments are derivatives qualified for hedge accounting, and non-hedging instruments are derivatives not qualified for hedge accounting.

	30 June 2018			31 December 2017		
	Nominal amount HK\$ million	Assets HK\$ million	Liabilities HK\$ million	Nominal amount HK\$ million	Assets HK\$ million	Liabilities HK\$ million
<b>Hedging instruments</b>						
Fair value hedge						
– Interest rate derivatives	9,728	174	19	11,722	147	22
– Other derivatives	464	–	30	–	–	–
Cash flow hedge						
– Interest rate derivatives	14,414	18	1,292	15,498	9	1,872
– Currency derivatives	1,408	11	8	366	3	–
– Other derivatives	2,373	526	18	2,950	1,025	72
<b>Non-hedging instruments</b>						
– Interest rate derivatives	2,123,514	5,443	5,414	1,953,696	2,907	2,767
– Currency derivatives	3,160,533	38,834	38,145	4,005,534	74,209	74,821
– Precious metals derivatives	85,333	1,009	278	61,712	1,039	308
– Other derivatives	6	1	1	15,987	–	213
	<b>5,397,773</b>	<b>46,016</b>	<b>45,205</b>	<b>6,067,465</b>	<b>79,339</b>	<b>80,075</b>

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 16 Derivative financial instruments (continued)

### (a) Nominal amount analysed by remaining maturity

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Within 3 months	2,671,844	2,236,638
Between 3 months and 1 year	2,081,421	3,310,476
Between 1 year and 5 years	631,143	506,712
Over 5 years	13,365	13,639
	<b>5,397,773</b>	<b>6,067,465</b>

The remaining term to maturity of derivatives does not represent the Group's intended holding period.

### (b) Credit risk weighted amounts

The credit risk weighted amounts are solely in connection with the derivatives held by CITIC Bank, and have been computed in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" promulgated by the China Banking Regulatory Commission in the year of 2012, and depends on the status of the counterparties and the maturity characteristics of the instruments, including those customer-driven back-to-back transactions. As at 30 June 2018, the credit risk weighted amount for counterparty was HK\$23,969 million (31 December 2017: HK\$84,001 million).

## 17 Trade and other receivables

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Trade and bills receivables	47,815	42,092
Interest receivables	39,476	44,444
Prepayments, deposits and other receivables	93,649	72,367
	<b>180,940</b>	<b>158,903</b>
Less: allowance for impairment losses	(9,662)	(9,699)
	<b>171,278</b>	<b>149,204</b>

As at 30 June 2018, the amount of the Group's prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year was HK\$12,747 million (31 December 2017: HK\$9,356 million). The remaining trade and other receivables are expected to be recovered or recognised as expense within one year.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 18 Loans and advances to customers and other parties

### (a) Loans and advances

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
<b>Loans and advances to customers and other parties at amortised cost</b>		
Corporate loans		
– Loans	2,192,554	2,177,528
– Discounted bills	173,225	130,190
– Finance lease receivables	56,665	54,143
	<b>2,422,444</b>	<b>2,361,861</b>
Personal loans		
– Residential mortgages	671,873	604,498
– Business loans	206,503	198,604
– Credit cards	388,012	399,228
– Personal consumption	270,344	271,016
	<b>1,536,732</b>	<b>1,473,346</b>
	<b>3,959,176</b>	<b>3,835,207</b>
Less: allowance for impairment losses	(113,353)	(113,321)
Carrying amount of loans and advances to customers and other parties at amortised cost	<b>3,845,823</b>	<b>3,721,886</b>
<b>Loans and advances to customers and other parties at FVOCI</b>		
Corporate loans		
– Loans	461	N/A
– Discounted bills	57,846	N/A
Carrying amount of loans and advances to customers and other parties at FVOCI (note)	<b>58,307</b>	<b>N/A</b>
	<b>3,904,130</b>	<b>3,721,886</b>

Note:

As at 30 June 2018, the fair value changes in the carrying amount of Loans and advances at FVOCI is HK\$6 million.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 18 Loans and advances to customers and other parties (continued)

(b) Loans and advances to customers and other parties analysed by type of securities

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Unsecured loans	828,324	850,404
Guaranteed loans	621,630	615,561
Secured loans		
– Loans secured by collateral	1,886,862	1,807,140
– Pledged loans	449,596	431,912
	<b>3,786,412</b>	<b>3,705,017</b>
Discounted bills	231,071	130,190
Gross loans and advances	<b>4,017,483</b>	<b>3,835,207</b>

(c) Assessment method of allowance for impairment losses

	As at 30 June 2018				Gross loans and advances at Stage 3 as a percentage of gross total loans and advances
	Stage 1 HK\$ million	Stage 2 HK\$ million	Stage 3 (note (i)) HK\$ million	Total HK\$ million	
Loans and advances at amortised cost	3,771,557	107,412	80,207	3,959,176	2.03%
Less: allowance for impairment losses	(34,322)	(28,121)	(50,910)	(113,353)	
Carrying amount of loans and advances at amortised cost	3,737,235	79,291	29,297	3,845,823	
Carrying amount of loans and advances at FVOCI	58,307	-	-	58,307	
Total carrying amount of loans and advances	3,795,542	79,291	29,297	3,904,130	
Allowance for impairment losses of loans and advances at FVOCI	(56)	-	-	(56)	



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 18 Loans and advances to customers and other parties (continued)

### (c) Assessment method of allowance for impairment losses (continued)

	As at 31 December 2017			Total HK\$ million	Gross impaired loans and advances as a percentage of gross total loans and advances
	Loans and advances for which the allowance is collectively assessed HK\$ million	Impaired loans and advances (note (ii)) for which the allowance is collectively assessed HK\$ million	for which the allowance is individually assessed HK\$ million		
Gross loans and advances	3,766,580	13,630	54,997	3,835,207	1.79%
Less: allowance for impairment losses	(64,054)	(10,738)	(38,529)	(113,321)	
	3,702,526	2,892	16,468	3,721,886	

Notes:

- (i) Loans and advances at stage 3 are credit-impaired, details are as follows.

	30 June 2018 HK\$ million
Secured portion	52,093
Unsecured portion	28,114
Total	80,207
Allowance for impairment losses	(50,910)
	29,297

As at 30 June 2018, the maximum exposure covered by pledge and collateral held of secured portion is HK\$44,390 million.

- (ii) As at 31 December 2017, the loans and advances of the Group for which the impairment allowance were individually assessed amounted to HK\$54,997 million. The secured and unsecured portion of these loans and advances were as follows:

	31 December 2017 HK\$ million
Secured portion	33,230
Unsecured portion	21,767
	54,997

The fair value of collateral was estimated by management based on the latest revaluation including available external valuation, if any, adjusted by taking into account the current realisation experience as well as market situation.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 18 Loans and advances to customers and other parties (continued)

### (d) Overdue loans by overdue period

	As at 30 June 2018				
	Overdue within 3 months HK\$ million	Overdue between 3 months and 1 year HK\$ million	Overdue between 1 year and 3 years HK\$ million	Overdue over 3 years HK\$ million	Total HK\$ million
Unsecured loans	10,124	8,126	1,093	349	19,692
Guaranteed loans	10,082	10,372	6,401	1,453	28,308
Secured loans					
– Loans secured by collateral	18,428	19,311	15,911	588	54,238
– Pledged loans	2,435	2,376	2,229	113	7,153
	41,069	40,185	25,634	2,503	109,391

	As at 31 December 2017				
	Overdue within 3 months HK\$ million	Overdue between 3 months and 1 year HK\$ million	Overdue between 1 year and 3 years HK\$ million	Overdue over 3 years HK\$ million	Total HK\$ million
Unsecured loans	8,062	9,120	917	508	18,607
Guaranteed loans	10,220	11,654	10,545	1,752	34,171
Secured loans					
– Loans secured by collateral	16,950	16,286	14,621	565	48,422
– Pledged loans	4,057	2,633	2,566	234	9,490
	39,289	39,693	28,649	3,059	110,690

Overdue loans represent loans of which the principal or interest are overdue one day or more.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 19 Investments in financial assets

### (a) Analysed by types

	30 June 2018 HK\$ million
<b>Investments in financial assets at FVPL</b>	
Investment funds	227,714
Debt securities	71,626
Including: Designated at FVPL	2,946
Trust investment plans (note)	55,518
Equity investment	20,866
Wealth management products	2,433
Certificates of deposit and certificates of interbank deposit	19,996
Investment management products managed by securities companies (note)	6,983
Others	738
	405,874
<b>Investments in financial assets at FVOCI</b>	
Investment funds	400
Debt securities	541,734
Trust investment plans (note)	2,696
Equity investment	3,311
Certificates of deposit and certificates of interbank deposit	17,121
Investment management products managed by securities companies (note)	23,369
	588,631
<b>Investments in financial assets at amortised cost</b>	
Debt securities	363,278
Trust investment plans (note)	159,215
Certificates of deposit and certificates of interbank deposit	1,771
Investment management products managed by securities companies (note)	285,756
Others	4,530
	814,550
Less: allowance for impairment losses	(4,586)
	809,964
	1,804,469

Note:

As at 30 June 2018, certain of the Group's investments with an aggregate amount of HK\$87,023 million (31 December 2017: HK\$116,069 million) were managed by certain subsidiaries and related parties of the Group.

The underlying assets of trust investment plans and investment management products managed by securities companies primarily include interbank assets and wealth management products issued by other banks, credit assets and rediscounted bills.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 19 Investments in financial assets (continued)

### (b) Analysed by location of counterparties

	30 June 2018 HK\$ million
Issued by:	
– Government	451,071
– Policy banks	151,220
– Banks and non-bank financial institutions	1,013,368
– Corporates	184,828
– Public entities	3,982
	<b>1,804,469</b>
– Listed in Hong Kong	47,557
– Listed outside Hong Kong	1,120,814
– Unlisted	636,098
	<b>1,804,469</b>

Bonds traded in China's inter-bank bond market are "listed outside Hong Kong".

### (c) Analysed by assessment method of allowance for impairment losses

	30 June 2018			
	Stage 1 HK\$ million	Stage 2 HK\$ million	Stage 3 HK\$ million	Total HK\$ million
Carrying amount of investments in financial assets at FVOCI	584,693	142	85	584,920
Gross carrying amount of investments in financial assets at amortised cost	808,871	612	5,067	814,550
Less: allowance for impairment losses	(3,051)	(61)	(1,474)	(4,586)
Carrying amount of investments in financial assets at amortised cost	805,820	551	3,593	809,964
Total carrying amount of investments in financial assets influenced by credit risk	1,390,513	693	3,678	1,394,884
Allowance for impairment losses on investments in financial assets	1,099	42	115	1,256



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 20 Interests in associates

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Carrying value	103,242	101,167
Less: allowance for impairment losses	(2,507)	(2,523)
	<b>100,735</b>	<b>98,644</b>

## 21 Interests in joint ventures

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Carrying value	41,598	38,872
Less: allowance for impairment losses	(1,454)	(1,454)
	<b>40,144</b>	<b>37,418</b>

## 22 Deposits from banks and non-bank financial institutions

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Banks	276,159	223,640
Non-bank financial institutions	535,864	730,998
	<b>812,023</b>	<b>954,638</b>
Analysed by remaining maturity		
– On demand	290,949	287,850
– Within 3 months	371,851	461,257
– Between 3 months and 1 year	149,022	205,525
– Over 1 year	201	6
	<b>812,023</b>	<b>954,638</b>

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 23 Trade and other payables

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Trade and bills payables	78,615	68,733
Advances from customers	8,797	10,848
Interest payables	50,122	50,049
Other taxes payables	6,341	5,993
Settlement accounts	8,080	7,976
Dividend payables	8,919	785
Other payables	88,879	81,726
	<b>249,753</b>	<b>226,110</b>

As at the balance sheet date, the ageing analysis of the Group's trade and bills payable based on the invoice date is as follows:

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Within 1 year	56,467	48,751
Between 1 and 2 years	5,751	8,505
Between 2 and 3 years	6,694	4,672
Over 3 years	9,703	6,805
	<b>78,615</b>	<b>68,733</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 24 Deposits from customers

### (a) Types of deposits from customers

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Demand deposits		
– Corporate customers	<b>1,807,798</b>	1,947,517
– Personal customers	<b>317,377</b>	281,084
	<b>2,125,175</b>	2,228,601
Time and call deposits		
– Corporate customers	<b>1,626,325</b>	1,463,098
– Personal customers	<b>461,976</b>	357,069
	<b>2,088,301</b>	1,820,167
Outward remittance and remittance payables	<b>13,254</b>	7,390
	<b>4,226,730</b>	4,056,158

### (b) Deposits from customers include pledged deposits for the following items:

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Bank acceptances	<b>183,844</b>	233,647
Letters of credit	<b>10,885</b>	11,112
Guarantees	<b>26,852</b>	29,837
Others	<b>124,970</b>	130,193
	<b>346,551</b>	404,789

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 25 Bank and other loans

### (a) Types of loans

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
<b>Bank loans</b>		
Unsecured loans	<b>99,759</b>	78,106
Loan pledged with assets (note (d))	<b>26,895</b>	37,408
Guaranteed loans	–	5,955
	<b>126,654</b>	121,469
<b>Other loans</b>		
Unsecured loans	<b>17,589</b>	17,765
Loan pledged with assets (note (d))	<b>2,788</b>	3,077
Guaranteed loans	–	131
	<b>20,377</b>	20,973
	<b>147,031</b>	142,442

### (b) Maturity of loans

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Bank and other loans are repayable		
– Within 1 year or on demand	<b>36,813</b>	31,062
– Between 1 and 2 years	<b>19,057</b>	14,318
– Between 2 and 5 years	<b>46,640</b>	39,200
– Over 5 years	<b>44,521</b>	57,862
	<b>147,031</b>	142,442



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 25 Bank and other loans (continued)

(c) Bank or other loans are denominated in the following currency

	<b>30 June 2018</b>	31 December 2017
	<b>HK\$ million</b>	HK\$ million
RMB	<b>52,213</b>	43,914
US\$	<b>48,516</b>	54,368
HK\$	<b>27,437</b>	25,956
Other currencies	<b>18,865</b>	18,204
	<b>147,031</b>	142,442

(d) As at 30 June 2018, the Group's bank and other loans of HK\$29,683 million (31 December 2017: HK\$40,485 million) are pledged with cash and deposits, inventories, trade and other receivables, fixed assets, intangible assets and other assets with an aggregate carrying amount of HK\$83,959 million (31 December 2017: HK\$90,245 million).

(e) All of the Group's banking facilities are subject to the fulfilment of covenants relating to balance sheet ratios or ownership of a minimum shareholding in certain entities of the Group, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 29 (b). As at 30 June 2018, none of the covenants relating to drawn down facilities had been breached (31 December 2017: Nil).

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 26 Debt instruments issued

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Corporate bonds issued (note (a))	82,865	91,644
Notes issued (note (b))	148,447	147,002
Subordinated bonds issued (note (c))	87,484	88,200
Certificates of deposit issued (note (d))	2,937	3,409
Certificates of interbank deposit issued (note (e))	455,996	323,116
	<b>777,729</b>	<b>653,371</b>
Analysed by remaining maturity		
– Within 1 year or on demand	491,560	370,069
– Between 1 and 2 years	96,713	7,073
– Between 2 and 5 years	96,570	156,004
– Over 5 years	92,886	120,225
	<b>777,729</b>	<b>653,371</b>

The Group did not have any defaults of principal, interest or other breaches with respect to its debt instruments issued during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Notes:

(a) Corporate bonds issued

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
The Company (note (i))	63,862	64,513
CITIC Corporation Limited (“CITIC Corporation”) (note (ii))	14,196	19,102
CITIC Telecom International Holdings Limited (“CITIC Telecom International”) (note (iii))	3,487	3,487
CITIC Heavy Industries Co., Limited (“CITIC Heavy Industries”) (note (iv))	150	2,632
CITIC Pacific Limited’s (“CITIC Pacific”) subsidiaries (note (v))	1,170	598
CITIC Environment Investment Group Co., Limited’s (“CITIC Environment”) subsidiaries (note (vi))	–	1,312
	<b>82,865</b>	<b>91,644</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 26 Debt instruments issued (continued)

Notes (continued):

(a) **Corporate bonds issued** (continued)

(i) *Details of corporate bonds issued by the Company*

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
HK\$ Notes 1	HK\$	500	2013-07-31	2018-07-31	5.90%
US\$ Notes 5	US\$	500	2013-04-10	2020-04-10	6.38%
US\$ Notes 2.1	US\$	500	2011-04-15	2021-04-15	6.63%
US\$ Notes 2.2	US\$	250	2014-06-23	2021-04-15	6.63%
US\$ Notes 1	US\$	150	2010-08-16	2022-08-16	6.90%
US\$ Notes 4.1	US\$	750	2012-10-17	2023-01-17	6.80%
US\$ Notes 4.2	US\$	250	2012-12-11	2023-01-17	6.80%
US\$ Notes 4.3	US\$	400	2014-07-18	2023-01-17	6.80%
US\$ Notes 6.1	US\$	110	2014-07-18	2024-01-18	4.70%
US\$ Notes 6.2	US\$	90	2014-10-29	2024-01-18	4.70%
HK\$ Notes 2	HK\$	420	2014-07-25	2024-07-25	4.35%
US\$ Notes 7	US\$	280	2015-04-14	2035-04-14	4.60%
US\$ Notes 8	US\$	150	2016-02-04	2041-02-04	4.88%
US\$ Notes 9	US\$	350	2016-02-04	2036-02-04	4.75%
US\$ Notes 10	US\$	90	2016-04-25	2036-04-25	4.65%
US\$ Notes 11	US\$	210	2016-04-25	2046-04-25	4.85%
US\$ Notes 12	US\$	500	2016-06-14	2021-12-14	2.80%
US\$ Notes 13	US\$	750	2016-06-14	2026-06-14	3.70%
US\$ Notes 14	US\$	200	2016-09-07	2031-09-07	3.98%
US\$ Notes 15	US\$	250	2016-09-07	2046-09-07	4.49%
US\$ Notes 16	US\$	750	2017-02-28	2027-02-28	3.88%
US\$ Notes 17	US\$	500	2017-02-28	2022-02-28	3.13%
US\$ Notes 18	US\$	250	2018-01-11	2023-07-11	3.50%
US\$ Notes 19	US\$	500	2018-01-11	2028-01-11	4.00%
US\$ Notes 20	US\$	75	2018-03-13	2038-03-13	4.85%
US\$ Notes 21	US\$	200	2018-04-18	2048-04-18	5.07%

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 26 Debt instruments issued (continued)

Notes (continued):

### (a) Corporate bonds issued (continued)

#### (i) Details of corporate bonds issued by the Company (continued)

	Denominated currency	Face value in denominated currency million	As at 31 December 2017		Interest rate per annum
			Issue date	Maturity date	
US\$ Notes 3.1	US\$	750	2012-03-21	2018-01-21	6.88%
US\$ Notes 3.2	US\$	350	2012-04-26	2018-01-21	6.88%
HK\$ Notes 1	HK\$	500	2013-07-31	2018-07-31	5.90%
US\$ Notes 5	US\$	500	2013-04-10	2020-04-10	6.38%
US\$ Notes 2.1	US\$	500	2011-04-15	2021-04-15	6.63%
US\$ Notes 2.2	US\$	250	2014-06-23	2021-04-15	6.63%
US\$ Notes 1	US\$	150	2010-08-16	2022-08-16	6.90%
US\$ Notes 4.1	US\$	750	2012-10-17	2023-01-17	6.80%
US\$ Notes 4.2	US\$	250	2012-12-11	2023-01-17	6.80%
US\$ Notes 4.3	US\$	400	2014-07-18	2023-01-17	6.80%
US\$ Notes 6.1	US\$	110	2014-07-18	2024-01-18	4.70%
US\$ Notes 6.2	US\$	90	2014-10-29	2024-01-18	4.70%
HK\$ Notes 2	HK\$	420	2014-07-25	2024-07-25	4.35%
US\$ Notes 7	US\$	280	2015-04-14	2035-04-14	4.60%
US\$ Notes 8	US\$	150	2016-02-04	2041-02-04	4.88%
US\$ Notes 9	US\$	350	2016-02-04	2036-02-04	4.75%
US\$ Notes 10	US\$	90	2016-04-25	2036-04-25	4.65%
US\$ Notes 11	US\$	210	2016-04-25	2046-04-25	4.85%
US\$ Notes 12	US\$	500	2016-06-14	2021-12-14	2.80%
US\$ Notes 13	US\$	750	2016-06-14	2026-06-14	3.70%
US\$ Notes 14	US\$	200	2016-09-07	2031-09-07	3.98%
US\$ Notes 15	US\$	250	2016-09-07	2046-09-07	4.49%
US\$ Notes 16	US\$	750	2017-02-28	2027-02-28	3.88%
US\$ Notes 17	US\$	500	2017-02-28	2022-02-28	3.13%



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 26 Debt instruments issued (continued)

Notes (continued):

(a) **Corporate bonds issued** (continued)

(ii) *Details of corporate bonds issued by CITIC Corporation*

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
03 CITIC bond-2	RMB	6,000	2003-12-10	2023-12-09	5.10%
05 CITIC bond-2	RMB	4,000	2005-12-07	2025-12-06	4.60%
17 CITIC corporate bonds-1	RMB	2,000	2017-09-04	2022-09-04	4.60%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
03 CITIC bond-2	RMB	6,000	2003-12-10	2023-12-09	5.10%
05 CITIC bond-2	RMB	4,000	2005-12-07	2025-12-06	4.60%
17 CITIC SCP001	RMB	2,000	2017-08-03	2018-04-30	4.35%
17 CITIC SCP002	RMB	2,000	2017-08-10	2018-05-07	4.35%
17 CITIC corporate bonds-1	RMB	2,000	2017-09-04	2022-09-04	4.60%

(iii) *Details of corporate bonds issued by CITIC Telecom International*

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Guaranteed Bonds	US\$	450	2013-03-05	2025-03-05	6.10%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Guaranteed Bonds	US\$	450	2013-03-05	2025-03-05	6.10%

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 26 Debt instruments issued (continued)

Notes (continued):

### (a) Corporate bonds issued (continued)

#### (iv) Details of corporate bonds issued by CITIC Heavy Industries

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Corporate Bonds	RMB	126	2013-01-25	2020-01-25	5.20%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Corporate bonds	RMB	600	2013-01-25	2020-01-25	5.20%
Short term corporate bonds	RMB	1,600	2017-01-18	2018-01-18	4.30%

#### (v) Details of corporate bonds issued by CITIC Pacific's subsidiaries

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Corporate Bonds	RMB	1,000	2018-05-31	2021-05-31	4.90%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Medium Term Notes	RMB	200	2015-05-19	2018-05-19	4.50%
Medium Term Notes	RMB	300	2015-06-08	2018-06-08	4.70%

#### (vi) Details of corporate bonds issued by CITIC Environment's subsidiaries

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
CITIC Envirotech – Medium Term Notes	SG\$	225	2015-04-29	2018-04-29	4.70%



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 26 Debt instruments issued (continued)

Notes (continued):

### (b) Notes issued

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
CITIC Corporation (note (i))	31,877	32,113
CITIC Bank (note (ii))	112,459	113,135
CITIC Offshore Helicopter Company Limited (note (iii))	374	377
CITIC Trust Co., Ltd. (note (iv))	3,737	1,377
	<b>148,447</b>	<b>147,002</b>

#### (i) Details of notes issued by CITIC Corporation

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
2010 First tranche medium term note	RMB	3,000	2010-06-08	2020-06-10	4.60%
2010 Second tranche medium term note	RMB	4,000	2010-08-20	2020-08-24	4.40%
2011 First tranche medium term note	RMB	3,000	2011-07-28	2018-08-02	5.85%
2011 Second tranche medium term note-1	RMB	2,000	2011-11-15	2018-11-16	5.10%
2011 Second tranche medium term note-2	RMB	6,000	2011-11-15	2021-11-16	5.30%
2012 Medium term note -1	RMB	4,000	2012-03-28	2019-03-29	5.00%
2012 Medium term note -2	RMB	5,000	2012-03-28	2022-03-29	5.18%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
2010 First tranche medium term note	RMB	3,000	2010-06-08	2020-06-10	4.60%
2010 Second tranche medium term note	RMB	4,000	2010-08-20	2020-08-24	4.40%
2011 First tranche medium term note	RMB	3,000	2011-07-28	2018-08-02	5.85%
2011 Second tranche medium term note-1	RMB	2,000	2011-11-15	2018-11-16	5.10%
2011 Second tranche medium term note-2	RMB	6,000	2011-11-15	2021-11-16	5.30%
2012 Medium term note -1	RMB	4,000	2012-03-28	2019-03-29	5.00%
2012 Medium term note -2	RMB	5,000	2012-03-28	2022-03-29	5.18%

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 26 Debt instruments issued (continued)

Notes (continued):

(b) Notes issued (continued)

(ii) Details of notes issued by CITIC Bank

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
17 Financial bonds	RMB	50,000	2017-04-17	2020-04-17	4.20%
Financial bonds	RMB	15,000	2013-11-08	2018-11-12	5.20%
Financial bonds	RMB	8,000	2015-11-17	2020-11-17	3.61%
Financial bonds	RMB	7,000	2015-05-21	2020-05-25	3.98%
Financial bonds	US\$	700	2017-12-14	2020-12-14	3.24%
Financial bonds	US\$	550	2017-12-14	2022-12-15	3.34%
Financial bonds	RMB	3,000	2017-05-24	2020-05-24	4.40%
Financial bonds	US\$	300	2017-12-14	2020-12-14	2.88%
Financial bonds	US\$	250	2017-12-14	2022-12-15	3.13%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
17 Financial bonds	RMB	50,000	2017-04-17	2020-04-17	4.20%
Financial bonds	RMB	15,000	2013-11-08	2018-11-12	5.20%
Financial bonds	RMB	8,000	2015-11-17	2020-11-17	3.61%
Financial bonds	RMB	7,000	2015-05-21	2020-05-25	3.98%
Financial bonds	US\$	700	2017-12-14	2020-12-14	2.47%
Financial bonds	US\$	550	2017-12-14	2022-12-15	2.57%
Financial bonds	RMB	3,000	2017-05-24	2020-05-24	4.40%
Financial bonds	US\$	300	2017-12-14	2020-12-14	2.88%
Financial bonds	US\$	250	2017-12-14	2022-12-15	3.13%



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 26 Debt instruments issued (continued)

Notes (continued):

(b) **Notes issued** (continued)

(iii) *Details of notes issued by CITIC Offshore Helicopter Company Limited*

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
2017 Asset-backed medium-term notes	RMB	315	2017-05-04	2020-03-31	5.18%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
2017 Asset-backed medium-term notes	RMB	315	2017-05-04	2020-03-31	5.18%

(iv) *Details of notes issued by CITIC Trust Co., Ltd.*

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Guaranteed Notes	US\$	300	2018-03-15	2021-03-15	4.75%
Participation Notes (HDPro)	US\$	6	2017-12-29	2019-12-29	Non fixed interest rate
CTI 4.07% 8Oct2018 Note	US\$	170	2017-10-23	2018-10-08	4.07%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Participation Notes (HDPro)	US\$	6	2017-12-29	2019-12-29	Non fixed interest rate
CTI 4.07% 8Oct2018 Note	US\$	170	2017-10-23	2018-10-08	4.07%

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 26 Debt instruments issued (continued)

Notes (continued):

### (c) Subordinated bonds issued

The balance represents the subordinated debts issued by CITIC bank or CITIC Bank International Limited ("CBI"), a subsidiary of CITIC Bank. The carrying amount of subordinated debts is as follows:

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Fixed rate notes maturing		
– In June 2020 (note (i))	3,958	3,996
– In May 2024 (note (ii))	2,336	2,319
Fixed rate bonds maturing		
– In May 2025 (note (iii))	13,640	13,757
– In June 2027 (note (iv))	23,700	23,903
– In August 2024 (note (v))	43,850	44,225
	<b>87,484</b>	<b>88,200</b>

	As at 30 June 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
(i) Subordinated Notes	US\$	500	2010-06-24	2020-06-24	6.88%
(ii) Subordinated Notes	US\$	300	2013-11-07	2024-05-07	6.00%
(iii) Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(iv) Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(v) Subordinated Fixed Rate Bonds	RMB	37,000	2014-08-26	2024-08-26	6.13%

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
(i) Subordinated Notes	US\$	500	2010-06-24	2020-06-24	6.88%
(ii) Subordinated Notes	US\$	300	2013-11-07	2024-05-07	6.00%
(iii) Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(iv) Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(v) Subordinated Fixed Rate Bonds	RMB	37,000	2014-08-26	2024-08-26	6.13%

### (d) Certificates of deposit issued

These certificates of deposit were issued by CBI with interest rate ranging from 1.44% to 2.26% per annum (31 December 2017: 0.70% to 3.62% per annum).

### (e) Certificates of interbank deposit issued

As at 30 June 2018, CITIC Bank issued certain certificates of interbank deposit with a total value of RMB384,450 million (approximately HK\$455,996million) (31 December 2017: RMB270,096 million (approximately HK\$323,116 million)). The yield ranges from 3.64% to 4.93% per annum (31 December 2017: 4.00% to 5.35% per annum). The original expiry terms are between 1 month to 1 year (31 December 2017: between 3 month to 1 year).



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 27 Share capital and perpetual capital securities

### (a) Share capital

As at 30 June 2018, the number of issued ordinary shares of the Company was 29,090,262,630 (31 December 2017: 29,090,262,630).

### (b) Perpetual capital securities

In May 2013, the Company issued perpetual subordinated capital securities (the “perpetual capital securities”) with a nominal amount of US\$1,000 million (approximately HK\$7,800 million). These securities are perpetual and the distribution payments can be deferred at the discretion of the Company. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. The amounts as at 30 June 2018 and 31 December 2017 included the accrued distribution payments.

### (c) Capital management

The Group’s primary objectives when managing capital are to safeguard the Group’s stability and growth, so that it can continue to provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure, with reference to such financial ratios like debt (total of debt instruments issued and bank and other loans) to total equity ratio, to maintain a balance between the higher shareholders’ returns when utilising debt financing and safety of working capital with equity financing, and makes adjustments to the capital structure in light of changes in economic conditions.

Certain subsidiaries under the financial services segment are subject to capital adequacy requirements imposed by the external regulators. There was no non-compliance of capital requirements as at 30 June 2018 (31 December 2017: Nil).



## 28 Contingent liabilities and commitments

### (a) Credit commitments

Credit commitments in connection with the financial services segment of the Group take the form of loan commitments, credit card commitments, financial guarantees, letters of credit and acceptances.

Loan commitments represent the undrawn amount of approved loans with signed contracts. Credit card commitments represent the credit card overdraft limits authorised by the Group. Financial guarantees and letters of credit represent guarantee provided by the Group to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of credit commitments by category as at the balance sheet date are set out below. The amounts disclosed in respect of loan commitments and credit card commitments assume that amounts are fully drawn down. The amounts of guarantees, letters of credit and acceptances represent the maximum potential loss that would be recognised as at the balance sheet date if counterparties failed to perform as contracted.

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Contractual amount		
Loan commitments		
With an original maturity of within 1 year	14,830	15,923
With an original maturity of 1 year or above	42,869	68,321
Credit card commitments	57,699	84,244
Guarantees	430,931	371,230
Letters of credit	208,031	256,028
Acceptances	118,941	106,739
	468,688	511,919
	<b>1,284,290</b>	<b>1,330,160</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 28 Contingent liabilities and commitments (continued)

### (b) Credit commitments analysed by credit risk weighted amount

	<b>30 June 2018</b>	31 December 2017
	<b>HK\$ million</b>	HK\$ million
Credit risk weighted amount on credit commitments	<b>441,139</b>	420,470

Notes:

- (i) The above credit risk weighted amount is solely in connection with the credit commitments held by CITIC Bank under the financial services segment of the Group.
- (ii) The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the China Banking Regulatory Commission and depends on the status of counterparties and the maturity characteristics. The risk weighting used is ranging from 0% to 150%.

### (c) Redemption commitment for treasury bonds

As an underwriting agent of PRC treasury bonds, CITIC Bank has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any accrued unpaid interest as at the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the Ministry of Finance and the People's Bank of China. The redemption price may be different from the fair value of similar instruments publicly traded at the redemption date.

The redemption obligations below represent the nominal value of treasury bonds underwritten and sold by CITIC Bank, but not yet matured as at the balance sheet date:

	<b>30 June 2018</b>	31 December 2017
	<b>HK\$ million</b>	HK\$ million
Redemption commitment for treasury bonds	<b>12,943</b>	13,748

As at 30 June 2018, the original maturities of these bonds vary from one to five years (31 December 2017: one to five years). Management of the Group expects the amount of redemption before maturity dates of these bonds will not be material. The Ministry of Finance will not provide funding for the early redemption of these bonds on a back-to-back basis, but will settle the principal and interest upon maturity.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 28 Contingent liabilities and commitments (continued)

### (d) Guarantees provided

Except for guarantees that have been recognised as liabilities, the guarantees issued by the Group as at the balance sheet date are as follows:

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Related parties (note)	<b>16,397</b>	17,384
Third parties	<b>3,378</b>	3,358
	<b>19,775</b>	20,742

As at balance date, the counter guarantees issued to the Group by related parties and third parties mentioned above are as follows:

	<b>30 June 2018 HK\$ million</b>	31 December 2017 HK\$ million
Related parties (note)	<b>5,930</b>	5,981
Third parties	<b>36</b>	28
	<b>5,966</b>	6,009

Note:

As at 30 June 2018, the guarantees provided to related parties by the Group included guarantees provided to former subsidiaries of the Group that were disposed to China Overseas Land & Investment Limited ("China Overseas") in 2016 amounted to RMB5,000 million (approximately HK\$5,930 million) (31 December 2017: RMB5,000 million (approximately HK\$5,981 million)). The guarantees were being transferred to China Overseas which has provided counter guarantees to the Group.

The relationship and transaction with related parties are disclosed in Note 30.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 28 Contingent liabilities and commitments (continued)

### (e) Outstanding litigation and disputes

The Group is involved in a number of current and pending legal proceedings. The Group provided for liabilities arising from those legal proceedings in which the outflow of economic benefit is probable and can be reliably estimated in the consolidated balance sheet. The Group believes that these accruals are reasonable and adequate.

#### (i) Investigation into 2008 forex incident

Following the Company's announcement of a foreign exchange related loss, on 22 October 2008, the Hong Kong Securities and Futures Commission (the "SFC") announced that it had commenced a formal investigation into the affairs of the Company. On 3 April 2009, the Commercial Crime Bureau of the Hong Kong Police Force began an investigation of suspected offences relating to the same matter.

The SFC announced on 11 September 2014 that it has commenced proceedings in the Court of First Instance of the High Court of Hong Kong (the "High Court") and the Market Misconduct Tribunal (the "MMT"), respectively, against the Company and five of its former executive directors.

The SFC alleged that the Company and the former directors had engaged in market misconduct involving the disclosure of false or misleading information about the Company's financial position in connection with losses that the Company had suffered through its investment in the leveraged foreign exchange contracts.

In the action instigated by the SFC at the MMT, the SFC asked the MMT to (i) determine whether any market misconduct has taken place, and (ii) identify persons who had engaged in such misconduct. In the event that the MMT makes determinations of market misconduct against either the Company or the former directors, it is understood that the SFC will seek from the High Court orders against those who have been found to have engaged in market misconduct to restore affected investors to their pre-transaction positions or to compensate affected investors for their losses.

The MMT hearing was completed in July 2016. On 10 April 2017, the MMT handed down its decision determining that, in the publication of the Company's circular on 12 September 2008, no market misconduct within the meaning of section 277 (1) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) took place. The time limits for appeal of the MMT decision have expired and the SFC has discontinued the proceedings in the High Court by consent.



## 28 Contingent liabilities and commitments (continued)

### (e) Outstanding litigation and disputes (continued)

#### (i) Investigation into 2008 forex incident (continued)

On 15 October 2014, the Secretary for the Financial Services and the Treasury said that the Police's investigation into the CITIC matters on aspects outside the subject matters of the SFC's actions are still ongoing.

In the absence of the findings of these investigations being made available to the Company and due to the inherent difficulties involved in attempting to predict the outcome of such investigations and in assessing the possible findings, the directors do not have sufficient information to reasonably estimate the fair value of contingent liabilities (if any) relating to such investigations, the timing of the ultimate resolution of those matters or what the eventual outcome may be. However, based on information currently available, the directors are not aware of any matters arising from the above investigations that might have a material adverse financial impact on the consolidated financial position or liquidity of the Group.

(ii) There are a number of disputes with Mineralogy, and their details are disclosed in Note 3(c).

(iii) There are some issues in dispute with MCC, and their details are disclosed in Note 3(b).

### (f) Capital commitments

As at the balance sheet date, the Group had the following contracted capital commitments not provided for in the Accounts:

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Contracted for	16,962	20,794

### (g) Operating lease commitments

The Group leases certain properties and fixed assets under operating leases. As at the balance sheet date, the Group's future minimum lease payments under non-cancellable operating lease contracts are as follows:

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Within 1 year	5,353	5,384
Between 1 and 2 years	4,765	5,012
Between 2 and 3 years	4,187	4,029
Over 3 years	13,556	12,812
	27,861	27,237



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the business of the Group. The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The Group regularly updates and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with policies and procedures.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

### (a) Credit risk

#### **Credit risk management**

Credit risk refers to the risk of loss caused by default of debtor or counterparty. Credit risk also occurs when the Group makes unauthorised or inappropriate loans and advances to customers, financial commitments or investments. The credit risk exposure of the Group mainly arises from the Group's loan and advance to customers, treasury business, off-balance sheet item and receivables arising from sale of goods and rendering of services.

The Group has standardised management on the entire credit business process including loan application, and its investigation approval and granting of loan, and monitoring of non-performing loans. Through strictly standardising the credit business process, strengthening the whole process management of pre-loan investigation, credit rating and credit granting, examination and approval, loan review and post-loan monitoring, improving the risk of slow-release of collateral, accelerating the liquidation and disposal of non-performing loans, and promoting the upgrading and transformation of credit management system, the credit risk management level of the Group has been comprehensively improved.

In addition to the credit risk to the Group caused by credit assets, for treasury business, the Group manages the credit risk for treasury business through prudently selecting peers and other financial institutions with comparable credit levels as counterparties, balancing credit risk with returns on investment, comprehensively considering internal and external credit rating information, granting credit hierarchy, and using credit management system to review and adjust credit commitments on a timely basis, etc. In addition, the Group provides off-balance sheet commitment and guarantee business to customers, so it is possible for the Group to make payment on behalf of the customer in case of customer's default and bear risks similar to the loan. Therefore, the Group applies similar risk control procedures and policies to such business to reduce the credit risk.

The Group is also confronted with credit risk resulting from receivables that arising from sale of goods and rendering of services within the non-financial services segments. The relevant subsidiaries have established a credit policy under which individual credit evaluations are performed on all customers to determine the credit limit and terms applicable to the customers. These evaluations focus on the customers' financial position, the external ratings of the customers and their bank credit records where available.



## 29 Financial risk management and fair values *(continued)*

### (a) Credit risk *(continued)*

#### **Measurement of ECL**

Since 1 January 2018, the Group adopts the “ECL model” on its debt instruments which are classified as financial assets measured at amortised cost and at FVOCI in accordance with the provisions of HKFRS 9.

For financial assets that are included in the measurement of ECL, the Group evaluates whether the credit risks of related financial assets have increased significantly since initial recognition. The “three-stage” impairment model is used to measure their loss allowances respectively to recognise ECL and their movements:

Stage 1: Financial instruments with no significant increase in credit risk since its initial recognition will be classified as “stage 1” and the Group continuously monitors their credit risk. The loss allowances of financial instruments in stage 1 is measured based on the ECL in the next 12 months, which represents the proportion of the ECL in the lifetime due to possible default events in the next 12 months.

Stage 2: If there is a significant increase in credit risk initial recognition, the Group transfers the related financial instruments to stage 2, but it will not be considered as credit-impaired instruments. The ECL of financial instruments in stage 2 is measured based on the lifetime ECL.

Stage 3: If the financial instruments are credit-impaired after initial recognition, it will be moved to stage 3. The ECL of financial instruments in stage 3 is measured based on the lifetime ECL.

Purchased or originated credit-impaired financial assets refers to financial assets that are credit-impaired at the initial recognition. Loss allowances on these assets are the lifetime ECL.

The Group estimates the ECL in accordance with HKFRS 9, and the key judgments and assumptions adopted by the Group are as follows:



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

#### Measurement of ECL (continued)

##### (1) Significant increase in credit risk

On each balance sheet date, the Group evaluates whether the credit risk of the relevant financial instruments has increased significantly since initial recognition.

By setting quantitative and qualitative threshold, and upper limit, the Group determines whether the credit risk of financial instruments has increased significantly since initial recognition. The judgment mainly includes the change in probability of default ("PD") from debtor and the change in classification of credit risk. For instance, for the borrowers who are 30 days (exclusive) to 90 days (inclusive) past due on their contractual payments (including principal and interest), the Group considers that their credit risk has increased significantly and classifies related financial assets to stage 2. For those borrowers who are more than 90 days past due on their contractual payments, the Group considers that they are credit-impaired and classifies related financial assets to stage 3.

##### (2) Definition of credit impairment assets that have occurred

When one or more events that adversely affect the expected future cash flow of a financial asset occurs, the financial asset becomes a credit-impaired financial asset. Evidence of credit-impaired financial assets includes the following observable information:

- The issuer or borrower is in significant financial difficulties;
- The borrower is in breach of financial covenant(s) such as default or overdue in repayment of interests or principle etc;
- The creditor gives the debtor concession that would not be offered otherwise, considering economic or contractual factors relating to the debtor's financial difficulties;
- It is becoming probably that the borrower will enter bankruptcy or other debt restructuring;
- An active market for that financial asset has disappeared because of financial difficulties from issuer or borrower;
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.



## 29 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

#### Measurement of ECL (continued)

#### (3) Inputs for measurement of ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred or whether an asset is considered to be credit-impaired. Related definitions are as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligations, either over the next 12 months or over the remaining lifetime of the obligation.
- Loss given default (“LGD”) represents the Group’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default and is calculated on a 12-month or lifetime basis.
- Exposure at default (“EAD”) is based on the amounts that the Group expects to be owned at the time of default, over the next 12 months or over the remaining lifetime of the obligation.

#### (4) Forward-looking information

The assessment of significant increase in credit risk and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and ECL for each asset portfolio.

These economic variables and their associated impact on the PD vary by financial instruments. Expert judgment has also been applied in this process, forecasts of these economic variables are estimated by the experts of the Group on a quarterly basis, and the impact of these economic variables on the PD and the EAD was determined by statistical regression analysis.

In addition to the base economic scenario, the Group determines the possible scenarios and their weightings by a combination of statistical analysis and expert judgment. The Group measures ECL as either a probability weighted 12 months ECL (stage 1) or a probability weight lifetime ECL (stage 2 and stage 3). These probability-weighted ECL are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

#### (i) Maximum credit risk exposure

The maximum exposure to credit risk as at the balance sheet date without taking into consideration of any collateral held or other credit enhancement is represented by the net balance of each type of financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum credit risk exposure of financial instruments for which allowance for impairment losses is recognised is as follows:

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Deposits with central banks, banks and non-bank financial institutions	815,305	916,434
Placements with banks and non-bank financial institutions	244,419	205,346
Trade and other receivables	152,673	132,971
Financial assets held under resale agreements	80,986	65,349
Loans and advances to customers and other parties	3,904,130	3,721,886
Investments in financial assets		
– Financial assets at FVOCI	584,920	N/A
– Financial assets at amortised cost	809,964	N/A
Available-for-sale financial assets	N/A	615,461
Held-to-maturity investments	N/A	261,654
Investments classified as receivables	N/A	644,789
Contract assets	3,436	N/A
	<b>6,595,833</b>	6,563,890
Credit commitments and guarantees provided	1,304,065	1,350,902
Maximum credit risk exposure	<b>7,899,898</b>	7,914,792

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancement is not represented by the net balance of each type of financial assets in the balance sheet without deducting any allowance for impairment losses. A summary of the maximum exposure is as follows:

	30 June 2018 HK\$ million	31 December 2017 HK\$ million
Derivative financial instruments	46,016	79,339
Financial assets at FVPL	N/A	78,034
Investments in financial assets		
– Financial assets at FVPL	376,044	N/A
Maximum credit risk exposure	<b>422,060</b>	157,373

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

#### (ii) Loans and advances to customers and other parties analysed by industry sector:

	As at 30 June 2018			As at 31 December 2017		
	Gross balance HK\$ million	%	Loans and advances secured by collateral HK\$ million	Gross balance HK\$ million	%	Loans and advances secured by collateral HK\$ million
Corporate loans						
– Manufacturing	369,899	10%	323,033	371,930	10%	163,449
– Real estate	370,376	9%	169,065	403,707	11%	329,132
– Rental and business services	296,907	7%	111,091	266,486	7%	161,220
– Water, environment and public utility management	235,819	6%	97,186	215,353	6%	105,201
– Wholesale and retail	204,615	5%	180,395	231,865	6%	123,341
– Transportation, storage and postal services	188,490	5%	112,091	182,855	5%	94,651
– Construction	95,330	2%	36,194	99,219	3%	37,698
– Production and supply of electric power, gas and water	88,115	2%	45,285	84,639	2%	39,377
– Public management and social organisations	18,604	1%	3,661	22,653	1%	6,901
– Others	381,525	9%	159,353	352,964	9%	149,845
	2,249,680	56%	1,237,354	2,231,671	60%	1,210,815
Personal loans	1,536,732	38%	1,099,104	1,473,346	37%	1,028,237
Discounted bills	231,071	6%	–	130,190	3%	–
	4,017,483	100%	2,336,458	3,835,207	100%	2,239,052



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values (continued)

### (a) Credit risk (continued)

#### (iii) Loans and advances to customers and other parties analysed by geographical sector:

	As at 30 June 2018			As at 31 December 2017		
	Gross balance HK\$ million	%	Loans and advances secured by collateral HK\$ million	Gross balance HK\$ million	%	Loans and advances secured by collateral HK\$ million
Mainland China	3,804,342	94%	2,256,156	3,629,798	94%	2,157,278
Hong Kong and Macau	186,850	5%	71,937	174,594	5%	60,434
Overseas	26,291	1%	8,365	30,815	1%	21,340
	4,017,483	100%	2,336,458	3,835,207	100%	2,239,052

#### (iv) Rescheduled loans and advances to customers and other parties

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are a concession that the Group would not otherwise consider.

	As at 30 June 2018		As at 31 December 2017	
	Gross balance HK\$ million	% of total loans and advances	Gross balance HK\$ million	% of total loans and advances
Rescheduled loans and advances	27,427	0.68%	27,809	0.73%
– Rescheduled loans and advances overdue for more than 3 months	24,376	0.61%	23,757	0.62%

#### (v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As at 30 June 2018, the amount of the financial assets and financial liabilities subject to enforceable netting arrangements or similar agreements are not material to the Group (31 December 2017: Nil).

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (b) Liquidity risk

Liquidity risk arises when there is mismatch for amounts and maturity dates between financial assets and financial liabilities.

Each of the Group's operating entity formulates liquidity risk management policies and procedures within the Group's overall liquidity risk management framework and takes into consideration of the business and regulatory requirements applicable to individual entity.

The Group manages liquidity risk by holding liquid assets (including deposits, other short term funds and securities) of appropriate quality and quantity to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The following tables present the remaining maturity date analysis for the Group's financial assets and liabilities:

	As at 30 June 2018					Total HK\$ million
	Repayable on demand HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	Indefinite maturity date HK\$ million	
Total financial assets	338,522	2,613,976	1,867,060	1,451,051	784,603	7,055,212
Total financial liabilities	(2,658,777)	(3,248,040)	(647,767)	(154,672)	(15,520)	(6,724,776)
Financial asset-liability gap	(2,320,255)	(634,064)	1,219,293	1,296,379	769,083	330,436

	As at 31 December 2017					Total HK\$ million
	Repayable on demand HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	Indefinite maturity date HK\$ million	
Total financial assets	340,317	2,643,768	1,780,307	1,387,202	783,586	6,935,180
Total financial liabilities	(2,753,714)	(3,177,518)	(554,683)	(140,993)	(4,896)	(6,631,804)
Financial asset-liability gap	(2,413,397)	(533,750)	1,225,624	1,246,209	778,690	303,376



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

The table below presents the undiscounted cash flows of the Group's financial assets and liabilities:

	As at 30 June 2018					Total HK\$ million
	Repayable on demand HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	No maturity date HK\$ million	
Total financial assets	342,316	2,820,236	2,319,308	2,116,117	791,004	8,388,981
Total financial liabilities	(2,663,462)	(3,330,231)	(723,308)	(184,832)	(15,520)	(6,917,353)
Financial asset-liability gap	(2,321,146)	(509,995)	1,596,000	1,931,285	775,484	1,471,628

	As at 31 December 2017					Total HK\$ million
	Repayable on demand HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	No maturity date HK\$ million	
Total financial assets	338,645	2,776,888	2,189,462	1,968,893	786,445	8,060,333
Total financial liabilities	(2,750,325)	(3,197,172)	(629,705)	(167,765)	(4,896)	(6,749,863)
Financial asset-liability gap	(2,411,680)	(420,284)	1,559,757	1,801,128	781,549	1,310,470

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (b) Liquidity risk (continued)

Credit Commitments include loan commitments, acceptances, credit card commitments, guarantees, letters of credit and others. The tables below summarise the amounts of credit commitments by remaining contractual maturity:

	As at 30 June 2018			Total HK\$ million
	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	
Loan commitments	14,830	42,869	–	57,699
Guarantees	111,938	87,127	8,966	208,031
Letters of credit	116,438	2,503	–	118,941
Acceptances	468,688	–	–	468,688
Credit card commitments	430,931	–	–	430,931
<b>Total</b>	<b>1,142,825</b>	<b>132,499</b>	<b>8,966</b>	<b>1,284,290</b>

	As at 31 December 2017			Total HK\$ million
	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	
Loan commitments	20,459	29,262	34,523	84,244
Guarantees	147,717	106,360	1,951	256,028
Letters of credit	104,128	2,611	–	106,739
Acceptances	511,828	91	–	511,919
Credit card commitments	371,230	–	–	371,230
<b>Total</b>	<b>1,155,362</b>	<b>138,324</b>	<b>36,474</b>	<b>1,330,160</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values (continued)

### (c) Interest rate risk

Each of the Group's operating entity has formulated its own interest risk management policies and procedures covering identification, measurement, monitoring and control of risks. The Group manages interest rate risk to control potential loss from interest rate risk at an acceptable level.

### (i) Asset-liabilities gap

Interest rate risk arises from mismatch for repricing dates between financial assets and liabilities affected by market interest rate volatility.

	As at 30 June 2018				
	Non-interest bearing HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	Total HK\$ million
Total financial assets	543,354	5,379,222	849,435	283,201	7,055,212
Total financial liabilities	(276,661)	(5,729,710)	(557,792)	(160,613)	(6,724,776)
Financial asset-liability gap	266,693	(350,488)	291,643	122,588	330,436

	As at 31 December 2017				
	Non-interest bearing HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	Total HK\$ million
Total financial assets	487,568	4,440,060	1,726,885	280,667	6,935,180
Total financial liabilities	(296,261)	(5,721,228)	(492,645)	(121,670)	(6,631,804)
Financial asset-liability gap	191,307	(1,281,168)	1,234,240	158,997	303,376

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (c) Interest rate risk (continued)

#### (ii) Effective interest rate

	Effective interest rate	As at 30 June 2018 HK\$ million	Effective interest rate	As at 31 December 2017 HK\$ million
<b>Assets</b>				
Cash and deposits	1.55%-2.33%	822,519	1.56%-2.21%	924,584
Placements with banks and non-bank financial institutions	3.30%	244,419	3.07%	205,346
Financial assets held under resale agreements	2.82%	80,986	2.89%	65,349
Loans and advances to customers and other parties	4.80%	3,904,130	4.61%	3,721,886
Investments in financial assets	3.83%-4.65%	1,804,469	N/A	N/A
Investments classified as receivables	N/A	N/A	4.25%	644,789
Interests in associates and joint ventures	–	140,879	–	136,062
Investments (note (1))	N/A	N/A	3.28%	1,160,916
Others		631,548		661,807
		<b>7,628,950</b>		<b>7,520,739</b>
<b>Liabilities</b>				
Borrowing from central banks	3.26%	315,621	3.13%	284,818
Deposits from banks and non-bank financial institutions	3.70%	812,023	3.75%	954,638
Placements from banks and non-bank financial institutions	3.17%	80,095	2.85%	90,131
Financial assets sold under repurchase agreements	3.01%	83,393	2.91%	160,902
Deposits from customers	1.80%	4,226,730	1.59%	4,056,158
Bank and other loans	0.43%-7.13%	147,031	0.33%-6.7%	142,442
Debt instruments issued	2.88%-6.95%	777,729	2.47%-6.95%	653,371
Others		371,650		384,638
		<b>6,814,272</b>		<b>6,727,098</b>

Note:

- (1) As at 31 December 2017, the Group's investments include financial assets at FVPL, available-for-sale financial assets, held-to-maturity investments. The calculation of effective interest rate is based on the interest yielding part of the financial assets.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values *(continued)*

### (c) Interest rate risk *(continued)*

#### (iii) Sensitivity analysis

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's profit or loss. As at 30 June 2018, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, the Group's annualised profit before taxation would decrease or increase by HK\$5,934 million (31 December 2017: the Group's annual profit before taxation would decrease or increase by HK\$12,916 million).

This sensitivity analysis is based on a static interest rate risk profile of the Group's financial assets and financial liabilities and certain simplified assumptions. The analysis only measures the impact of changes in the interest rates within one year, showing how annualised interest income would have been affected by repricing of the Group's financial assets and financial liabilities within the one-year period. The analysis is based on the following assumptions: (1) all assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature at the beginning of the respective periods; (2) there is a parallel shift in the yield curve and in interest rates; and (3) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Because of its hypothetical nature with the assumptions adopted, actual changes in the Group's profit before taxation resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

### (d) Currency risk

Currency risk arises from the changes in exchange rates on the Group's foreign currency denominated assets and liabilities. The Group measures its currency risk with foreign currency exposures, and manages currency risk by entering into spot foreign exchange transactions, use of derivatives (mainly foreign forwards and swaps), and matching its foreign currency denominated assets with corresponding liabilities in the same currency.

The revenue from the Group's Sino Iron Project is denominated in US\$, which is also the functional currency for this entity. A substantial portion of its development and operating expenditure are denominated in Australian Dollars. The Group entered into plain vanilla forward contracts to manage the foreign currency risks.

The Group funded the Sino Iron Project and the acquisition of bulk cargo vessels by borrowing US\$ loans to match the future cash outflows of these assets. The Group's investments in the Sino Iron Project and bulk cargo vessels (whose functional currency is in US\$) have been designated as an accounting hedge against other US\$ loans.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (d) Currency risk (continued)

The exposure to currency risk arising from the financial assets and financial liabilities at the balance sheet date is as follows (expressed in HK\$ million):

	As at 30 June 2018				
	HK\$	US\$	RMB	Others	Total
Total financial assets	204,702	411,098	6,395,624	43,788	7,055,212
Total financial liabilities	(225,242)	(463,812)	(5,966,004)	(69,718)	(6,724,776)
Financial asset-liability gap	(20,540)	(52,714)	429,620	(25,930)	330,436

	As at 31 December 2017				
	HK\$	US\$	RMB	Others	Total
Total financial assets	183,728	318,142	6,389,880	43,430	6,935,180
Total financial liabilities	(219,029)	(446,882)	(5,894,421)	(71,472)	(6,631,804)
Financial asset-liability gap	(35,301)	(128,740)	495,459	(28,042)	303,376

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's profit or loss.

Assuming all other risk variables remained constant, a 100 basis points strengthening or weakening of HK\$ against the US\$, RMB and other currencies as at 30 June 2018 would decrease or increase the Group's annualised profit before taxation by HK\$3,458 million (31 December 2017: decrease or increase the Group's annual profit before taxation by HK\$3,515 million).

This sensitivity analysis is based on a static foreign exchange exposure profile of financial assets and financial liabilities and certain simplified assumptions. The analysis is based on the following assumptions: (1) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against HK\$; (2) the exchange rates against HK\$ for all foreign currencies changes in the same direction simultaneously and does not take into account the correlation effect of changes in different foreign currencies; and (3) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Because of its hypothetical nature with the assumptions adopted, actual changes in the Group's profit before taxation resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values *(continued)*

### (e) Fair values

#### (i) Financial instruments carried at fair value

The following table presents the carrying amounts of financial instruments at fair value as at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 13 Fair value measurement, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted market for similar active markets for identical financial instruments;
- Level 2: fair values measured using quoted prices in active market for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

The fair value of the Group's financial assets and financial liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively.
- If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there were no available observable current market transactions prices for similar instruments, quoted prices from counterparty is used for the valuation, and management performs analysis on these prices. Discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for derivatives other than options, and option pricing models are used for option derivatives.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (e) Fair values (continued)

#### (i) Financial instruments carried at fair value (continued)

	As at 30 June 2018			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
<b>Assets</b>				
Loans and advances to customers and other parties at FVOCI	–	58,307	–	58,307
Derivative financial instruments	3	45,557	456	46,016
Investments in financial assets	89,481	781,737	123,287	994,505
	89,484	885,601	123,743	1,098,828
<b>Liabilities</b>				
Financial liabilities at FVPL	(2,269)	(65)	–	(2,334)
Derivative financial liabilities	(61)	(45,140)	(4)	(45,205)
	(2,330)	(45,205)	(4)	(47,539)

	As at 31 December 2017			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
<b>Assets</b>				
Financial assets at FVPL	17,111	74,229	10	91,350
Derivative financial instruments	–	78,464	875	79,339
Available-for-sale financial assets	73,039	695,115	15,160	783,314
	90,150	847,808	16,045	954,003
<b>Liabilities</b>				
Derivative financial liabilities	–	(80,075)	–	(80,075)

During the six months ended 30 June 2018, there were no significant transfers between instruments in different levels (six months ended 30 June 2017: Nil) and no significant changes in valuation techniques for determining the fair values of the instruments (six months ended 30 June 2017: Nil).



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values (continued)

### (e) Fair values (continued)

#### (i) Financial instruments carried at fair value (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	Six months ended 30 June 2018			Liabilities Derivative financial liabilities HK\$ million
	Derivative financial instruments HK\$ million	Assets Investments in financial assets HK\$ million	Total HK\$ million	
As at 1 January 2018	875	279,125	280,000	–
Total (losses)/gains	(419)	(1,732)	(2,151)	(4)
– in profit or loss	4	1,205	1,209	(4)
– in other comprehensive loss	(423)	(2,937)	(3,360)	–
Net settlements	–	(154,106)	(154,106)	–
As at 30 June 2018	456	123,287	123,743	(4)
Total losses for the period included in profit or loss for assets and liabilities held in Level 3 as at the balance sheet date	4	1,205	1,209	(4)

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 29 Financial risk management and fair values (continued)

### (e) Fair values (continued)

#### (ii) Fair value of other financial instruments (carried at other than fair value)

The carrying amounts and fair values of the Group's financial assets and liabilities, other than those with carrying amounts that reasonably approximate to their fair values, are as follows:

	As at 30 June 2018				
	Carrying amount HK\$ million	Fair value HK\$ million	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million
<b>Financial assets</b>					
Investments in financial assets					
– Financial assets at amortised cost	809,964	811,383	2,667	492,424	316,292
	809,964	811,383	2,667	492,424	316,292
<b>Financial liabilities</b>					
Debt instruments issued					
– Corporate bonds issued	82,865	79,711	150	79,561	–
– Notes issued	148,447	147,698	374	143,587	3,737
– Subordinated bonds issued	87,484	90,021	6,524	83,497	–
– Certificates of deposit (not for trading purpose)	2,937	3,115	–	3,115	–
– Certificates of interbank deposit issued	455,996	453,401	–	453,401	–
	777,729	773,946	7,048	763,161	3,737

	As at 31 December 2017				
	Carrying amount HK\$ million	Fair value HK\$ million	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million
<b>Financial assets</b>					
Held-to-maturity investments	261,654	254,349	1,090	253,179	80
Investments classified as receivables	644,789	638,429	–	111,217	527,212
	906,443	892,778	1,090	364,396	527,292
<b>Financial liabilities</b>					
Debt instruments issued					
– Corporate bonds issued	91,644	87,558	2,632	84,926	–
– Notes issued	147,002	145,099	377	144,722	–
– Subordinated bonds issued	88,200	91,213	6,617	84,596	–
– Certificates of deposit (not for trading purpose)	3,409	3,408	–	3,408	–
– Certificates of interbank deposit issued	323,116	317,105	–	317,105	–
	653,371	644,383	9,626	634,757	–



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 29 Financial risk management and fair values *(continued)*

### (e) Fair values *(continued)*

#### (iii) Estimation of fair values

As at the balance sheet date, the Group adopted the following major methods and assumptions in estimating the fair value of financial instruments.

##### **Debt securities and equity investments**

Fair value is based on quoted market prices as at the balance sheet date for trading financial assets and liabilities (excluding derivatives), financial instruments held for investment if there is an active market. If an active market does not exist for financial instruments held for investment, the fair value is determined using valuation techniques.

##### **Loans and advances to customers and other parties, bank and other loans**

Loans and advances to customers and other parties, and bank and other loans are repriced at market rates at least annually. Accordingly, their carrying amounts approximate their fair values.

##### **Placements with banks and non-bank financial institutions, financial assets held/sold under resale/repurchase agreements**

Placements with banks and non-bank financial institutions, financial assets held/sold under resale/repurchase agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying amounts approximate their fair values.

##### **Derivatives**

The fair values of foreign currency and interest rate contracts are either based on their listed market prices or by discounted cash flow model at the measurement date.

##### **Financial guarantees**

The fair values of financial guarantees are determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that the lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 30 Material related party

### (a) Relationship of related parties

- (i) In addition to subsidiaries, related parties include parent company, holding company's fellow entities, associates and joint ventures of the Group.
- (ii) CITIC Group, the parent and the ultimate controlling shareholder of the Group, is a state-owned company established in Beijing in 1979.

### (b) Related party transactions

#### (i) Transaction amounts with related parties

	Six months ended 30 June 2018			Total HK\$ million
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	
Sales of goods	–	136	40	176
Purchase of goods	–	389	–	389
Interest income (note (2))	–	90	139	229
Interest expenses	43	129	170	342
Fee and commission income	–	2	393	395
Fee and commission expenses	–	–	22	22
Income from other services	–	25	21	46
Expenses for other services	1	21	649	671
Interest income from deposits and receivables	–	10	–	10
Other operating expenses	1	12	108	121

	Six months ended 30 June 2017 (Restated)			Total HK\$ million
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	
Sales of goods	–	15	43	58
Purchase of goods	–	49	66	115
Interest income (note (2))	–	194	55	249
Interest expenses	32	68	132	232
Fee and commission income	51	11	383	445
Fee and commission expenses	–	–	1	1
Income from other services	–	12	36	48
Expenses for other services	–	60	335	395
Interest income from deposits and receivables	–	12	–	12
Other operating expenses	–	10	196	206



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 30 Material related party (continued)

### (b) Related party transactions (continued)

#### (i) Transaction amounts with related parties (continued)

Notes:

- (1) These above transactions with related parties were conducted under the normal commercial terms.
- (2) Interest rates of loans and advances to the related parties were determined at rates negotiated between the Group and the corresponding related parties on a case by case basis.
- (3) During the relevant periods, CITIC Bank, a subsidiary of the Group, entered into transactions with related parties in the ordinary course of its banking businesses including lending, assets transfer (i.e. issuance of asset-backed securities in the form of private placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

#### (ii) Outstanding balances with related parties

	As at 30 June 2018			Total HK\$ million
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	
Trade and other receivables	74	2,952	3,196	6,222
Loans and advances (note (2))	-	4,935	2,816	7,751
Placements with banks and non-bank financial institutions	-	-	3,694	3,694
Cash and deposits	-	-	492	492
Derivative financial instruments and other assets	-	-	81	81
Investments in financial assets				
- Financial assets at FVPL	-	-	3,011	3,011
- Financial assets at amortised cost	-	-	2,449	2,449
Trade and other payables	3,061	15,438	3,462	21,961
Deposits from customers	1,229	9,943	23,790	34,962
Deposits from banks and non-bank financial institutions	-	-	16,634	16,634
Derivative financial instruments and other liabilities	-	40	39	79
Bank and other loans	7,086	6,400	289	13,775
Debt instruments issued	-	-	1,334	1,334
<b>Off-balance sheet items</b>				
Entrusted funds	1,539	142	24,878	26,559
Funds raised from investors of non-principle guaranteed wealth management products	-	15	165	180
Guarantees provided (note (3))	-	-	16,397	16,397
Guarantees received	-	4,955	1,899	6,854

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 30 Material related party (continued)

### (b) Related party transactions (continued)

#### (ii) Outstanding balances with related parties (continued)

	As at 31 December 2017			Total HK\$ million
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	
Trade and other receivables	75	1,450	477	2,002
Loans and advances (note (2))	–	11,539	6,119	17,658
Placements with banks and non-bank financial institutions	–	–	1,781	1,781
Cash and deposits	–	–	797	797
Financial assets at FVPL	–	–	229	229
Derivative financial instruments and other assets	–	551	206	757
Available-for-sale financial assets	–	–	4,051	4,051
Trade and other payables	3,023	15,598	2,584	21,205
Deposits from customers	4,202	8,377	30,733	43,312
Deposits from banks and non-bank financial institutions	–	2	32,489	32,491
Derivative financial instruments and other liabilities	–	85	1	86
Bank and other loans	6,905	6,400	368	13,673
Debt instruments issued	–	–	1,328	1,328
<b>Off-balance sheet items</b>				
Entrusted funds	1,263	–	12,153	13,416
Funds raised from investors of non-principle guaranteed wealth management products	–	19	18	37
Guarantees provided (note (3))	–	273	17,111	17,384
Guarantees received	–	6,597	7,661	14,258

Notes:

- (1) The above transactions with related party transactions which were conducted under the normal commercial terms.
- (2) Interest rates of loans and advances to the related parties were determined at rates negotiated between the Group and the corresponding related parties on a case by case basis.
- (3) The guarantees provided by the Group to the related parties were based on the terms agreed between the Group and the related parties on a case by case basis.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 30 Material related party (continued)

### (c) Transactions with other state-owned entities in the PRC

In addition to these related party transactions disclosed in Note 30(b), transactions with other state-owned entities include but are not limited to the following:

- sales and purchases of goods and provision of services;
- purchase, sale and leases of property and other assets;
- lending and deposit taking;
- taking and placing of inter-bank balances;
- derivative transactions;
- entrusted lending and other custody services;
- insurance and securities agency, and other intermediary services;
- sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; and
- rendering and receiving of utilities and other services.

## 31 Structured entities

### (a) The principal guaranteed wealth management products issued and managed by the Group

The principal guaranteed wealth management products issued and managed by CITIC Bank, a subsidiary of the Group, represent products to which CITIC Bank has guaranteed the investor's principal investment. The investments of the wealth management products and the corresponding source of funding are categorised as financial assets and financial liabilities in accordance with the accounting policies.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 31 Structured entities (continued)

### (b) Structured entities in which the Group holds an interest

The Group holds an interest in some structured entities through investments in debt securities issued by these structured entities. Such structured entities include wealth management products, investment management products, trust investment plans, asset-backed financings and investment funds and the Group does not consolidate these structured entities.

The following table sets out an analysis of the carrying amounts of interests held by the Group as at the balance sheet date in the structured entities, as well as an analysis of the line items in the balance sheet in which the relevant assets are recognised:

Carrying amount	As at 30 June 2018					
	Investments in financial assets			Total HK\$ million	Guarantees HK\$ million	Maximum loss exposure HK\$ million
	Financial assets at FVPL HK\$ million	Financial assets at FVOCI HK\$ million	Financial assets at amortised cost HK\$ million			
Wealth management products issued by banks	2,433	-	-	2,433	-	2,433
Investment management products managed by non-bank financial institutions	6,983	23,369	285,756	316,108	-	316,108
Trust investment plans	55,518	2,696	159,215	217,429	-	217,429
Asset-backed securities	660	29,173	39,661	69,494	-	69,494
Investment funds	227,714	400	-	228,114	-	228,114
<b>Total</b>	<b>293,308</b>	<b>55,638</b>	<b>484,632</b>	<b>833,578</b>	<b>-</b>	<b>833,578</b>

Carrying amount	As at 31 December 2017						
	Financial assets at FVPL HK\$ million	Held-to- maturity investments HK\$ million	Available-for- sale financial assets HK\$ million	Investments classified as receivables HK\$ million	Total HK\$ million	Guarantees HK\$ million	Maximum loss exposure HK\$ million
	Wealth management products issued by banks	-	-	16,614	166,310	182,924	-
Investment management products managed by non-bank financial institutions	-	-	408	322,029	322,437	-	322,437
Trust investment plans	-	-	5,681	155,224	160,905	-	160,905
Asset-backed securities	-	40,954	20,190	-	61,144	-	61,144
Investment funds	2,393	-	152,195	364	154,952	-	154,952
<b>Total</b>	<b>2,393</b>	<b>40,954</b>	<b>195,088</b>	<b>643,927</b>	<b>882,362</b>	<b>-</b>	<b>882,362</b>



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 31 Structured entities (continued)

### (c) Structured entities sponsored by the Group which the Group does not consolidate but holds an interest

The investments issued by unconsolidated structured entities sponsored by the Group are primarily wealth management products and trust plans without principal and/or return guarantee. The nature and purpose of these structured entities are for the Group to generate fees from managing assets on behalf of investors. These structured entities are financed through the issuance of products to investors. Interest held by the Group includes fees charged by providing management services and investment made by the Group.

#### **Wealth management products and trust plans**

As at 30 June 2018, the aggregate amount of assets held by the unconsolidated non-principal-guaranteed wealth management products and trust plans which are sponsored by the Group was HK\$3,450,945 million (31 December 2017: HK\$3,731,749 million).

As at 30 June 2018, the carrying amounts of management fee receivables being recognised in the balance sheet were HK\$753 million (31 December 2017: HK\$871 million).

As at 30 June 2018, the amount of placements and financial assets held under resale agreements from the Group with non-principal-guaranteed wealth management products sponsored by the Group was HK\$107,310 million (31 December 2017: HK\$84,325 million).

During the six months ended 30 June 2018, the maximum exposure of the placements and financial assets held under resale agreements from the Group with non-principal guaranteed wealth management products sponsored by the Group was HK\$66,196 million (six months ended 30 June 2017: HK\$63,744 million). In the opinion of management, these transactions were conducted in the ordinary course of business under normal terms and conditions and at market rates.

During the six months ended 30 June 2018, the amount of fee and commission income recognised from the above mentioned structured entities sponsored by the Group was HK\$2,803 million (six months ended 30 June 2017: HK\$5,257 million).



## 31 Structured entities *(continued)*

### (d) Transfers of financial assets

The Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements. Details of securitisation transactions, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the six months ended 30 June 2018 totalled HK\$193,833 million (six months ended 30 June 2017: HK\$37,298 million) are set forth below.

During the six months ended 30 June 2018, the Group entered into securitisation transactions and structured transfers on assets usufruct backed by financial assets transferred with book value before impairment of HK\$177,048 million (six months ended 30 June 2017: HK\$17,196 million), of which were all qualified for full derecognition. Among them, the Group entered into securitisation transactions in respect of non-performing loans transferred with book value before impairment of HK\$1,700 million (six months ended 30 June 2017: Nil).

The Group transferred certain financial assets to special purpose trusts and the relevant trust issued asset-backed securities to investors based on those assets. The Group may have continuing involvement in these assets. As at 30 June 2018, the Group continued to recognise assets of HK\$818 million (31 December 2017: HK\$920 million) under loans and advances to customers together with assets and liabilities of the same amount under other assets and other liabilities, respectively, arising from such continuing involvement (Note 18).

During six months ended 30 June 2018, the Group also through other types of transactions transferred loans of book value before impairment of HK\$16,786 million (six months ended 30 June 2017: HK\$20,102 million), of which HK\$16,786 million represented non-performing loans (six months ended 30 June 2017: HK\$16,841 million). The Group carried out assessment based on the transfer of risks and rewards of ownership and concluded that these transferred assets qualified for full derecognition.



# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018

## 32 Major business combinations

Acquisition of a controlling interest in Jiangsu Xigang Group Co., Ltd. (“Xigang Group”) and HuaLing Jingjiang Port Co., Ltd. (“Jingjiang Port”)

On 12 June 2018, the Company acquired the control of Xigang Group and Jingjiang Port (the “Acquisition”) through Jiangyin Xingcheng Special Steel Works Co., Ltd. (“Xingcheng Special Steel”, an indirect non-wholly owned subsidiary of the Company) at a total consideration of HK\$3,696 million. The consideration for the Acquisition was settled by cash. Upon completion of the Acquisition, Xigang Group and Jingjiang Port became wholly owned by Xingcheng Special Steel. There’s no goodwill arising from the Acquisition.

The following table summarises the consideration paid for the Acquisition, the fair values of assets acquired and liabilities assumed at the acquisition date.

### Consideration:

	HK\$ million
Cash	3,696

### Recognised amounts of identifiable assets acquired and liabilities assumed

Cash and deposits	133
Trade and other receivables	706
Inventories	304
Fixed assets	2,796
Intangible assets	533
<b>Total identifiable assets acquired</b>	<b>4,472</b>
Trade and other payables	(434)
Bank and other loans	(331)
Tax payable	(11)
<b>Total identifiable liabilities assumed</b>	<b>(776)</b>
<b>Total identifiable net assets of Xigang Group and Jingjiang Port</b>	<b>3,696</b>

### Net cash paid for acquisition:

	HK\$ million
Total consideration paid in cash	3,696
Cash and cash equivalents acquired	(133)
	<b>3,563</b>

Notes:

- (i) Acquisition-related costs of approximately HK\$2 million have been charged to other operating expenses in the consolidated income statement for the six months ended 30 June 2018.
- (ii) The fair value of acquired trade and other receivables is HK\$706 million including trade receivables with a fair value of HK\$78 million.
- (iii) The revenue and net profit attributable to ordinary shareholders of the Group during the period from 12 June 2018 to 30 June 2018 contributed by Xigang Group and Jingjiang Port were HK\$367 million and HK\$3 million respectively. Had Xigang Group and Jingjiang Port been consolidated from 1 January 2018, the consolidated income statement would show pro-forma revenue and net profit attributable to ordinary shareholders of the Group of approximately HK\$259,704 million and HK\$30,009 million respectively.

# Notes to the Consolidated Financial Statements

For the six months ended 30 June 2018



## 33 Disposal of subsidiaries

	Six months ended 30 June	
	2018 HK\$ million	2017 HK\$ million
Total assets	13,628	915
Total liabilities	(11,471)	(1,292)
Non-controlling interests	(816)	(5)
Net assets/(liabilities) disposed	1,341	(382)
Total consideration	2,091	40
Retained interest in a former subsidiary at fair value	61	2,304
Gains on disposal/deemed disposal of subsidiaries	811	2,726
Net cash inflow is determined as follows:		
Cash proceeds received		
– Proceeds from the above disposal of subsidiaries	2,042	40
– Collection of receivables from previous disposal of subsidiaries	–	365
Less: cash and cash equivalents disposed	(233)	(347)
	1,809	58

## 34 Post balance sheet events

- (a) On 11 June 2018, CITIC Metal Co., LTD. (“CITIC Metal”), an indirectly wholly-owned subsidiary of the Company, signed an investment agreement with Ivanhoe Mines Ltd. (“Ivanhoe Mines”), pursuant to which, CITIC Metal will acquire 196,602,037 ordinary shares of Ivanhoe Mines in a private placement at a price of C\$3.68 per share, representing 19.5% interests in Ivanhoe Mines. In July 2018, the transaction was approved by the National Development and Reform Commission of the People’s Republic of China and the Ministry of Commerce of the People’s Republic of China, however, still subject to final approval and fulfilment of the terms of the transaction. The transaction is expected to be completed in September 2018.



# Report on Review of Interim Financial Information



羅兵咸永道

**TO THE BOARD OF DIRECTORS OF CITIC LIMITED**

*(incorporated in Hong Kong with limited liability)*

## Introduction

We have reviewed the interim condensed financial information set out on pages 31 to 135, which comprises the consolidated balance sheet of CITIC Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 29 August 2018

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## **Interim Dividend and Closure of Register of Members**

The directors have declared an interim dividend of HK\$0.15 per share (2017: HK\$0.11 per share) for the year ending 31 December 2018, payable on Thursday, 4 October 2018 to shareholders whose names appear on the Company's register of members on Tuesday, 18 September 2018. The register of members of the Company will be closed from Friday, 14 September 2018 to Tuesday, 18 September 2018, both days inclusive, during which period no transfer of shares will be effected. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 13 September 2018.

## **Share Option Plan Adopted by the Company**

### **CITIC Pacific Share Incentive Plan 2011**

The CITIC Pacific Share Incentive Plan 2000 adopted by the Company on 31 May 2000 for a term of ten years expired on 30 May 2010. The Company adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 (the "Plan 2011") on 12 May 2011, the purpose of which is to promote the interests of the Company and its shareholders by providing the eligible participants with additional incentives to continue and increase their efforts in achieving success in the business of the Group, and attracting and retaining the best available personnel to participate in the on-going business operation of the Group. Pursuant to the Plan 2011, the board may at its discretion offer to grant share options to any eligible participant including any employee, executive director, non-executive director, independent non-executive director or officer, consultant or representative of any member of the Company who shall make payment of HK\$1.00 to the Company on acceptance. The subscription price determined by the board shall not be less than the higher of (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on the date of offer of the grant; and (iii) the average of the closing prices of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the grant. The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Plan 2011 must not in aggregate exceed 10% of the Company's shares in issue as at the date of adopting the Plan 2011. As at 30 June 2018, the total number of shares available for issue under the Plan 2011 is 364,944,416 shares.

No share options were granted under the Plan 2011 during the six months ended 30 June 2018.

## **Share Option Plan Adopted by Subsidiaries of the Company**

### **CITIC Telecom International Holdings Limited ("CITIC Telecom")**

CITIC Telecom adopted a share option plan ("CITIC Telecom Share Option Plan") on 17 May 2007, which was valid and effective till 16 May 2017. As approved at the annual general meeting of CITIC Telecom held on 25 April 2014, the mandate limit is refreshed so that taking into account the overriding limit of the CITIC Telecom Share Option Plan, the total number of shares of CITIC Telecom ("CITIC Telecom Shares") which may be issued upon the exercise of all options to be granted under the CITIC Telecom Share Option Plan, together with all outstanding options granted and yet to be exercised as at 25 April 2014, shall not exceed 333,505,276 CITIC Telecom Shares, being 10% of the number of CITIC Telecom Shares in issue as at the date of approval of the refreshment of the mandate limit.

Since the adoption of the CITIC Telecom Share Option Plan, CITIC Telecom has granted the following share options:

Date of grant	Number of share options	Exercise price per share		Exercise period
		HK\$		
23.05.2007	18,720,000	3.26		23.05.2007 – 22.05.2012
17.09.2009	17,912,500	2.10		17.09.2010 – 16.09.2015
17.09.2009	17,912,500	2.10		17.09.2011 – 16.09.2016
19.08.2011	24,227,500	1.54		19.08.2012 – 18.08.2017
19.08.2011	24,227,500	1.54		19.08.2013 – 18.08.2018
26.06.2013	81,347,000	2.25		26.06.2013 – 25.06.2018
24.03.2015	43,756,250	2.612		24.03.2016 – 23.03.2021
24.03.2015	43,756,250	2.612		24.03.2017 – 23.03.2022
24.03.2017	45,339,500	2.45		24.03.2018 – 23.03.2023
24.03.2017	45,339,500	2.45		24.03.2019 – 23.03.2024

Upon completion of the rights issue of CITIC Telecom on 7 June 2013, the exercise price and the number of CITIC Telecom Shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options of CITIC Telecom as at 6 June 2013 have been adjusted (the "Adjustments") in the following manner:

Date of grant	Before Adjustments		After Adjustments	
	Number of outstanding share options	Exercise price per share HK\$	Number of outstanding share options	Exercise price per share HK\$
17.09.2009	19,451,000	2.10	21,438,072	1.91
19.08.2011	32,332,500	1.54	35,635,462	1.40

The grantees were directors, officers or employees of CITIC Telecom. None of these options were granted to the directors, chief executives or substantial shareholders of the Company.

The share options granted on 23 May 2007, 17 September 2009, 19 August 2011 and 26 June 2013 have expired. The remaining options granted and accepted under the CITIC Telecom Share Option Plan can be exercised in whole or in part within 5 years from the date of commencement of the exercise period.

As at 1 January 2018, options for 215,030,809 CITIC Telecom Shares were outstanding under the CITIC Telecom Share Option Plan. During the six months ended 30 June 2018, options for 21,158,046 CITIC Telecom Shares were exercised, options for 27,648,246 CITIC Telecom Shares have lapsed but no option has been cancelled. As at 30 June 2018, options for 124,524,017 CITIC Telecom Shares under the CITIC Telecom Share Option Plan were exercisable.

A summary of the movements of the share options during the six months ended 30 June 2018 is as follows:

**A. Employees of the Company/CITIC Telecom under continuous contracts (as defined in the Employment Ordinance)**

Date of grant	Exercise period	Number of share options			Balance as at 30.06.2018
		Balance as at 01.01.2018	Exercised during the six months ended 30.06.2018 <sup>(Note 1)</sup>	Lapsed during the six months ended 30.06.2018 <sup>(Note 2)</sup>	
19.08.2011	19.08.2013 – 18.08.2018	6,322,175	3,069,046	1,429	3,251,700
26.06.2013	26.06.2013 – 25.06.2018	42,270,817	18,089,000	24,181,817	–
24.03.2015	24.03.2016 – 23.03.2021	38,610,817	–	427,500	38,183,317
24.03.2015	24.03.2017 – 23.03.2022	39,771,000	–	427,500	39,343,500
24.03.2017	24.03.2018 – 23.03.2023	42,828,000	–	482,500	42,345,500
24.03.2017	24.03.2019 – 23.03.2024	42,828,000	–	1,727,500	41,100,500

**B. Others** <sup>(Note 3)</sup>

Date of grant	Exercise period	Number of share options			Balance as at 30.06.2018
		Balance as at 01.01.2018	Exercised during the six months ended 30.06.2018	Lapsed during the six months ended 30.06.2018 <sup>(Note 4)</sup>	
26.06.2013	26.06.2013 – 25.06.2018	400,000	–	400,000	–
24.03.2015	24.03.2016 – 23.03.2021	200,000	–	–	200,000
24.03.2015	24.03.2017 – 23.03.2022	600,000	–	–	600,000
24.03.2017	24.03.2018 – 23.03.2023	600,000	–	–	600,000
24.03.2017	24.03.2019 – 23.03.2024	600,000	–	–	600,000

Notes:

1. The weighted average closing price of CITIC Telecom Shares immediately before the dates on which the options were exercised was HK\$2.33.
2. These are in respect of options i) granted to some employees under continuous contracts who have subsequently resigned; or ii) lapsed upon the expiry of the relevant share options during the six months ended 30 June 2018.
3. These are in respect of options granted to independent non-executive directors (including a former independent non-executive director) of CITIC Telecom who are not employees under continuous contracts.
4. These are in respect of options granted to a former independent non-executive director. Such options have lapsed upon the expiry of the relevant share options during the six months ended 30 June 2018.

## Dah Chong Hong Holdings Limited (“Dah Chong Hong”)

Dah Chong Hong adopted the Share Option Scheme (the “DCHH Scheme”) on 28 September 2007. Since the adoption of the DCHH Scheme, Dah Chong Hong has granted the following share options:

Date of grant	Number of share options	Exercise price per share <i>HK\$</i>	Exercise period
07.07.2010	23,400,000	4.766	07.07.2010 – 06.07.2015
08.06.2012	24,450,000	7.400	08.06.2013 – 07.06.2017*
30.04.2014	28,200,000	4.930	30.04.2015 – 29.04.2019*

\* Subject to a vesting scale

The share options granted on 7 July 2010 and 8 June 2012 had expired by the close of business on 6 July 2015 and 7 June 2017 respectively.

Of the share options granted on 30 April 2014, 27,850,000 were accepted and 350,000 were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 28 May 2014). The share options granted are subject to a vesting scale. 25% of the options granted will vest on the first anniversary of the date of grant. A further 25% will vest on the second anniversary of the date of grant and the remaining 50% of the share options granted will vest on the third anniversary of the date of grant. The vested options are exercisable in whole or in part within five years from the date of grant. The closing price of the shares of Dah Chong Hong immediately before the grant on 30 April 2014 was HK\$4.91 per share.

The grantees were certain directors or employees of Dah Chong Hong group working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of the Company.

**A. Employees of the Dah Chong Hong group working under continuous contracts (as defined in the Employment Ordinance)**

Date of grant	Exercise price per share	Number of share options						
		Balance as at 01.01.2018	Granted during the six months ended 30.06.2018	Reclassification	Cancelled during the six months ended 30.06.2018	Lapsed during the six months ended 30.06.2018	Exercised during the six months ended 30.06.2018	Balance as at 30.06.2018
30.04.2014	4.93	11,700,000 <sup>(Note 2)</sup>	-	(2,000,000) <sup>(Note 3)</sup>	-	(950,000)	-	8,750,000

**B. Others** <sup>(Note 1)</sup>

Date of grant	Exercise price per share	Number of share options						
		Balance as at 01.01.2018	Granted during the six months ended 30.06.2018	Reclassification	Cancelled during the six months ended 30.06.2018	Lapsed during the six months ended 30.06.2018	Exercised during the six months ended 30.06.2018	Balance as at 30.06.2018
30.04.2014	4.93	11,250,000 <sup>(Note 2)</sup>	-	2,000,000 <sup>(Note 3)</sup>	-	-	-	13,250,000

Notes:

- 1 These are in respect of share options granted to former employees of Dah Chong Hong group whose employment was terminated other than for cause or misconduct.
- 2 1,600,000 share options (granted on 30 April 2014) were reclassified to the opening balance of "Others", subsequent to certain employees of Dah Chong Hong group having retired on 1 January 2018.
- 3 2,000,000 share options (granted on 30 April 2014) were reclassified to "Others" subsequent to certain employees of Dah Chong Hong group having retired during the six months ended 30 June 2018.

As at 1 January 2018, options for 22,950,000 Dah Chong Hong's shares were outstanding under the DCHH Scheme. During the six months ended 30 June 2018, 950,000 share options were lapsed and none of the share options under the DCHH Scheme were exercised and cancelled. As at 30 June 2018, options for 22,000,000 Dah Chong Hong's shares under the DCHH Scheme were exercisable.

## CITIC Resources Holdings Limited (“CITIC Resources”)

The share option scheme adopted by CITIC Resources on 30 June 2004 (the “Old Scheme”) for a term of 10 years expired on 29 June 2014. The share options that have been granted under the Old Scheme and remained outstanding as at the date of expiry of the Old Scheme remain valid and exercisable subject to and in accordance with the terms of the Old Scheme.

To enable CITIC Resources to continue to grant share options as an incentive or reward to eligible persons, a new share option scheme was adopted by CITIC Resources on 27 June 2014 (the “New Scheme”).

A summary of the movements of the share options of CITIC Resources under the Old Scheme during the six months ended 30 June 2018 is as follows:

Date of grant	Exercise price per share	Exercise period	Number of share options		
			Balance as at 01.01.2018	Exercised/ Cancelled/ Lapsed during the six months ended 30.06.2018	Balance as at 30.06.2018
	<i>HK\$</i>				
06.11.2013	1.77	06.11.2014 – 05.11.2018	200,000,000 <sup>(Note)</sup>	–	200,000,000 <sup>(Note)</sup>
06.11.2013	1.77	06.11.2015 – 05.11.2018	200,000,000 <sup>(Note)</sup>	–	200,000,000 <sup>(Note)</sup>

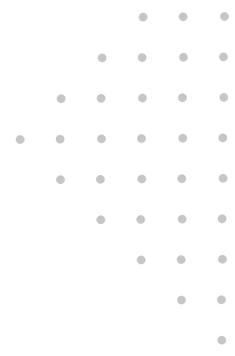
Note:

The share options are subject to the following vesting conditions:

- (i) 50% of the share options vest and are exercisable with effect from the first anniversary of the date of grant; and
- (ii) the remaining 50% of the share options vest and are exercisable with effect from the second anniversary of the date of grant.

The grantee is a director of CITIC Resources. As at 30 June 2018, CITIC Resources had 400,000,000 share options outstanding under the Old Scheme. No share options were exercised, cancelled and lapsed during the six months ended 30 June 2018.

No share options were granted under the New Scheme during the six months ended 30 June 2018.



## CITIC Envirotech Ltd. (“CITIC Envirotech”)

CITIC Envirotech is a company incorporated in Singapore and whose shares are listed on the main board of the Singapore Exchange Securities Trading Limited. It adopted the Employee Share Option Scheme (the “Scheme”) on 2 February 2010.

Since the adoption of the Scheme, CITIC Envirotech has granted the following share options:

Date of grant	Number of share options	Exercise price per share	Exercise period
		S\$	
01.03.2010	4,375,000	0.2780	01.03.2011 – 01.03.2020
01.03.2010	4,375,000	0.2224	01.03.2012 – 01.03.2020
20.07.2010	1,500,000	0.3830	20.07.2011 – 20.07.2020
20.07.2010	1,500,000	0.3064	20.07.2012 – 20.07.2020
15.02.2013	49,950,000	0.552	15.02.2015 – 15.02.2023
28.03.2013	12,000,000	0.584	28.03.2015 – 28.03.2023
25.07.2014	6,000,000	1.135	25.07.2016 – 25.07.2024
25.04.2018	18,364,000	0.563	25.04.2020 – 25.04.2028

Under the Scheme, the ordinary shares of CITIC Envirotech under option may be exercised in full or a multiple thereof, on the payment of the exercise price. On 1 February 2017, CITIC Envirotech split every one existing ordinary share in its share capital into two shares.

The grantees were certain directors and employees of CITIC Envirotech. None were granted to the directors, chief executives or substantial shareholders of the Company.

As at 1 January 2018, 74,009,200 (post-split) ordinary shares of CITIC Envirotech under option were outstanding. During the six months ended 30 June 2018, 18,364,000 share options were granted under the Scheme, 37,831,000 (post-split) ordinary shares under option were exercised, 1,200,000 (post-split) ordinary shares under option were cancelled and none of the share options have lapsed. As at 30 June 2018, 35,178,200 (post-split) ordinary shares of CITIC Envirotech under option were exercisable.

The closing price of ordinary shares of CITIC Envirotech immediately before the grant on 25 April 2018 was S\$0.563.

A summary of the movements of the share options under the Scheme during the six months ended 30 June 2018 is as follows:

#### A. Directors of CITIC Envirotech

Date of grant	Number of share options					Balance as at 30.06.2018	Weighted average closing price per share* S\$
	Balance as at 01.01.2018	Granted during the six months ended 30.06.2018	Cancelled during the six months ended 30.06.2018	Lapsed during the six months ended 30.06.2018	Exercised during the six months ended 30.06.2018		
01.03.2010	1,500,000 (3,000,000) Post-split	-	-	-	3,000,000 Post-split	-	0.715
01.03.2010	1,500,000 (3,000,000) Post-split	-	-	-	3,000,000 Post-split	-	0.715
28.03.2013	12,000,000 (24,000,000) Post-split	-	-	-	24,000,000 Post-split	-	0.530

#### B. Employees of CITIC Envirotech

Date of grant	Number of share options					Balance as at 30.06.2018	Weighted average closing price per share* S\$
	Balance as at 01.01.2018	Granted during the six months ended 30.06.2018	Cancelled during the six months ended 30.06.2018	Lapsed during the six months ended 30.06.2018	Exercised during the six months ended 30.06.2018		
15.02.2013	18,906,500 (37,813,000) Post-split	-	-	-	7,831,000 Post-split	29,982,000 Post-split	0.555
25.07.2014	3,098,100 (6,196,200) Post-split	-	1,000,000	-	-	5,196,200 Post-split	N/A
25.04.2018	-	18,364,000	200,000	-	-	18,164,000	N/A

\* This represents the weighted average closing price per share of CITIC Envirotech immediately before the date on which the options were exercised.



## Directors' Interests in Securities

As at 30 June 2018, none of the directors of the Company had nor were they taken or deemed to have, under Part XV of the Securities and Futures Ordinance ("SFO"), any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules").

## Interests of Substantial Shareholders

As at 30 June 2018, substantial shareholders of the Company (other than directors of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or which were notified to the Company, were as follows:

Name	Nature of interest/capacity	Number of ordinary shares held	Approximate percentage to the total number of issued shares
CITIC Group Corporation ("CITIC Group") <sup>(Note 1)</sup>	Interests in a controlled corporation and interests in a section 317 concert party agreement	26,055,943,755 (Long position)	89.57% (Long position)
CITIC Glory Limited ("CITIC Glory") <sup>(Note 2)</sup>	Beneficial owner	7,446,906,755 (Long position)	25.60% (Long position)
CITIC Polaris Limited ("CITIC Polaris") <sup>(Note 3)</sup>	Beneficial owner and interests in a section 317 concert party agreement	18,609,037,000 (Long position)	63.97% (Long position)
Chia Tai Bright Investment Company Limited ("CT Bright") <sup>(Note 4)</sup>	Beneficial owner and interests in a section 317 concert party agreement	22,728,222,755 (Long position)	78.13% (Long position)
		5,818,053,363 (Short position)	20.00% (Short position)
CT Brilliant Investment Holdings Limited ("CT Brilliant") <sup>(Note 5)</sup>	Interests in a controlled corporation and interests in a section 317 concert party agreement	22,728,222,755 (Long position)	78.13% (Long position)
		5,818,053,363 (Short position)	20.00% (Short position)
Charoen Pokphand Group Company Limited ("CPG") <sup>(Note 6)</sup>	Interests in a controlled corporation and interests in a section 317 concert party agreement	22,728,222,755 (Long position)	78.13% (Long position)
		5,818,053,363 (Short position)	20.00% (Short position)
ITOCHU Corporation ("ITOCHU") <sup>(Note 7)</sup>	Interests in a controlled corporation and interests in a section 317 concert party agreement	22,728,222,755 (Long position)	78.13% (Long position)
		5,818,053,363 (Short position)	20.00% (Short position)



Notes:

1. CITIC Group is deemed to be interested in 26,055,943,755 shares: (i) by attribution of the interests of its two wholly-owned subsidiaries, CITIC Polaris (9,463,262,637 shares) and CITIC Glory (7,446,906,755 shares); and (ii) because CITIC Group is a party to the Share Purchase Agreement and the Preferred Shares Subscription Agreement which, reading together, constitute an agreement to which section 317(1) of the SFO applies, and accordingly CITIC Group has aggregated its interests in the shares with the interests of the other parties to the Share Purchase Agreement and the Preferred Shares Subscription Agreement.
2. CITIC Glory is beneficially interested in 7,446,906,755 shares of the Company.
3. CITIC Polaris is deemed to be interested in 18,609,037,000 shares: (i) by including 9,463,262,637 shares it holds as beneficial owner; and (ii) because CITIC Polaris is a party to the Share Purchase Agreement which, reading together with the Preferred Shares Subscription Agreement, constitute an agreement to which section 317(1) of the SFO applies, and accordingly CITIC Polaris has aggregated its interests in the shares with the interests of the other parties to the Share Purchase Agreement and the Preferred Shares Subscription Agreement.
4. CT Bright is deemed to be interested in 22,728,222,755 shares: (i) by including 5,818,053,363 shares it holds as beneficial owner; and (ii) because CT Bright is a party to the Share Purchase Agreement and the Preferred Shares Subscription Agreement which, reading together, constitute an agreement to which section 317(1) of the SFO applies, and accordingly CT Bright has aggregated its interests in the shares with the interests of the other parties to the Share Purchase Agreement and the Preferred Shares Subscription Agreement. CT Bright has a short position of 5,818,053,363 shares because it is under an obligation to deliver a maximum of 5,818,053,363 shares to CITIC Polaris if CITIC Polaris' right of first refusal under the Share Purchase Agreement is exercised in full.
5. CT Brilliant is deemed to be interested in 22,728,222,755 shares and to have a short position of 5,818,053,363 shares as a shareholder of CT Bright directly holding 50% equity interest in CT Bright.
6. CPG is deemed to be interested in 22,728,222,755 shares and to have a short position of 5,818,053,363 shares as a shareholder of CT Bright indirectly holding 50% equity interest in CT Bright through CT Brilliant, its wholly-owned subsidiary.
7. ITOCHU is deemed to be interested in 22,728,222,755 shares and to have a short position of 5,818,053,363 shares as a shareholder of CT Bright directly holding 50% equity interest in CT Bright.

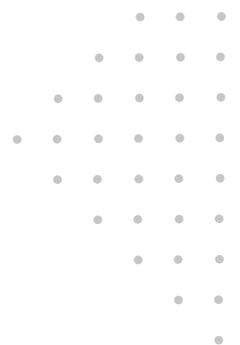
## Purchase, Sale or Redemption of Listed Securities

On 21 January 2018, the Company fully redeemed the USD1,100 million 6.875% notes under the Medium Term Note Programme upon maturity. These notes were issued in two tranches, (i) USD750 million on 21 March 2012 and (ii) USD350 million on 26 April 2012. Both tranches were listed on the Hong Kong Stock Exchange.

Save as disclosed above, neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

## Corporate Governance

The Company is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to promote investor confidence and protect the interests of our shareholders. Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments. Details of our corporate governance practices can be found in the Company's Annual Report 2017 and on the Company's website at [www.citic.com](http://www.citic.com).



## Board Changes

On 20 March 2018, Mr Wu Youguang was appointed as a non-executive director of the Company.

On 18 April 2018, Mr Noriharu Fujita resigned as an independent non-executive director and a member of the strategic committee of the Company. On the same date, Mr Shohei Harada was appointed as an independent non-executive director and a member of the strategic committee of the Company.

On 24 May 2018, Mr Liu Yeqiao resigned as a non-executive director and a member of the audit and risk management committee of the Company. On the same date, Mr Peng Yanxiang was appointed as a non-executive director and a member of the audit and risk management committee of the Company.

## Board Committees

Currently the board has the following committees to discharge its functions:

- An audit and risk management committee to oversee the relationship with the external auditor; and to review the Company's financial reporting, annual audit and interim report. The committee acts on behalf of the board in providing oversight of the Company's financial reporting system, risk management and internal control systems, reviews and monitors the effectiveness of the internal audit function, and reviews the Company's policies and practices on corporate governance. The committee comprises three independent non-executive directors, Mr Francis Siu Wai Keung (who serves as the chairman of the committee), Dr Xu Jinwu and Mr Anthony Francis Neoh, and two non-executive directors, Mr Yang Xiaoping and Mr Peng Yanxiang (appointed as a committee member in place of Mr Liu Yeqiao with effect from 24 May 2018).
- A nomination committee to determine the policy for the nomination of directors, set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship which shall take into consideration the principle of diversity. It also reviews the structure, size, composition and diversity of the board annually. The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members include an executive director, Mr Wang Jiong (being vice chairman and president of the Company), a non-executive director, Ms Yan Shuqin, and four independent non-executive directors, Mr Francis Siu Wai Keung, Dr Xu Jinwu, Mr Anthony Francis Neoh and Ms Lee Boo Jin.
- A remuneration committee to determine the remuneration packages of individual executive directors and senior management including salaries, bonuses, benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of office or appointment). The committee comprises four independent non-executive directors, Mr Anthony Francis Neoh (who serves as the chairman of the committee), Mr Francis Siu Wai Keung, Dr Xu Jinwu and Mr Paul Chow Man Yiu, and a non-executive director, Mr Liu Zhuyu.
- A strategic committee to accommodate the strategic development of the Company and enhance its core competitiveness, make and implement the development plan of the Company, streamline the investment-related decision making procedures and procure well-advised and efficient decision making. The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members include an executive director, Mr Wang Jiong (being vice chairman and president of the Company), three non-executive directors, Mr Song Kangle, Ms Yan Shuqin and Mr Yang Xiaoping, and two independent non-executive directors, Mr Anthony Francis Neoh and Mr Shohei Harada (appointed as a committee member in place of Mr Noriharu Fujita with effect from 18 April 2018). Mr Li Rucheng, being a former non-executive director of the Company, serves as a consultant to the committee.

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- A special committee to deal with all matters relating to all investigations (including enquiries) of, and proceedings involving, the Company and its directors, arising from the 2008 forex incident, including but not limited to, by the Market Misconduct Tribunal, the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force. The committee comprises two members, Mr Zhang Jijing and Mr Francis Siu Wai Keung.

## Management Committees

- The executive committee is the highest authority of the management of the Company accountable to the board. The functions and powers of the executive committee are: to formulate the Company's material strategic plans; to formulate the Company's annual material investment and financing plans (including reviewing material investment plans, feasibility studies, proposed disposals/divestments, mergers and acquisitions and other significant transactions of the Company); to review the Company's annual business plan and finance plans; to review monthly reports of the Company, and to submit to the board before each month-end the monthly report for the previous month; to manage and monitor the Company's core activities; to appoint and remove mid-level and above key personnel (other than personnel above the rank of assistant to general manager, and those appointed and removed by the board); to approve internal rules on day-to-day operations of the Company; to review and approve proposals to establish and adjust the Company's management and organizational structure; and to discharge other powers and functions conferred on it by the board. The first three items and other matters within the authority of the board should be submitted for approval by the board, and thereafter implemented by the executive committee. The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members are Mr Wang Jiong (being executive director, vice chairman and president of the Company and also serves as vice chairman of the committee), Mr Cai Huaxiang (serving as vice chairman of the committee), Ms Li Qingping (being executive director and vice president of the Company), Mr Pu Jian (being executive director and vice president of the Company), Mr Cai Xiliang (being vice president of the Company) and Mr Cui Jun (appointed as a committee member with effect from 29 August 2018). On 29 August 2018, Mr Zhu Gaoming resigned as vice president of the Company and a member of the executive committee; and Mr Feng Guang also resigned as a member of the executive committee of the Company.
- The strategy and investment management committee has been established as a sub-committee under the executive committee to enhance strategy management, to prevent investment risks and to promote high quality development. The principal responsibilities of the strategy and investment management committee are to study and draw up the Company's integral development, medium and long-term development plan and industries investment guideline, approve development strategies and plans of subsidiaries; to establish a mechanism of empowered operation and management, organize and implement it; and to organize and implement full life-circle management of investment activities within the group. The committee is led by the chairman of the committee Mr Wang Jiong (being executive director, vice chairman and president of the Company) and two vice chairmen of the committee Mr Pu Jian (being executive director and vice president of the Company) and Mr Cai Xiliang (being vice president of the Company, appointed as vice chairman of the committee with effect from 13 August 2018), and other members of the committee include Mr Zhang Youjun (being assistant president of the Company), responsible persons of the strategic development department, financial control department, treasury department and legal and compliance functions.



- The asset and liability management committee (the “ALCO”) has been established as a sub-committee under the executive committee to be in charge of monitoring and controlling the financial risks of the Company. The principal responsibilities of the ALCO are to monitor and control the asset and liability financial position of the Company on a regular basis and to monitor and control the asset and liability structure, counterparties, currencies, interest rates, commodities and commitments and contingent liabilities of the Company. It also reviews financing plans and manages the cash flow of the Company on the basis of the annual budget and establishes hedging policies and approves the use of new financial instruments for hedging. The members of the ALCO include responsible persons of the financial control department, treasury department, strategic development department, the office of the board of directors and legal and compliance functions.

### Compliance with Corporate Governance Code

Save as disclosed below, the Company has applied the principles and complied with all the code provisions of the corporate governance code (“CG Code”) as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2018. In respect of code provision A.6.7 of the CG Code, Dr Xu Jinwu (independent non-executive director) was not able to attend the annual general meeting of the Company held on 14 June 2018 due to other engagements.

### Review of Half-Year Report

The audit and risk management committee of the board reviewed the Half-Year Report in conjunction with the management and the Company’s external auditor and recommended its adoption by the board.

The interim financial information is prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. It has been reviewed by the Company’s independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”.

### Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in Appendix 10 to the Listing Rules. All directors complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

### Update on Director’s Information

The following disclosure is made pursuant to Rule 13.51B(1) of the Listing Rules.

#### Non-executive Director

Mr Yang Xiaoping was appointed as a non-executive director of Honma Golf Limited (listed on the Main Board of the Hong Kong Stock Exchange) on 28 May 2018.



# Corporate Information

## Registered Office

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1 Tim Mei Avenue  
Central, Hong Kong  
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Fax: +852 2877 2771

## Beijing Office

Capital Mansion, 6 Xinyuannanlu  
Chaoyang District  
Beijing 100004, China

## Website

www.citic.com contains a description of the Company's business, copies of half-year and annual reports to shareholders, announcements, press releases and other information.

## Stock Codes

The Stock Exchange of Hong Kong Limited:	00267
Bloomberg:	267:HK
Reuters:	0267.HK
American Depositary Receipts:	CTPCY
CUSIP Reference No:	17304K102

## Share Registrar

Shareholders should contact our Share Registrar, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong at +852 2980 1333, or by fax at +852 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

## Investor Relations

Investors, shareholders and research analysts may contact our Investor Relations Department by telephone at +852 2820 2205, or by fax at +852 2522 5259 or by email at [ir@citic.com](mailto:ir@citic.com).

## Financial Calendar

Closure of Register:	14 September 2018 to 18 September 2018 (both days inclusive)
Interim Dividend payable:	4 October 2018

The Half-Year Report is printed in English and Chinese and is also available on our website at [www.citic.com](http://www.citic.com) under the 'Investor Relations' section.

Shareholders may choose to receive the Half-Year Report in printed form in either English or Chinese or both or by electronic means. Shareholders may at any time change their choice on these matters by notice in writing to the Company's Share Registrar.

Shareholders having difficulty in gaining access to the Half-Year Report will promptly be sent printed copies free of charge upon request to the Company's Share Registrar.

Non-registered shareholders who wish to receive a printed copy of the Half-Year Report are requested to write to the Joint Company Secretaries, CITIC Limited, 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, or by fax at +852 2877 2771 or by email at [contact@citic.com](mailto:contact@citic.com).

## **CITIC Limited**

### **Registered Office**

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