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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Note	For the year ended 31 December	
		2016 HK\$ million	2015 HK\$ million (Restated)
Continuing operations			
Interest income		251,427	270,151
Interest expenses		(125,504)	(138,268)
Net interest income	5(a)	125,923	131,883
Fee and commission income		58,196	51,405
Fee and commission expenses		(3,618)	(2,506)
Net fee and commission income	5(b)	54,578	48,899
Sales of goods and services	5(c)	193,292	189,880
Other revenue	5(d)	7,029	24,648
		200,321	214,528
Total revenue		380,822	395,310
Cost of sales and services	6, 10	(165,620)	(158,346)
Other net income	7	7,291	8,095
Impairment losses on	8		
– Loans and advances to customers and other parties		(53,603)	(47,827)
– Others		(19,987)	(31,361)
Other operating expenses	10	(76,858)	(85,523)
Net valuation gain on investment properties	32	615	592
Share of profits of associates, net of tax		2,323	4,741
Share of profits/(loss) of joint ventures, net of tax		2,876	(155)
Profit before net finance charges and taxation		77,859	85,526
Finance income		1,552	2,358
Finance costs		(8,688)	(9,239)
Net finance charges	9	(7,136)	(6,881)
Profit before taxation	10	70,723	78,645
Income tax	11	(18,393)	(19,424)
Profit for the year from continuing operations		52,330	59,221
Discontinued operations			
Profit for the year from discontinued operations	50	10,309	1,472
Profit for the year		62,639	60,693

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

		For the year ended 31 December	
		2016	2015
	Note	HK\$ million	HK\$ million (Restated)
Profit for the year		62,639	60,693
Attributable to:			
– Ordinary shareholders of the Company		43,119	41,812
– Holders of perpetual capital securities		790	1,135
– Non-controlling interests		18,730	17,746
Profit for the year		62,639	60,693
Profit attributable to ordinary shareholders of the Company arising from:			
– Continuing operations		32,782	40,501
– Discontinued operations		10,337	1,311
		43,119	41,812
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (HK\$):	15		
Basic earnings per share from:			
– Continuing operations		1.13	1.53
– Discontinued operations		0.35	0.05
		1.48	1.58
Diluted earnings per share from:			
– Continuing operations		1.13	1.52
– Discontinued operations		0.35	0.05
		1.48	1.57

The notes on pages 166 to 302 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		For the year ended 31 December	
	Note	2016 HK\$ million	2015 HK\$ million (Restated)
Profit for the year		62,639	60,693
Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)	16		
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		(8,930)	2,972
Cash flow hedge: net movement in the hedging reserve		1,155	139
Share of other comprehensive loss of associates and joint ventures		(1,132)	(958)
Exchange differences on translation of financial statements and others		(40,248)	(34,978)
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		28	279
Other comprehensive loss for the year, net of tax		(49,127)	(32,546)
Total comprehensive income for the year		13,512	28,147
Attributable to:			
– Ordinary shareholders of the Company		9,243	15,836
– Holders of perpetual capital securities		790	1,135
– Non-controlling interests		3,479	11,176
Total comprehensive income for the year		13,512	28,147
Total comprehensive income/(loss) attributable to ordinary shareholders of the Company arising from:			
– Continuing operations		(275)	15,620
– Discontinued operations		9,518	216
		9,243	15,836

The notes on pages 166 to 302 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2016

		As at 31 December	
		2016	2015
	Note	HK\$ million	HK\$ million
Assets			
Cash and deposits	18	927,259	801,615
Placements with banks and non-bank financial institutions	19	186,927	141,775
Financial assets at fair value through profit or loss	20	77,819	40,391
Derivative financial instruments	21	53,281	16,509
Trade and other receivables	22	138,942	141,347
Amounts due from customers for contract work		1,949	2,234
Inventories	23	48,905	130,447
Financial assets held under resale agreements	24	193,615	165,391
Loans and advances to customers and other parties	25	3,137,906	2,947,798
Available-for-sale financial assets	26	642,477	494,786
Held-to-maturity investments	27	244,151	216,267
Investments classified as receivables	28	1,166,325	1,331,281
Interests in associates	30	84,125	50,663
Interests in joint ventures	31	19,387	22,701
Fixed assets	32	172,236	183,740
Investment properties	32	31,539	28,508
Intangible assets	33	19,322	20,572
Goodwill	34	21,871	19,481
Deferred tax assets	35	34,786	27,761
Other assets		35,173	20,042
Total assets		7,237,995	6,803,309
Liabilities			
Borrowing from central banks		205,755	44,761
Deposits from banks and non-bank financial institutions	36	1,097,164	1,275,421
Placements from banks and non-bank financial institutions	37	93,596	58,141
Derivative financial instruments	21	52,648	17,475
Trade and other payables	38	207,285	230,636
Amounts due to customers for contract work		2,892	7,224
Financial assets sold under repurchase agreements	39	134,534	84,949
Deposits from customers	40	4,031,522	3,766,848
Employee benefits payables		18,283	18,156
Income tax payable	35	9,999	9,414
Bank and other loans	41	112,819	147,221
Debt instruments issued	42	543,893	449,772
Provisions	43	3,668	3,567
Deferred tax liabilities	35	6,682	6,998
Other liabilities		21,404	19,557
Total liabilities		6,542,144	6,140,140
Equity			
Share capital	44	381,710	381,710
Perpetual capital securities		7,873	13,836
Reserves		101,050	97,356
Total ordinary shareholders' funds and perpetual capital securities		490,633	492,902
Non-controlling interests		205,218	170,267
Total equity		695,851	663,169
Total liabilities and equity		7,237,995	6,803,309

Approved and authorised for issue by the board of directors on 23 March 2017.

Director: Chang Zhenming

Director: Wang Jiong

The notes on pages 166 to 302 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Share capital	Perpetual capital securities	Capital reserve	Hedging reserve	Investment related reserves	General reserve	Retained earnings	Exchange reserve	Total	Non-controlling interests	Total equity
	Note	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
		(Note 44(a))	(Note 44(c))	(Note 44(d)(i))	(Note 44(d)(ii))	(Note 44(d)(iii))	(Note 44(d)(iv))		(Note 44(d)(v))			
Balance at 1 January 2016		381,710	13,836	(65,387)	294	4,306	37,013	131,132	(10,002)	492,902	170,267	663,169
Profit for the year	10	-	790	-	-	-	-	43,119	-	43,909	18,730	62,639
Other comprehensive income/(loss) for the year	16	-	-	-	909	(6,751)	-	-	(28,034)	(33,876)	(15,251)	(49,127)
Total comprehensive income/(loss) for the year		-	790	-	909	(6,751)	-	43,119	(28,034)	10,033	3,479	13,512
Redemption of perpetual capital securities	44(c)	-	(5,850)	-	-	-	-	-	-	(5,850)	-	(5,850)
Capital injection by non-controlling interests		-	-	-	-	-	-	-	-	-	737	737
Issue of preference shares and other equity instruments by subsidiaries	51(c)	-	-	-	-	-	-	-	-	-	46,162	46,162
Transfer of profits to general reserve		-	-	-	-	-	7,484	(7,484)	-	-	-	-
Dividends paid to ordinary shareholders of the Company	14	-	-	-	-	-	-	(8,727)	-	(8,727)	-	(8,727)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	(6,238)	(6,238)
Distribution to holders of perpetual capital securities		-	(903)	-	-	-	-	-	-	(903)	-	(903)
New subsidiaries		-	-	-	-	-	-	-	-	-	165	165
Disposal of subsidiaries	51(b)	-	-	-	-	-	-	-	-	-	(908)	(908)
Termination of part of put options		-	-	2,229	-	-	-	-	-	2,229	-	2,229
Transaction with non-controlling interests	52	-	-	865	-	-	-	-	-	865	(8,418)	(7,553)
Others		-	-	84	-	-	-	-	-	84	(28)	56
Other changes in equity		-	(6,753)	3,178	-	-	7,484	(16,211)	-	(12,302)	31,472	19,170
Balance at 31 December 2016		381,710	7,873	(62,209)	1,203	(2,445)	44,497	158,040	(38,036)	490,633	205,218	695,851

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Share capital	Convertible preferred shares	Perpetual capital securities	Capital reserve	Hedging reserve	Investment related reserves	General reserve	Retained earnings	Exchange reserve	Total	Non-controlling interests	Total equity
	Note	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
		(Note 44(a))	(Note 44(a))	(Note 44(c))	(Note 44(d)(i))	(Note 44(d)(ii))	(Note 44(d)(iii))	(Note 44(d)(iv))		(Note 44(d)(v))			
Balance at 1 January 2015		324,198	-	13,834	(60,869)	92	4,885	24,836	109,387	15,597	431,960	143,547	575,507
Profit for the year	10	-	-	1,135	-	-	-	-	41,812	-	42,947	17,746	60,693
Other comprehensive income/(loss) for the year	16	-	-	-	-	202	(579)	-	-	(25,599)	(25,976)	(6,570)	(32,546)
Total comprehensive income/(loss) for the year		-	-	1,135	-	202	(579)	-	41,812	(25,599)	16,971	11,176	28,147
Issue of shares	44(a)	11,986	45,923	-	-	-	-	-	-	-	57,909	-	57,909
Conversion of convertible preferred shares into ordinary shares	44(a)	45,923	(45,923)	-	-	-	-	-	-	-	-	-	-
Capital injection by non-controlling interests		-	-	-	-	-	-	-	-	-	-	4,143	4,143
Issue of other equity instruments by a subsidiary		-	-	-	-	-	-	-	-	-	-	1,363	1,363
Transfer of profits to general reserve		-	-	-	-	-	-	12,177	(12,177)	-	-	-	-
Dividends paid to ordinary shareholders of the Company	14	-	-	-	-	-	-	-	(7,890)	-	(7,890)	-	(7,890)
Dividends paid to non-controlling interests		-	-	-	-	-	-	-	-	-	-	(2,073)	(2,073)
Distribution to holders of perpetual capital securities		-	-	(1,133)	-	-	-	-	-	-	(1,133)	-	(1,133)
New subsidiaries		-	-	-	-	-	-	-	-	-	-	3,041	3,041
Disposal of subsidiaries	51(b)	-	-	-	-	-	-	-	-	-	-	(125)	(125)
Put options issued in business combinations		-	-	-	(3,034)	-	-	-	-	-	(3,034)	-	(3,034)
Transaction with non-controlling interests		-	-	-	(1,224)	-	-	-	-	-	(1,224)	9,285	8,061
Others		(397)	-	-	(260)	-	-	-	-	-	(657)	(90)	(747)
Other changes in equity		57,512	-	(1,133)	(4,518)	-	-	12,177	(20,067)	-	43,971	15,544	59,515
Balance at 31 December 2015		381,710	-	13,836	(65,387)	294	4,306	37,013	131,132	(10,002)	492,902	170,267	663,169

The notes on pages 166 to 302 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

		For the year ended 31 December	
	Note	2016	2015
		HK\$ million	HK\$ million (Restated)
Cash flows from operating activities			
Profit before taxation from continuing operations		70,723	78,645
Adjustments for:			
– Depreciation and amortisation	10(b)	12,237	11,774
– Impairment losses	8	73,590	79,188
– Net valuation gain on investment properties	32	(615)	(592)
– Net valuation gain on investments		(299)	(668)
– Share of profits of associates and joint ventures, net of tax		(5,199)	(4,586)
– Interest expenses on debts instruments issued	5(a)	16,438	10,439
– Finance income	9	(1,552)	(2,358)
– Finance costs	9	8,688	9,239
– Net gain on available-for-sale financial assets		(3,113)	(11,195)
– Net gain on disposal of subsidiaries, associates and joint ventures		(2,237)	(12,961)
		168,661	156,925
Changes in working capital			
(Increase)/decrease in deposits with central banks, banks and non-bank financial institutions		(46,273)	4,676
Increase in placements with banks and non-bank financial institutions		(57,754)	(42,833)
Increase in financial assets at fair value through profit or loss		(42,130)	(3,142)
Increase in trade and other receivables		(18,483)	(14,316)
Decrease/(increase) in amounts due from customers for contract work		285	(787)
(Increase)/decrease in inventories		(12,865)	4,372
Increase in financial assets held under resale agreements		(40,458)	(3,433)
Increase in loans and advances to customers and other parties		(424,930)	(446,580)
Decrease/(increase) in investments classified as receivables		83,565	(575,313)
Increase in other assets		(14,164)	(11,272)
(Decrease)/increase in deposits from banks and non-bank financial institutions		(101,989)	472,768
Increase in placements from banks and non-bank financial institutions		39,480	36,554
Decrease in financial liabilities at fair value through profit or loss		–	(714)
Increase in trade and other payables		17,270	30,128
Decrease in amounts due to customers for contract work		(4,332)	(3,422)
Increase in financial assets sold under repurchase agreements		57,525	36,802
Increase in deposits from customers		520,612	388,622
Increase/(decrease) in borrowing from central banks		171,446	(15,630)
(Decrease)/increase in other liabilities		(3,077)	9,387
Increase/(decrease) in employee benefits payables		127	(2,730)
Increase in provisions		101	707
Cash generated from operating activities of continuing operations		292,617	20,769
Income tax paid		(17,808)	(21,220)
Net cash generated from/(used in) operating activities of continuing operations		274,809	(451)
Net cash generated from operating activities of discontinued operations		5,656	760
Net cash generated from operating activities		280,465	309

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

		For the year ended 31 December	
		2016	2015
	Note	HK\$ million	HK\$ million (Restated)
Cash flows from investing activities			
Proceeds from disposal and redemption of financial investments		681,246	884,132
Proceeds from disposal of fixed assets, intangible assets and other assets		805	194
Proceeds from disposal of associates and joint ventures		3,848	14,312
Net cash received from disposal of subsidiaries	51(b)	754	1,411
Dividends received from equity investments, associates and joint ventures		4,217	5,022
Payments for purchase of financial investments		(855,582)	(1,018,145)
Payments for additions of fixed assets, intangible assets and other assets		(21,824)	(24,256)
Net cash payment for acquisition of subsidiaries, associates and joint ventures		(10,163)	(5,240)
Net cash used in investing activities of continuing operations		(196,699)	(142,570)
Net cash used in investing activities of discontinued operations		(14,887)	(958)
Net cash used in investing activities		(211,586)	(143,528)
Cash flows from financing activities			
Capital injection received from the shareholders of the Company		–	57,909
Capital injection received from non-controlling interests		686	566
Transaction with non-controlling interests	52	(7,553)	7,363
Proceeds from new bank and other loans		96,264	91,972
Repayment of bank and other loans and debt instruments issued		(706,253)	(359,657)
Proceeds from new debt instruments issued		727,321	398,192
Proceeds from preference shares and other equity instruments issued	51(c)	46,131	1,363
Interest paid on bank and other loans and debt instruments issued		(28,920)	(21,853)
Dividends paid to non-controlling interests		(6,238)	(1,986)
Dividends paid to ordinary shareholders of the Company	14	(8,727)	(7,890)
Redemption of perpetual capital securities		(5,850)	–
Distribution paid to holders of perpetual capital securities		(903)	(1,133)
Net cash generated from financing activities of continuing operations		105,958	164,846
Net cash used in financing activities of discontinued operations		(11,803)	(2,360)
Net cash generated from financing activities		94,155	162,486
Net increase in cash and cash equivalents		163,034	19,267
Cash and cash equivalents at 1 January		354,111	347,891
Effect of exchange changes		(23,007)	(13,047)
Cash and cash equivalents at 31 December	51(a)	494,138	354,111

The notes on pages 166 to 302 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 address of its registered office is 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central Hong Kong.

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”). As at 31 December 2016, the equity interests held by CITIC Group in the Company through its overseas wholly-owned subsidiaries was 58.13% (31 December 2015: 58.13%).

2 Significant accounting policies

(a) Basis of preparation

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

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. Impacts of the adoption of the amended HKFRS are discussed below:

(i) Amendments to HKAS 1, Disclosure initiative

The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

(ii) Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation

The amendments clarify when a method of depreciation or amortisation based on revenue may be appropriate. The amendment to HKAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate.

The amendment to HKAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) Amendment to HKAS 27, Equity method in separate financial statements

The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

(iv) Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: applying the consolidation exception

The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

(v) Amendment to HKFRS 11, Accounting for acquisitions of interests in joint operations

The amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' (as defined in HKFRS 3, Business combinations).

(vi) Annual improvements to HKFRS 2012-2014 cycle

The amendments include changes from the 2012-2014 cycle of the annual improvements project that affect 4 standards:

- HKFRS 5, Non-current assets held for sale and discontinued operations
- HKFRS 7, Financial instruments: Disclosures
- HKAS 19, Employee benefits
- HKAS 34, Interim financial reporting

The adoption of the above amendments has no material impact on the financial statements of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) Functional currency and presentation currency

The functional currency of the Company is Hong Kong dollars ("HK\$"). The functional currencies of overseas subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into HK\$ for the preparation of the consolidated financial statements (see Note 2(h)). The financial statements of the Group are presented in HK\$ and, unless otherwise stated, expressed in million of HK\$.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(c) Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

- investment properties (see Note 2(l));
- financial assets and liabilities at fair value through profit or loss (including trading financial assets or trading financial liabilities) (see Note 2(i));
- available-for-sale financial assets, except for those whose fair value cannot be measured reliably (see Note 2(i)); and
- fair value hedged items (see Note 2(j)(i)).

(d) Use of estimates and judgement

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

Judgements made by management that have significant effect on the financial statements and estimates with a significant risk of material adjustment in subsequent period are described in Note 3. Revisions to accounting estimates are recognised in the period which the estimates are revised and in any future periods affected.

(e) Subsidiaries and non-controlling interests

(i) Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total face value of shares issued) is adjusted against the capital reserve. Any cost directly attributable to the combination is recognised in profit or loss when incurred. The combination date is the date on which one combining entity obtains control of other combining entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(e) Subsidiaries and non-controlling interests (continued)

(ii) Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Where (1) the aggregate of the acquisition date fair value of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree, exceeds (2) the acquirer's interest in the acquisition date fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill. If (1) is less than (2), the difference is recognised in profit or loss for the current period. The costs of equity or debt securities as a part of the consideration for the acquisition are included in the carrying amounts of these equity or debt securities upon initial recognition. Other acquisition-related costs are expensed when incurred. Any difference between the fair value and the carrying amount of the assets transferred as consideration is recognised in profit or loss. The acquiree's identifiable assets, liabilities and contingent liabilities, if the recognition criteria are met, are recognised by the Group at their acquisition date fair value. The acquisition date is the date on which the acquirer obtains control of the acquiree.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

For a business combination not involving entities under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised as investment income for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree are transferred to investment income in the period in which the acquisition occurs.

(iii) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries, as well as structured entities controlled by the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(e) Subsidiaries and non-controlling interests (continued)

(iii) Consolidated financial statements (continued)

When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated statement of comprehensive income, respectively, based on their carrying amounts, from the date that common control was established. Net profit earned by the acquiree prior to the date of acquisition is separately disclosed.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into the consolidated financial statements from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the ordinary shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the ordinary shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Note 2(i).

When the amount of loss for the current period attributable to the non-controlling interest of a subsidiary exceeds the non-controlling interest's portion of the opening balance of shareholders' equity of the subsidiary, the excess is allocated against the non-controlling interests.

When the accounting period or accounting policies of a subsidiary are different from those of the Group, the Group makes necessary adjustments to the financial statements of the subsidiary based on the Group's own accounting period or accounting policies. Intra-group balances, transactions and cash flows, and any unrealised profit or loss arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are recognised fully in profit or loss when evidence of impairment of assets being provided.

Where the Group acquires a non-controlling interest from a subsidiary's non-controlling shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the difference between the amount by which the non-controlling interests are adjusted and the amount of the consideration paid or received is adjusted to the reserve (capital reserve) in the consolidated balance sheet.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss, and the Group derecognises assets, liabilities, non-controlling interests and other related items in shareholders' equity in relation to that subsidiary. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(i)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(f)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(e) Subsidiaries and non-controlling interests (continued)

(iv) Investment in subsidiaries

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(t)(ii)).

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(t)(ii)). Any acquisition-date excess of the Group's share of the fair value of the investee's identifiable net assets over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

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

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

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

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

In the Company's balance sheet, investments in associates and joint ventures are stated at cost less impairment losses (see Note 2(t)(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(g) Goodwill

Goodwill represents the excess of the consideration transferred, including the amount of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and the equity securities issued by the acquirer at the date of acquisition, over the fair value of the Group's share of the identifiable net assets acquired, when the excess is positive, otherwise it's recognised directly in profit or loss.

Positive goodwill will be stated in the consolidated balance sheet as a separate asset or included within joint ventures and associates at cost less accumulated impairment losses and is subject to impairment testing at least annually. Impairment losses on goodwill are not reversed. Negative goodwill is recognised in profit or loss immediately on acquisition.

(h) Translation of foreign currencies

Foreign currency transactions are, on initial recognition, translated by applying the foreign exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date, the resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rates ruling at the dates the fair value was determined. The exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale equity investments, which is recognised in other comprehensive income.

The financial statements of the Group's subsidiaries with a foreign functional currency are translated into HK\$ for the preparation of the Group's consolidated financial statements. The assets and liabilities in these financial statements are translated into HK\$ at the foreign exchange rates ruling at the reporting date. The equity items, except for "retained earnings", are translated to HK\$ at the foreign exchange rates at the dates on which such items arose.

Income and expenses in the profit or loss are translated into HK\$ at the foreign exchange rates or the rates that approximate the foreign exchange rates at the transaction dates. The resulting exchange differences are presented as "Reserves" (exchange reserve) in the consolidated balance sheet within the shareholder's equity.

Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

(i) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred, and on the contractual terms of the financial instruments. The categories are: financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(ii) Categorisation

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

A financial asset is classified as held for trading if it is: (i) acquired principally for the purpose of selling it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative. Derivatives that do not qualify for hedge accounting (Note 2(j)) are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial assets which would otherwise arise;
- the asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale.

Loans and receivables mainly comprise and other parties, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, investments classified as receivables, and trade and other receivables.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see Note 2(t)(i)). Where the receivables are interest-free loans made to related parties without any fixed repayment term or the effect of discounting would be immaterial, the receivables are stated at cost less allowance for impairment of doubtful debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(ii) Categorisation (continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (see Note 2(t)(i)).

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss. Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in Note 2(w)(vii) and 2(w)(i) respectively.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see Note 2(t)(i)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through the profit or loss include those classified as held for trading, and those designated by the Group upon recognition as at fair value through the profit or loss.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of repurchasing it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Financial liabilities are designated at fair value through the profit or loss upon initial recognition when: (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial liabilities; or (iii) a contract contains one or more embedded derivatives, i.e. an entire hybrid (combined) contract, unless: (i) the embedded derivative does not significantly modify the cash flows that otherwise would be required by the hybrid (combined) contract; or (ii) it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative is prohibited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(ii) Categorisation (continued)

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

Other financial liabilities mainly comprise borrowing from central banks, deposits from banks and non-bank financial institutions, placements from banks and non-bank financial institutions, trade and other payables, financial assets sold under repurchase agreements, banks and other loans, and debt instruments issued.

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is based on the relevant government yield curve as at the balance sheet date plus an adequate constant credit spread. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) De-recognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

The Group derecognises a financial asset, if the part being considered for de-recognition meets one of the following conditions: (a) the contractual rights to receive the cash flows from the financial asset expire; or (b) the contractual rights to receive the cash flows of the financial asset have been transferred, and the Group transfers substantially all the risks and rewards of ownership of the financial asset; or (c) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient in an agreement that meets all the conditions of de-recognition of transfer of cash flows ("pass through requirements") and transfers substantially all the risks and rewards of ownership of the financial asset.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in profit or loss:

- the carrying amount of the financial asset transferred;
- the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(iv) De-recognition (continued)

As part of its operations, the Group securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for de-recognition of financial assets are set out above. When the securitisation of financial assets that do qualify for de-recognition, the relevant financial assets are derecognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in unconsolidated securitisation vehicles that the Group receives as part of the transfer. When the securitisation of financial assets that do not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets that partially qualify for de-recognition, the book value of the transferred asset should be recognised between the derecognised portion and the retained portion based on their respective relative fair values, and the difference between the book value of the derecognised portion and the total consideration paid for the derecognised portion shall be recorded in profit or loss.

The de-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

The financial liability is derecognised only when: (a) the underlying present obligation specified in the contracts is discharged/cancelled, or (b) an agreement between the Group and an existing lender to exchange the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where 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.

(vi) Derivatives

The Group uses derivatives to hedge its exposure on risks. The Group adopts hedge accounting in accordance with Note 2(j) for derivatives designated as hedging instruments if the hedge is effective. Other derivatives are accounted for as trading financial assets or financial liabilities. Derivatives are recognised at fair value upon initial recognition. The positive fair value is recognised as assets while the negative fair value is recognised as liabilities. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

(vii) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with Note 2(i)(ii) above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(j) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in profit or loss. The hedging instrument is measured at fair value, with fair value changes recognised in profit or loss. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in profit or loss to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting, or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Cash flow hedge

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(j) Hedging (continued)

(iii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression analysis as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent for the hedge to be deemed effective.

(k) Financial assets held/sold under resale/repurchase agreements

Financial assets held under resale agreements are transactions that the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions that the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under the resale and repurchase agreements in the balance sheet. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the balance sheet.

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, are amortised over the period of the respective transaction using the effective interest method and are included in interest income and interest expense respectively.

(l) Investment properties

Investment properties are interests in land and/or buildings which are held to earn rentals or for capital appreciation or both. These include land held for a currently undetermined future use. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are stated in the balance sheet at fair values which are reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(m) Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses (Note 2(t)(ii)).

Assets in the course of construction for production, rental or administrative purposes are carried at cost, less any impairment losses. Cost includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads.

Construction-in-progress represents property, plant and equipment under construction and is transferred to fixed assets when ready for its intended use.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rate specified below.

Property, plant and equipment are depreciated at rates sufficient to write off their cost, less impairment losses, if any, to their estimated residual values, over their estimated useful lives on a straight line basis as follows:

- Plant and buildings	5–70 years
- Machinery and equipment	3–33 years
- Office and other equipment, vehicles and vessels and others	2–33 years

Freehold land within the category of plant and buildings are not depreciated.

Assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

(n) Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses (if any). Land use rights are amortised on a straight-line basis over the respective periods of grant, usually within 10 to 50 years.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2(t)(ii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(o) Intangible assets (other than goodwill)

Intangible assets acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(t)(ii)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss over the assets' estimated useful lives. The following intangible assets are amortised from the date they are available for use as follows:

- Roads and tunnels operating rights Over the estimated useful lives of 30 years
- Mining assets Over the estimated useful lives of the mines in accordance with the production plan of the entities concerned and the proven probable reserves of the mines using the unit-of-production method.

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(p) Inventories

(i) Manufacturing, resources and energy segments

Inventories of the manufacturing, and resources and energy segments are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out, specific identification or weighted average cost formula as appropriate, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised in profit or loss in the period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(p) Inventories (continued)

(ii) Real estate segment

Inventories in respect of property development activities under the real estate segment are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development

The cost of properties under development comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 2(bb)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(q) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. The accounting policy for contract revenue is set out in Note 2(w)(v). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as “amount due from customers for contract work” or “amount due to customers for contract work”.

(r) Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group’s depreciation policies, as set out in Note 2(m) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(t)(ii). Revenue arising from operating leases is recognised in accordance with the Group’s revenue recognition policies, as set out in Note 2(w)(vi).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see Note 2(l)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(s) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

When the Group seizes assets to compensate for the losses of loans and advances and interest receivables, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets are included in the carrying value of repossessed assets. Repossessed assets are recognised at the carrying value, net of allowances for impairment losses.

Impairment losses on initial recognition and on subsequent remeasurement are recognised in profit or loss.

(t) Impairment of assets

(i) Financial assets

The carrying amounts of the Group's financial assets other than those measured at fair value through profit and loss are reviewed at balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes but not limited to one or more of the following loss events that occurred after the initial recognition of the asset and has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of a financial asset.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(t) Impairment of assets (continued)

(i) Financial assets (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote after all the necessary legal or other proceedings are completed, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received, discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective loan loss allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(t) Impairment of assets (continued)

(i) Financial assets (continued)

Loans and receivables (continued)

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers and other parties are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(t) Impairment of assets (continued)

(i) Financial assets (continued)

Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Non-financial assets

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

- property, plant and equipment (other than properties carried at revalued amounts);
- land use rights;
- investments in subsidiaries, associates and joint ventures;
- goodwill; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(t) Impairment of assets (continued)

(ii) Non-financial assets (continued)

Calculation of recoverable amount

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

Recognition of impairment losses

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

Reversals of impairment losses

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversible.

(u) Employee benefits

(i) Short-term employee benefits

During the accounting period when an employee has rendered service to the Group, the Group recognises the undiscounted amount of short-term employee benefits as a liability and as an expense, unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset. Short-term employee benefits include wages, bonuses and social security contributions such as medical insurance, work-related injury insurance and maternity insurance, as well as housing provident funds, which are all calculated based on the regulated benchmark and ratio. Where the payment of liability is expected not to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services, and the effect would be material, these liabilities are stated at their present values in the balance sheet.

(ii) Defined contribution retirement schemes

Employees of the Group's subsidiaries in Hong Kong are offered the option to enroll in one of the Mandatory Provident Fund ("MPF") Master Trust Schemes under the CITIC Group MPF Scheme. The MPF Master Trust Schemes are defined contribution schemes and are administered in accordance with the terms and provisions of the respective trust deeds and are subject to the Mandatory Provident Fund Schemes Ordinance.

Employees of the Group's subsidiaries in the People's Republic of China (the "PRC") subsidiaries are required to participate in defined contribution retirement schemes and make contributions according to the respective regulations. Employees of the Group's subsidiaries in the PRC are also eligible to participate in the enterprise annuity plan established by the Group according to the relevant requirements.

Employees of the Group's overseas subsidiaries are required to make contributions subject to the relevant regulations in the countries/jurisdiction in which the overseas subsidiaries operate.

The contributions are charged to profit and loss for the current period on an accrual basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within "other liabilities". The fair value of financial guarantees issued at the time of issuance is 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 lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(v)(iii) if and when: (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (2) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 2(v)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 2(v)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income arising from the use of entity assets by others is recognised in profit or loss based on the duration and the effective interest rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of financial assets and liabilities and of allocating the interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, call and similar options) but does not consider future credit losses. The calculation includes all fees and interests paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

(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.

(iii) Sales of goods and services

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Service fee income is recognised when the services are rendered.

(iv) Sales of properties

Revenue from sales of properties is only recognised when the significant risks and rewards of ownership have been transferred to the buyer. The Group considers that the significant risks and rewards of ownership are transferred when the buildings contracted for sale are completed and the relevant permits essential for the delivery of the properties have been issued by the authorities.

(v) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method.

The Group measured the stage of completion by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(vi) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(vii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(viii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(x) Income tax

Income tax for the year comprises current tax and deferred tax.

The balance sheet liability method is adopted whereby deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; or in respect of those temporary differences which arise either from goodwill not deductible for tax purposes, or relating to investments in subsidiaries to the extent that the Group controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Provision for withholding tax that will arise on the remittance of retained earnings is only made where there is a current intention to remit such earnings.

Deferred tax assets are recognised to the extent that their future utilisation is probable. Deferred tax arising from revaluation of investment properties is recognised on the rebuttable presumption that the recovery of the carrying amount of the properties would be through sale and calculated at the applicable tax rates.

Current tax assets and liabilities are offset, and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(y) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(z) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity (one entity is an associate of a third entity and the Group is a joint venture of the third party).
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(aa) Segment reporting

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 meets the following respective conditions:

- engages in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance; and
- for which financial information regarding financial position, results of operations and cash flows are available.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of:

- the nature of products and services;
- the nature of production processes;
- the type or class of customers;
- the methods used to distribute the products or provide the services; and
- the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

(bb) Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2 Significant accounting policies (continued)

(cc) Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Disposal groups (except for certain assets as explained below) are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out else in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations. Intra-group balances, transactions and cash flows between discontinued and continuing operations are eliminated in preparing these financial statements.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and associated key assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Impairment losses on loans and advances and investments classified as receivables

Loans and advances to customers and other parties

The Group reviews its loans and advances to customers and other parties to assess impairment on a periodic basis during the year. In determining whether an impairment loss should be recognised in the consolidated income statement, the Group makes estimates and judgements as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to individually assessed loans and advances or pools of loans and advances to customers and other parties with similar risk characteristics, as described in Note 2(t)(i) impairment of financial assets carried at amortised cost.

Significant judgements are made in the determination of whether objective evidence of impairment exists in individually assessed loans and advances to customers and other parties or pools of loans and advances to customers and other parties with similar risk characteristics. Among other things, objective evidence of impairment includes deterioration in the financial condition of specific borrowers (or specific pools of borrowers) affecting their ability to meet their loan payment obligations, overdue status, financial position of guarantors, latest collateral valuations, concession the Group that would not otherwise be granted to borrowers for economic or legal reasons relating to their financial difficulties, as well as increasing industry sector overcapacity or obsolescence, or deterioration in national or regional economic conditions that are correlated to increasing loans and advances to customers and other parties defaults. These judgements are made both during management's regular assessments of credit quality of loans and advances to customers and other parties and when other circumstances indicate the possibility that objective evidence of impairment may exist.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(a) Impairment losses on loans and advances and investments classified as receivables (continued)

Loans and advances to customers and other parties (continued)

Where it is determined that objective evidence of impairment exists, significant judgements and estimates are made in estimating the adverse impact on future cash flows related to individually assessed impaired loans and advances to customers and other parties. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Factors affecting these estimates include the availability and granularity of information related to specific borrowers; the results of regulatory reviews and the related portfolio analysis, and the clarity of the correlation between qualitative factors, such as industry sector performance or changes in regional economic conditions and loans and advances to customer's defaults of related borrowers.

Corporate loans and advances to customers and other parties not identified as impaired from individually assessments, together with all personal loans and advances to customers and other parties are included in homogenous groups with similar credit risks characteristics for performance of impairment assessments on a collective basis. Migration model is used for corporate loans and roll rate models are used for personal loans considering the similarity of credit risks and applying key assumptions. Significant judgements are applied to the calculation of assessed impairment using these models. Critical factors affecting these judgements include modelling assumptions (e.g., loss given default) and levels of correlation between qualitative factors and loans and advances to customers and other parties default. The collective impairment loss is assessed after taking into account: (i) historical loss experience in portfolios of similar credit risk characteristics; (ii) the emergence period between a loss occurring and that loss being identified; (iii) high risk products and geographic locations; and (iv) the current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience. The Group considers the impact of the changes and uncertainty in the macro-economic environment, in which the Group operates when assessing the methodologies and assumptions used for loss estimation, makes adjustments where appropriate.

Investments classified as receivables

In determining whether an impairment loss should be recognised in the consolidated income statement, the Group makes significant estimates and judgements as to whether there is any observable data indicating that there is objective evidence of impairment and the extent, if any, to which it will have a measurable decrease in the estimated future cash flows related to investments classified as receivables by underlying assets or groups of underlying assets with similar risk characteristics, as described in Note 2(t)(i) Impairment of financial assets.

Where it is determined that objective evidence of impairment exists, significant judgements and estimates are made in estimating the adverse impact on future cash flows based on the underlying assets related to individually significant impaired investment classified as receivables.

Investments classified as receivables not identified as impaired from the individual assessment are included in groups with similar credit risk characteristics by underlying assets with the consideration of risk factors specific to different industries and different type of underlying assets, and assessed for impairment collectively. Significant judgements are applied to the calculation of collectively assessed impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the Group considers historical data of market volatility and historical share price of the specific equity investment as well as other factors, such as sector performance, financial information regarding the investee and industry practice.

(c) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realisable value. The Group estimates the net realisable value, based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down. The change in the write-down would affect the Group's profit or loss during the year.

(d) Impairment of non-financial assets

As described in Note 2(t)(ii), assets such as fixed assets and intangible assets are reviewed at each balance sheet date to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is recognised.

The recoverable amount of an asset (asset group) is the greater of its fair value less costs to sell and its present value of expected future cash flows. Since a market price of the asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing value in use, significant judgements are exercised over the asset's production, selling price, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling price and related operating expenses based on reasonable and supportable assumptions.

(e) Fair value of financial instruments

For financial instruments without active market, the Group determines fair values using valuation techniques which include discounted cash flow models, as well as other types of valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign currency exchange rates. Where discounted cash flow techniques are used, estimated cash flows are based on management's best estimates and the discount rate used is a market rate at the end of each reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on observable market data at the end of each reporting period. However, where market data are not available, management needs to make estimates on such unobservable market inputs based on assumptions. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

(f) Depreciation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(g) Income taxes

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets, which principally relate to tax losses and deductible temporary differences, are recognised when the future taxable profit will be available against such deferred tax assets. Hence, it requires formal assessment by management regarding the future profitability to utilise the deferred tax assets. The outcome of their actual utilisation may be different.

(h) Assets acquired/liabilities assumed in business combination

Assets acquired/liabilities assumed in business combination are recognised at fair value in connection with the Group's acquisition of an entity. The fair values of the acquired assets/assumed liabilities are determined based on valuation methodologies and techniques that involved the use of a third-party valuation firm's expertise. The judgements and assumptions used in that valuation of assets and liabilities along with the assumptions on the useful lives of acquired assets have an effect on the consolidated financial statements.

(i) De-recognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, securitisation, financial assets sold under repurchase agreements and etc.. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transferred financial asset to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets was transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

- whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows to independent third parties;
- the extent to which the associated risks and rewards of ownership of the financial assets are transferred by using appropriate models. Significant judgement is applied in the Group's assessment with regard to the parameters and assumptions applied in the models, estimated cash flows before and after the transfers, the discount rates used based on current market interest rates, variability factors considered and the allocation of weightings in different scenarios;
- where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyses whether the Group has relinquished its controls over these financial assets, and if the Group has continuing involvement in these transferred financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(j) Consolidation of structured entities

The Group makes significant judgement to assess whether or not to consolidate structured entities. When performing this assessment, the Group:

- assesses its contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities;
- performs independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; and
- assesses its ability to exercise its power to influence the variable returns assessed whether the Group acts as a principal or an agent through analysis of the scope of the Group's decision-making authority, remuneration entitled, other interests the Group holds, and the rights held by other parties.

(k) Metallurgical Corporation of China ("MCC") claim

MCC were 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.

As at the date of issuance of the consolidated financial statements 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 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(l) 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 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.

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) commenced legal proceedings in relation to the dispute 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 Company, Sino Iron and Korean Steel commenced a proceeding in the Supreme Court of Western Australia to seek orders compelling Mineralogy to take the steps necessary to complete the transfer of a further company having the right to mine one billion tonnes of magnetite ore. No trial date has been set for this proceeding.

Royalties Disputes

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 annual published FOB prices for certain iron ore products (“annual benchmark prices”). Annual benchmark prices no longer exist, and Sino Iron and Korean Steel’s position is that this means that Royalty Component B is no longer able to be calculated using the formula in the MRSLAs. Mineralogy denied that this was the case, and pursued proceedings in the Supreme Court of Western Australia seeking declarations (among other things) that Royalty Component B can be calculated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(I) Mineralogy Pty Ltd. (“Mineralogy”) disputes (continued)

Royalties Disputes (continued)

Mineralogy’s latest amended statement of claim was filed on 25 January 2017. In its current statement of claim, Mineralogy seeks payment of sums for Royalty Component B, damages for breach of the MRSLAs or a declaration that the MRSLAs be rectified, among other things. Mineralogy has withdrawn all claims that the MRSLAs have been terminated.

The current defence and counterclaim of Korean Steel, Sino Iron and the Company, which was filed on 6 February 2017, pleads that the provisions concerning Royalty Component B can be severed from the remainder of the MRSLAs (which otherwise remain in force according to their terms). If Royalty Component B cannot be severed, then, in addition to other arguments, they contend that the parties to the MRSLAs must negotiate a new Royalty Component B formula in good faith, or alternatively, Korean Steel and Sino Iron must pay a fair and reasonable royalty to Mineralogy, such royalty to be determined by the Court having regard to the relevant circumstances.

In November 2015, Mineralogy filed an application for an urgent interlocutory mandatory injunction requiring Sino Iron, Korean Steel and the Company (together, for the purpose of this application, the “CITIC Parties”) to pay to Mineralogy royalties under the MRSLAs. The application was heard in December 2015 by Justice Tottle, who dismissed the application. Mineralogy appealed Justice Tottle’s decision at first instance and on 27 June 2016 the appeal was unanimously allowed and orders made for the injunction application to be remitted for rehearing.

The remitted injunction application was heard in October 2016 by Justice Kenneth Martin and judgement was delivered in Mineralogy’s favour in December 2016. Pursuant to Justice Martin’s judgement, his Honour made injunction orders to the effect that Sino Iron and Korean Steel were to pay on an interlocutory basis pending final judgement (a) by 30 January 2017, into Court the sum of US\$10,690,270.50 (or the Australian dollar equivalent) to abide further orders of the Court, and to Mineralogy, the same sum; (b) subject to Mineralogy demonstrating it is ready, willing and able to perform its obligations under the MRSLAs and amending its Statement of Claim to withdraw claims the MRSLAs had been terminated, by 28 February 2017, into Court the sum of US\$29,801,812.50, and to Mineralogy, the same sum; and (c) in respect of each quarter from 30 June 2016 in arrears, into Court, amounts assessed as a payment of US\$6 per DMT of iron ore concentrate shipped, the payments in respect of the quarters ended September 2016 and December 2016 to be paid by 31 March 2017.

The CITIC Parties have appealed the injunction orders made by Justice Martin for Korean Steel and Sino Iron to pay monies to Mineralogy and into Court. The appeals were heard on 8 March 2017 and judgement was reserved. The orders to pay amounts to Mineralogy have been stayed until after the delivery of such judgement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3 Critical accounting estimates and judgements (continued)

(I) Mineralogy Pty Ltd. (“Mineralogy”) disputes (continued)

Royalties Disputes (continued)

The trial in this proceeding is provisionally listed to commence on 14 June 2017 and to run for 15 sitting days.

The MRSLAs contain a clause stating that, unless certain exceptions apply, each of Korean Steel and Sino Iron is required to pay an amount to Mineralogy if either of them produced less than six million tonnes of saleable product by March 2013 (the “Minimum Production Royalty”). In August 2015, Queensland Nickel Pty Ltd. (“Queensland Nickel”) commenced a proceeding in the Supreme Court of Queensland alleging that the non-payment of the Minimum Production Royalty to Mineralogy amounted to unconscionable conduct by the Company, Sino Iron and Korean Steel, and that the Company, Sino Iron Holdings Pty Ltd. and individual officers of the Company and its subsidiaries (together, for the purpose of this proceeding, the “CITIC Parties”) were knowingly concerned in the alleged contraventions. Queensland Nickel sought damages for losses suffered as a consequence of Mineralogy being unable to advance funds to it due to such non-payment. In September 2015, the CITIC Parties filed a strike out application in the proceeding. At a hearing on 16 March 2016, the Court ordered that Queensland Nickel be removed as plaintiff and QNI Resources Pty Ltd. and QNI Metals Pty Ltd. be substituted as plaintiffs in the proceeding. On 23 March 2016, the Court upheld the strike out application brought by the CITIC Parties and dismissed the proceeding. QNI Resources Pty Ltd. and QNI Metals Pty Ltd. appealed the decision. However, they subsequently withdrew their appeal and, on 1 September 2016, the appeal was discontinued.

Port Dispute

Sino Iron and Korean Steel have developed port infrastructure at the Port of Cape Preston to be used to export product from the Sino Iron Project. Mineralogy commenced legal proceedings in the Federal Court of Australia seeking declarations that the port infrastructure has vested in it, that it is entitled to possession, control and ownership of that infrastructure and that the Facilities Deeds between the parties which regulate usage of the port infrastructure have been terminated by it.

The matter was heard by the Federal Court of Australia in June 2015. The Court’s reasons for decision were handed down in August 2015. The Court refused to grant any of the relief sought by Mineralogy. The effect of the decision was to preserve the status quo in relation to the operation of the port facilities which continue to be operated by or on behalf of Sino Iron and Korean Steel. Mineralogy appealed the decision at first instance. The appeal was heard from 9 to 12 May 2016. Judgement was reserved.

4 Taxation

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the year ended 31 December 2016 is 16.5% (2015: 16.5%).

Except for the preferential tax treatments, the income tax rate applicable to the Group’s other subsidiaries in Mainland China for the year ended 31 December 2016 is 25% (2015: 25%).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5 Revenue

As a multi-industry conglomerate, the Group is principally engaging 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 (Notes 5(a), 5(b) and 5(d)). For non-financial services segment, revenue mainly comprises total invoiced value of sales of goods, services rendered to customers and revenue from construction contracts (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.

(a) Net interest income

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million
Interest income arising from:		
Deposits with central banks, banks and non-bank financial institutions	11,179	11,323
Placements with banks and non-bank financial institutions	4,363	3,561
Financial assets held under resale agreements	1,078	4,979
Investments classified as receivables	54,275	57,400
Loans and advances to customers and other parties	155,252	170,211
Investments in debt securities	25,274	22,654
Others	6	23
	251,427	270,151
Interest expenses arising from:		
Borrowing from central banks	(3,143)	(1,238)
Deposits from banks and non-bank financial institutions	(38,172)	(44,613)
Placements from banks and non-bank financial institutions	(1,721)	(928)
Financial assets sold under repurchase agreements	(1,007)	(699)
Deposits from customers	(64,577)	(80,259)
Debt instruments issued	(16,438)	(10,439)
Others	(446)	(92)
	(125,504)	(138,268)
Net interest income	125,923	131,883

(b) Net fee and commission income

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million
Consultancy and advisory fees	6,821	8,685
Bank card fees	22,561	16,708
Settlement and clearing fees	1,633	2,174
Commission for wealth management services	8,323	7,287
Agency fees and commission	7,197	4,634
Guarantee fees	2,790	3,940
Trustee commission and fees	7,997	7,131
Others	874	846
	58,196	51,405
Fee and commission expenses	(3,618)	(2,506)
Net fee and commission income	54,578	48,899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5 Revenue (continued)

(c) Sales of goods and services

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million (Restated)
Sales of goods	156,528	149,628
Services rendered to customers	26,895	27,370
Revenue from construction contracts	9,869	12,882
	193,292	189,880

(d) Other revenue

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Net trading gain (note (i))	4,153	4,622
Net gain on investment assets under financial services segment	2,022	19,557
Others	854	469
	7,029	24,648

(i) Net trading gain

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Trading profit/(loss):		
– debt securities and certificates of deposits	1,358	2,300
– foreign currencies	2,705	2,865
– derivatives	90	(543)
	4,153	4,622

6 Costs of sales and services

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million (Restated)
Costs of goods sold	139,137	129,884
Costs of services rendered	18,172	18,179
Costs of construction contracts	8,311	10,283
	165,620	158,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7 Other net income

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million (Restated)
Net gain on disposal of subsidiaries, associates and joint ventures	2,483	1,513
Net gain on financial assets under non-financial services segment	1,889	5,856
Commissions income, net foreign exchange gain and others	2,919	726
	7,291	8,095

8 Impairment losses

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million (Restated)
Impairment losses charged on/(reversed from):		
– deposits and placements with banks and non-bank financial institutions	40	–
– trade and other receivables	6,706	4,098
– amounts due from customers for contract work	(795)	–
– inventories	587	593
– loans and advances to customers and other parties (Note 25(d))	53,603	47,827
– available-for-sale financial assets	416	(5)
– held-to-maturity investments	2	(4)
– investments classified as receivables	1,068	4,647
– interests in associates	2	476
– interests in joint ventures	11	–
– fixed assets (note)	10,255	17,445
– intangible assets (note)	742	2,233
– others	953	1,878
	73,590	79,188

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8 Impairment losses (continued)

Note:

Iron Ore Project

The Group's Iron Ore Project comprises the Sino Iron Project in Australia and its associated marketing operation in Singapore. Whenever events or circumstances indicate impairment may have occurred, the Group tests whether assets attributable to the Group's Iron Ore Projects have suffered any impairment.

The recoverable amount of the Sino Iron Project is based on the fair value less costs of disposal methodology which is based on cash flow projections that incorporate best estimates of selling prices, ore grades, exchange rates, production rates, future capital expenditure and production costs over the life of the mine. In line with normal practice in the mining industry, the cash flow projections are based on long term mine plans covering the expected life of the operation. Therefore, the projections cover periods well in excess of five years. Assumptions about selling prices, operating and capital costs, exchange rates, quantity of resources and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

In accordance with the Group's accounting policy, management has identified one CGU, the Sino Iron Project that had indicators of impairment at 31 December 2016, including the reduction in the iron ore price outlook. As a result the Group assessed the recoverable amount of the Sino Iron Project. For the purposes of testing for impairment, the carrying amount of the Sino Iron Project is compared with its recoverable amount. In accordance with the Group's accounting policy, recoverable amount is assessed as the higher of fair value less costs of disposal and value in use. The Group has adopted fair value less costs of disposal methodology in its assessment, using a nominal discounted cash flow model based on the mine life of the Sino Iron Project.

In the model a discount rate of 9.5% is used. Iron ore price (including base price, premium on product grade and adjustment on freight) and AU\$:US\$ exchange rate assumptions are estimated by management with reference to external market forecasts sourced from a range of industry experts. The operating expenditure and capital expenditure for years 2017 to 2019 are forecast based on management's best estimates of costs and expenditures. Beyond the above three-year forecast period, operating expenditure and capital expenditure are forecast to remain relatively stable increasing primarily with inflation.

The impairment testing carried out at 31 December 2016 resulted in a total impairment charge of US\$1,302 million (approximately HK\$10,152 million) (2015: US\$2,213 million (approximately HK\$17,261 million)) being recognised in the consolidated income statement, reflecting a softening in forecast iron ore prices. The impairment charge was allocated as follows:

- Property, plant & equipment US\$1,208 million (approximately HK\$9,417 million) (2015: US\$1,979 million (approximately HK\$15,436 million))
- Intangible assets US\$94 million (approximately HK\$735 million) (2015: US\$234 million (approximately HK\$1,825 million))

The fair value of CGU must be estimated for recognition and measurement or for disclosure purposes.

The disclosure is based on the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical or similar CGU (level 1);
- Inputs other than quoted prices included within level that are observable for the CGU, either directly (as prices) or indirectly (derived from prices) (level 2); and
- Inputs for the CGU that are not based on observable market data (unobservable inputs)(level 3 inputs).

The CGU's fair value hierarchy is Level 3.

9 Net finance charges

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million (Restated)
Finance costs		
– Interest on bank loans and other loans	3,486	4,533
– Interest on debt instruments issued and other interest expenses	5,718	5,592
	9,204	10,125
Less: interest expense capitalised*	(576)	(2,138)
	8,628	7,987
Other finance charges	60	1,252
	8,688	9,239
Finance income	(1,552)	(2,358)
	7,136	6,881

* Capitalisation rates applied to funds borrowed are 1.30% – 5.70% per annum for the year ended 31 December 2016 (2015: capitalisation rate of 2.12% – 6.86%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10 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

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million (Restated)
Salaries and bonuses	33,993	32,385
Contributions to defined contribution retirement schemes	4,326	4,204
Others	7,753	7,838
	46,072	44,427

(b) Other items

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million (Restated)
Amortisation	2,690	2,466
Depreciation	9,547	9,308
Operating lease charges: minimum lease payments	5,424	5,798
Tax and surcharges	5,929	14,225
Property management fees	1,290	1,050
Non-operating expenses	1,363	1,238
Professional fees (other than auditors' remuneration)	997	885
Auditors' remuneration		
– Audit services	156	155
– Non-audit services	56	23
	27,452	35,148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11 Income tax expense

(a) Income tax expense in the income statement

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million (Restated)
Current tax – Mainland China		
Provision for enterprise income tax	22,337	23,716
Land appreciation tax	328	218
	22,665	23,934
Current tax – Hong Kong		
Provision for Hong Kong profits tax	1,524	959
Current tax – Overseas		
Provision for the year	310	791
	24,499	25,684
Deferred tax		
Origination and reversal of temporary differences	(6,106)	(6,260)
	18,393	19,424

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

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

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million (Restated)
Profit before taxation	70,723	78,645
Less: Share of (profits)/loss of		
– associates	(2,323)	(4,741)
– joint ventures	(2,876)	155
	65,524	74,059
Notional tax on profit before taxation calculated at statutory tax rate of 16.5%	10,811	12,220
Effect of different tax rates in other jurisdictions	4,485	5,596
Tax effect of unused tax losses not recognised	397	428
Tax effect of non-deductible expenses	3,054	2,121
Tax effect of non-taxable income	(1,688)	(1,675)
Others	1,334	734
Actual tax expense	18,393	19,424

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12 Benefits and interests of directors

(a) Directors' emoluments

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2016 are set out as follows:

For the year ended 31 December 2016										
Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary									Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Name of Current Directors	Fees HK\$ million	Salary HK\$ million	Discretionary bonuses HK\$ million	Housing allowance HK\$ million	Estimated money value of other benefits HK\$ million	Social securities in China mainland HK\$ million	Employer's contribution to a retirement benefit scheme HK\$ million	Remunerations paid or receivable in respect of accepting office as committee member HK\$ million	HK\$ million	HK\$ million
Executive Directors:										
Chang Zhenming ⁱ	-	0.34	0.24	-	0.03	0.13	0.11	-	-	0.85
Wang Jiong ⁱ	-	0.34	0.24	-	0.01	0.12	0.10	-	-	0.81
Li Qingping ⁱ	-	0.30	0.22	-	0.01	0.13	0.10	-	-	0.76
Pu Jian ⁱ	-	0.30	0.22	-	0.01	0.13	0.10	-	-	0.76
Non-executive Directors:										
Yang Jinming	-	-	-	-	-	-	-	-	-	-
Liu Yeqiao	-	-	-	-	-	-	-	-	-	-
Song Kangle ⁱⁱⁱ	-	-	-	-	-	-	-	-	-	-
Yan Shuqin ⁱⁱⁱ	-	-	-	-	-	-	-	-	-	-
Liu Zhongyuan	-	-	-	-	-	-	-	-	-	-
Yang Xiaoping	0.38	-	-	-	-	-	-	0.02	-	0.40
Independent Non-executive Directors:										
Francis Siu Wai Keung	0.38	-	-	-	-	-	-	0.38	-	0.76
Xu Jinwu	0.38	-	-	-	-	-	-	0.25	-	0.63
Anthony Francis Neoh	0.38	-	-	-	-	-	-	0.18	-	0.56
Lee Boo Jin	0.38	-	-	-	-	-	-	0.01	-	0.39
Noriharu Fujita	0.38	-	-	-	-	-	-	-	-	0.38
Paul Chow Man Yiu ⁱⁱⁱ	0.30	-	-	-	-	-	-	0.01	-	0.31
Name of Former Directors										
Yu Zhensheng ⁱⁱⁱ	-	-	-	-	-	-	-	-	-	-
Cao Pu ⁱⁱⁱ	-	-	-	-	-	-	-	-	-	-
Li Rucheng ⁱⁱⁱ	0.29	-	-	-	-	-	-	-	-	0.29
	2.87	1.28	0.92	-	0.06	0.51	0.41	0.85	-	6.90

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For the year ended 31 December 2016

12 Benefits and interests of directors (continued)

(a) Directors' emoluments (continued)

Notes:

- (i) The emoluments for the year ended 31 December 2016 in respect of Mr Chang Zhenming, Mr Wang Jiong, Ms Li Qingping and Mr Pu Jian have not been finalised in accordance with the regulations of the relevant local authorities. Further disclosure of which will be made as and when the relevant approval is obtained.
- (ii) Changes in directors during the year ended 31 December 2016:
 - (1) Ms Cao Pu retired from the position as non-executive director in March 2016.
 - (2) Mr Song Kangle and Mr Li Rucheng were appointed as non-executive directors, and Mr Paul Chou Man Yiu was appointed as an independent non-executive director in March 2016.
 - (3) Ms Yan Shuqin was appointed as a non-executive director, and Mr Yu Zhensheng resigned from the position as non-executive director in April 2016.
 - (4) Mr Li Rucheng resigned from the position as non-executive director in December 2016.
- (iii) Emoluments of newly appointed and former directors were paid by the Company for the period in which they served as directors.

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For the year ended 31 December 2016

12 Benefits and interests of directors (continued)

(a) Directors' emoluments (continued)

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2015 are set out as follows:

Name of Current Directors	For the year ended 31 December 2015									Total HK\$ million
	Fees HK\$ million	Salary HK\$ million	Discretionary bonuses HK\$ million	Housing allowance HK\$ million	Estimated money value of other benefits HK\$ million	Social securities in China mainland HK\$ million	Employer's contribution to a retirement benefit scheme HK\$ million	Remunerations paid or receivable in respect of accepting office as committee member HK\$ million	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$ million	
Executive Directors:										
Chang Zhenming ⁱ	-	0.34	0.34	-	0.03	0.12	0.11	-	-	0.94
Wang Jiong ⁱ	-	0.34	0.34	-	-	0.12	0.10	-	-	0.90
Li Qingping ^{ii,iii}	-	0.03	0.03	-	-	0.01	0.01	-	-	0.08
Pu Jian ⁱⁱⁱ	-	0.03	0.03	-	-	0.01	0.01	-	-	0.08
Non-executive Directors:										
Yu Zhensheng	-	-	-	-	-	-	-	-	-	-
Yang Jinming	-	-	-	-	-	-	-	-	-	-
Cao Pu	-	-	-	-	-	-	-	-	-	-
Liu Zhongyuan	-	-	-	-	-	-	-	-	-	-
Liu Yeqiao	-	-	-	-	-	-	-	-	-	-
Yang Xiaoping ⁱⁱⁱ	0.16	-	-	-	-	-	-	-	-	0.16
Independent Non-executive Directors:										
Francis Siu Wai Keung	0.38	-	-	-	-	-	-	0.38	-	0.76
Xu Jinwu	0.38	-	-	-	-	-	-	0.17	-	0.55
Anthony Francis Neoh	0.38	-	-	-	-	-	-	0.03	-	0.41
Lee Boo Jin	0.38	-	-	-	-	-	-	-	-	0.38
Noriharu Fujita ⁱⁱⁱ	0.16	-	-	-	-	-	-	-	-	0.16
Name of Former Directors										
Dou Jianzhong ⁱⁱⁱ	-	-	-	-	-	-	-	-	5.00	5.00
Alexander Reid Hamilton ⁱⁱⁱ	0.16	-	-	-	-	-	-	0.10	-	0.26
Zhang Jijing ⁱⁱⁱ	-	-	-	-	-	-	-	-	6.53	6.53
	2.00	0.74	0.74	-	0.03	0.26	0.23	0.68	11.53	16.21

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12 Benefits and interests of directors (continued)

(a) Directors' emoluments (continued)

Notes:

- (i) The emoluments for the year ended 31 December 2015 in respect of Mr Chang Zhenming, Mr Wang Jiong, Ms Li Qingping and Mr Pu Jian were finalised in accordance with the regulations of the relevant local authorities.
- (ii) Changes in directors during the year ended 31 December 2015:
 - (1) Mr Dou Jianzhong resigned from the position as executive director in May 2015.
 - (2) Mr Alexander Reid Hamilton retired from the position as independent non-executive director in June 2015.
 - (3) Mr Yang Xiaoping was appointed as a non-executive director, and Mr Noriharu Fujita was appointed as an independent non-executive director in August 2015.
 - (4) Ms Li Qingping and Mr Pu Jian were appointed as executive directors, and Mr Zhang Jijing retired from the position as executive director in December 2015.
- (iii) Emoluments of newly appointed and former directors were paid by the Company for the period in which they served as directors.

(b) Other benefits and interests

For the year ended 31 December 2016, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2015: None). No consideration was provided to or receivable by third parties for making available directors' services (2015: None). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2015: None).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year ended 31 December 2016 (2015: None).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13 Individuals with highest emoluments

For the year ended 31 December 2016, none of the five highest paid individuals are directors (2015: none) whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of these five individuals (2015: five) are as follows:

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Salaries and other emoluments	26.29	27.07
Discretionary bonuses	33.24	29.99
Equity settled share based payment expenses	–	3.40
Retirement scheme contributions	1.63	2.09
	61.16	62.55

The emoluments of the five individuals (2015: five) with the highest emoluments are within the following bands:

	For the year ended 31 December	
	2016	2015
	Number of individuals	Number of individuals
HK\$10,000,001 to HK\$11,000,000	–	1
HK\$11,000,001 to HK\$12,000,000	3	–
HK\$12,000,001 to HK\$13,000,000	1	2
HK\$13,000,001 to HK\$14,000,000	1	2
	5	5

14 Dividends

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
2015 Final dividend paid: HK\$0.20 (2014: HK\$0.20) per share	5,818	4,981
2016 Interim dividend paid: HK\$0.10 (2015: HK\$0.10) per share	2,909	2,909
2016 Final dividend proposed: HK\$0.23 (2015: HK\$0.20) per share	6,691	5,818

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15 Earnings per share

The calculation of basic earnings per share and diluted earnings per share are based on the profit attributable to ordinary shareholders of the Company of HK\$43,119 million for the year ended 31 December 2016 (2015: HK\$41,812 million), calculated as follows:

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million
Profit attributable to ordinary shareholders of the Company arising from:		
– Continuing operations	32,782	40,501
– Discontinued operations	10,337	1,311
	43,119	41,812
Weighted average number of ordinary shares (in million):		
Issued ordinary shares as at 1 January	29,090	24,903
Weighted average number of newly issued ordinary shares (Note 44(a))	–	1,611
Weighted average number of ordinary shares as at 31 December (basic)	29,090	26,514
Impact of issued convertible preferred shares (Note 44(a))	–	100
Weighted average number of ordinary shares as at 31 December (diluted)	29,090	26,614

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. As at 31 December 2016, 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 31 December 2016. For the year ended 31 December 2015, the Company's dilutive potential ordinary shares included convertible preferred shares issued at 3 August 2015 (Note 44(a)), assuming conversion of convertible preferred shares into ordinary shares at 3 August 2015.

16 Other comprehensive loss

(a) Tax effects relating to each component of other comprehensive loss

	For the year ended 31 December					
	2016			2015		
	Before tax amount HK\$ million	Tax benefit/ (expense) HK\$ million	Net-of-tax amount HK\$ million	Before tax amount HK\$ million	Tax (expense)/ benefit HK\$ million	Net-of-tax amount HK\$ million
Available-for-sale financial assets:						
net movement in the fair value reserve	(11,472)	2,542	(8,930)	3,478	(506)	2,972
Cash flow hedge: net movement in the hedging reserve	1,509	(354)	1,155	136	3	139
Share of other comprehensive loss of associates and joint ventures	(1,132)	–	(1,132)	(958)	–	(958)
Exchange differences on translation of financial statements and others	(40,248)	–	(40,248)	(34,978)	–	(34,978)
Reclassification of owner-occupied property as investment property: revaluation gain	37	(9)	28	372	(93)	279
	(51,306)	2,179	(49,127)	(31,950)	(596)	(32,546)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16 Other comprehensive loss (continued)

(b) Components of other comprehensive loss, including reclassification adjustments

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Fair value (losses)/gains of available-for-sale financial assets	(9,217)	9,875
Less: Net amounts previously recognised in other comprehensive income transferred to profit or loss in the current year	(2,255)	(6,397)
Tax effect	2,542	(506)
	(8,930)	2,972
Gains arising from cash flow hedge	1,388	15
Less: Net amounts previously recognised in other comprehensive loss transferred to profit or loss in the current year	121	121
Tax effect	(354)	3
	1,155	139
Share of other comprehensive loss of associates and joint ventures	(1,132)	(958)
Exchange differences on translation of financial statements and others	(40,248)	(34,978)
Reclassification of owner-occupied property as investment property:		
revaluation gain	37	372
Less: Tax effect	(9)	(93)
	28	279
	(49,127)	(32,546)

17 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, aluminium 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 and others.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17 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 year". To arrive at segment results, the Group's profit is further adjusted for items not specifically 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.

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 years ended 31 December 2016 and 2015 is set out below:

	For the year ended 31 December 2016								Total HK\$ million
	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	
Continuing operations									
Revenue from external customers	187,537	50,254	62,350	11,023	4,900	64,723	35	-	380,822
Inter-segment revenue	(324)	3,527	271	315	111	1,039	6	(4,945)	-
Reportable segment revenue	187,213	53,781	62,621	11,338	5,011	65,762	41	(4,945)	380,822
Share of profits/(losses) of associates, net of tax	2,198	218	79	41	768	(986)	5	-	2,323
Share of profits of joint ventures, net of tax	809	657	-	-	858	552	-	-	2,876
Finance income (Note 9)	-	399	225	248	375	132	2,521	(2,348)	1,552
Finance costs (Note 9)	-	(2,086)	(716)	(95)	(335)	(1,476)	(6,425)	2,445	(8,688)
Depreciation and amortisation (Note 10(b))	(3,187)	(2,287)	(3,547)	(157)	(250)	(2,755)	(54)	-	(12,237)
Impairment losses (Note 8)	(61,845)	(10,538)	(831)	775	(556)	(595)	-	-	(73,590)
Profit/(loss) before taxation	71,691	(9,243)	2,343	1,969	3,676	4,947	(4,249)	(411)	70,723
Income tax	(16,193)	2,721	(1,033)	(296)	(1,412)	(1,729)	(449)	(2)	(18,393)
Profit/(loss) for the year from continuing operations	55,498	(6,522)	1,310	1,673	2,264	3,218	(4,698)	(413)	52,330
Profit for the year from discontinued operations	-	-	-	-	10,309	-	-	-	10,309
Profit/(loss) for the year	55,498	(6,522)	1,310	1,673	12,573	3,218	(4,698)	(413)	62,639
Attributable to:									
- Ordinary shareholders of the									
Company	38,406	(6,899)	1,740	1,675	12,111	1,987	(5,488)	(413)	43,119
Continuing operations	38,406	(6,899)	1,740	1,675	1,774	1,987	(5,488)	(413)	32,782
Discontinued operations	-	-	-	-	10,337	-	-	-	10,337
- Non-controlling interests and holders of perpetual capital securities	17,092	377	(430)	(2)	462	1,231	790	-	19,520
Continuing operations	17,092	377	(430)	(2)	490	1,231	790	-	19,548
Discontinued operations	-	-	-	-	(28)	-	-	-	(28)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17 Segment reporting (continued)

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

	As at 31 December 2016								
	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
Reportable segment assets	6,729,902	135,784	96,112	36,796	143,596	113,090	150,506	(167,791)	7,237,995
Including:									
Interests in associates	32,128	11,719	950	465	31,832	6,959	72	-	84,125
Interests in joint ventures	3,999	2,906	-	-	9,149	3,333	-	-	19,387
Reportable segment liabilities	6,237,647	160,848	49,474	26,579	94,244	70,059	167,944	(264,651)	6,542,144
Including:									
Bank and other loans	2,964	41,398	15,088	1,276	10,721	32,863	21,749	(13,240)	112,819
Debt instruments issued	432,579	1,453	4,242	-	-	4,682	100,937	-	543,893
	For the year ended 31 December 2015 (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
Continuing operations									
Revenue from external customers	205,378	45,664	60,077	14,676	6,025	63,348	142	-	395,310
Inter-segment revenue	649	2,287	284	100	90	866	-	(4,276)	-
Reportable segment revenue	206,027	47,951	60,361	14,776	6,115	64,214	142	(4,276)	395,310
Share of profits/(losses) of associates, net of tax	4,350	(430)	92	37	232	441	19	-	4,741
Share of profits/(losses) of joint ventures, net of tax	357	(1,585)	(69)	-	315	827	-	-	(155)
Finance income (Note 9)	-	435	369	431	323	58	3,668	(2,926)	2,358
Finance costs (Note 9)	-	(1,837)	(861)	(135)	(578)	(1,649)	(8,000)	3,821	(9,239)
Depreciation and amortisation (Note 10(b))	(3,087)	(1,821)	(3,868)	(135)	(165)	(2,667)	(31)	-	(11,774)
Impairment losses (Note 8)	(55,784)	(21,764)	(560)	(7)	(27)	(946)	(105)	5	(79,188)
Profit/(loss) before taxation	89,912	(22,997)	3,582	3,488	3,448	4,937	(4,064)	339	78,645
Income tax	(19,729)	4,679	(958)	(887)	(628)	(1,337)	(1,008)	444	(19,424)
Profit/(loss) for the year from continuing operations	70,183	(18,318)	2,624	2,601	2,820	3,600	(5,072)	783	59,221
Profit for the year from discontinued operations	-	-	-	-	1,472	-	-	-	1,472
Profit/(loss) for the year	70,183	(18,318)	2,624	2,601	4,292	3,600	(5,072)	783	60,693
Attributable to:									
- Ordinary shareholders of the Company	52,753	(17,251)	2,496	2,601	4,137	2,501	(6,208)	783	41,812
Continuing operations	52,753	(17,251)	2,496	2,601	2,826	2,501	(6,208)	783	40,501
Discontinued operations	-	-	-	-	1,311	-	-	-	1,311
- Non-controlling interests and holders of perpetual capital securities	17,430	(1,067)	128	-	155	1,099	1,136	-	18,881
Continuing operations	17,430	(1,067)	128	-	(6)	1,099	1,136	-	18,720
Discontinued operations	-	-	-	-	161	-	-	-	161

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For the year ended 31 December 2016

17 Segment reporting (continued)

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

	As at 31 December 2015								
	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
Reportable segment assets	6,211,176	141,693	97,208	42,245	232,809	113,738	132,562	(168,122)	6,803,309
Including:									
Interests in associates	28,821	11,128	3,143	217	4,036	3,245	73	-	50,663
Interests in joint ventures	3,794	2,628	-	-	9,582	6,697	-	-	22,701
Reportable segment liabilities	5,777,576	147,960	47,529	30,467	160,689	73,651	155,973	(253,705)	6,140,140
Including:									
Bank and other loans	1,339	42,562	16,521	1,282	85,618	37,672	12,586	(50,359)	147,221
Debt instruments issued	345,120	446	5,033	-	4,750	5,283	89,804	(664)	449,772

(b) Geographical information

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

	Revenue from external customers For the year ended 31 December		Reportable segment assets As at 31 December	
	2016 HK\$ million	2015 HK\$ million (Restated)	2016 HK\$ million	2015 HK\$ million
Mainland China	324,402	340,348	6,682,751	6,312,332
Hong Kong and Macau	26,996	26,365	447,065	380,549
Overseas	29,424	28,597	108,179	110,428
	380,822	395,310	7,237,995	6,803,309

18 Cash and deposits

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Cash	8,867	8,827
Bank deposits	50,263	63,166
Balances with central banks (note (i)):		
– Statutory deposit reserve funds (note (ii))	520,751	519,487
– Surplus deposit reserve funds (note (iii))	65,795	75,983
– Fiscal deposits (note (iv))	3,989	4,532
– Foreign exchange reserves (note (v))	21,090	4,078
Deposits with banks and non-bank financial institutions	256,544	125,542
Less: allowance for impairment losses on deposits with banks and non-bank financial institutions (Note 45)	(40)	-
	927,259	801,615

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18 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 31 December 2016, the statutory deposit reserve placed by CITIC Bank with the People's Bank of China was calculated at 15% (31 December 2015: 15%) of eligible RMB deposits for domestic branches of CITIC Bank and at 15% (31 December 2015: 0%) of eligible RMB deposits from overseas financial institutions respectively. In addition, CITIC Bank is required to deposit an amount equivalent to 5% (31 December 2015: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve as at 31 December 2016.

As at 31 December 2016, 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 2015: 9.5%).

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

As at 31 December 2016, the statutory deposit reserve placed by CITIC Finance with the People's Bank of China was calculated at 7% (31 December 2015: 7.5%) of eligible RMB deposits from the customers of CITIC Finance. As at 31 December 2016, CITIC Finance is also required to deposit an amount equivalent to 5% (31 December 2015: 5%) of its foreign currency deposits from the customers as statutory deposit reserve.

- (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 2015: 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.
- (vi) In addition to the statutory deposit reserve funds, fiscal deposits and foreign exchange reserves, HK\$5,517 million (31 December 2015: HK\$7,416 million) included in cash and deposits as at 31 December 2016 were restricted in use. They mainly include guaranteed deposits.

19 Placements with banks and non-bank financial institutions

	As at 31 December 2016 HK\$ million	2015 HK\$ million
Banks	32,335	49,563
Non-bank financial institutions	154,601	92,222
	186,936	141,785
Less: allowance for impairment losses (Note 45)	(9)	(10)
	186,927	141,775
Analysed by remaining maturity:		
– Within 1 month	64,619	68,561
– Between 1 month and 1 year	122,281	73,168
– Over 1 year	27	46
	186,927	141,775

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20 Financial assets at fair value through profit or loss

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Held for trading purpose:		
– Debt trading financial assets (note (a))	10,767	10,189
– Certificates of interbank deposit (note (b))	56,677	18,175
– Investment funds (note (c))	2,577	6,371
– Trading equity investments (note (d))	189	338
Financial assets designated at fair value through profit or loss (note (e)):		
– Debt securities	5,121	2,108
– Others	2,488	3,210
	77,819	40,391
Issued by:		
– Government	57	507
– Policy banks	3,177	4,509
– Banks and non-bank financial institutions	71,054	30,961
– Corporates	3,531	4,414
	77,819	40,391
Analysed by remaining maturity:		
– Within 3 months	19,188	15,378
– Between 3 months and 1 year	48,585	15,236
– Over 1 year	7,262	9,757
– No fixed terms	2,784	20
	77,819	40,391

The remaining term to maturity of financial assets at fair value through profit or loss does not represent the Group's intended holding period.

(a) Debt trading financial assets

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Listed in Hong Kong	1,092	832
Listed outside Hong Kong	7,575	9,235
Unlisted	2,100	122
	10,767	10,189

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20 Financial assets at fair value through profit or loss (continued)

(b) Certificates of interbank deposit

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Listed outside Hong Kong	56,677	18,175

(c) Investment funds

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Unlisted	2,577	6,371

(d) Trading equity investments

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Listed in Hong Kong	103	202
Listed outside Hong Kong	82	133
Unlisted	4	3
	189	338

(e) Financial assets designated at fair value through profit or loss

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Listed in Hong Kong	–	1,733
Listed outside Hong Kong	4,970	–
Unlisted	2,639	3,585
	7,609	5,318

Note:

Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

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21 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.

	As at 31 December					
	Nominal amount HK\$ million	2016 Assets HK\$ million		2015 Assets HK\$ million		Liabilities HK\$ million
Hedging instruments						
Fair value hedge (note (c)(i)):						
- Interest rate derivatives	15,727	225	26	13,302	283	46
- Currency derivatives	-	-	-	3,939	48	-
Cash flow hedge (note (c)(ii)):						
- Interest rate derivatives	17,416	-	2,187	14,246	-	2,608
- Currency derivatives	1,423	9	19	113	-	2
- Other derivatives	1,253	99	9	24	-	908
Non-hedging instruments						
- Interest rate derivatives	945,104	3,548	3,173	716,684	1,258	1,467
- Currency derivatives	2,920,994	47,423	44,774	1,911,069	13,717	12,082
- Precious metals derivatives	86,511	1,977	2,460	22,396	1,203	362
- Other derivatives	-	-	-	6,234	-	-
	3,988,428	53,281	52,648	2,688,007	16,509	17,475

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21 Derivative financial instruments (continued)

(a) Nominal amount analysed by remaining maturity

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Within 3 months	1,077,629	974,188
Between 3 months and 1 year	2,573,742	1,560,625
Between 1 year and 5 years	324,205	144,900
Over 5 years	12,852	8,294
	3,988,428	2,688,007

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 31 December 2016, the credit risk weighted amount for counterparty was HK\$41,513 million (31 December 2015: HK\$22,332 million).

(c) Derivatives designated as hedging instruments

(i) Fair value hedge

Fair value hedge is adopted to hedge the risk that a financial instrument's fair value will fluctuate because of changes in market interest rates or foreign exchange rates by using interest rate swaps or foreign currency forward contracts.

(ii) Cash flow hedge

Cash flow hedge is adopted to hedge the risk that a financial instrument's cash flows will fluctuate because of changes in market interest rates, foreign exchange rates or commodity price by using foreign currency forward contracts, commodity forward contracts or interest rate swaps.

22 Trade and other receivables

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Trade and bills receivables (note (a))	32,990	27,333
Interest receivables (note (b))	37,579	36,750
Prepayments, deposits and other receivables (note (c))	68,373	77,264
	138,942	141,347

As at 31 December 2016, the amount of the Group's prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year is HK\$14,243 million (31 December 2015: HK\$16,502 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 year ended 31 December 2016

22 Trade and other receivables (continued)

(a) Trade and bills receivables

(i) Ageing analysis

As at the balance sheet date, the ageing analysis of trade and bills receivables of the Group based on invoice date and net of allowance for impairment losses is as follows:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Within 1 year	29,055	23,522
Over 1 year	5,370	4,947
	<u>34,425</u>	<u>28,469</u>
Less: allowance for impairment losses (Note 45)	(1,435)	(1,136)
	<u>32,990</u>	<u>27,333</u>

Each business unit has its own defined credit policy that is specific to the respective business environment and market practice.

(ii) Impairment of trade and bills receivables

The movements in the allowance for impairment losses on trade and other receivables during the years ended 31 December 2016 and 2015 are disclosed in Note 45.

As at 31 December 2016, the Group's trade and bills receivables of HK\$103 million (31 December 2015: HK\$411 million) were individually determined to be impaired. These receivables mainly relate to customers which were in financial difficulties. It is assessed that a portion of such receivables is expected to be recovered. Consequently, specific allowance for impairment losses is recognised.

(iii) Trade and bills receivables that are not impaired

The ageing analysis of past due trade and bills receivables that are neither individually nor collectively considered to be impaired is as follows:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Less than 1 year past due	1,298	1,365
Over 1 year past due	383	407
	<u>1,681</u>	<u>1,772</u>

Receivables that are past due but not impaired are related to a number of third-party customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

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For the year ended 31 December 2016

22 Trade and other receivables (continued)

(b) Interest receivables

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Interest receivables	41,949	39,297
Less: allowance for impairment losses (Note 45)	(4,370)	(2,547)
	37,579	36,750

(c) Prepayments, deposits and other receivables

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Prepayments, deposits and other receivables	69,925	78,661
Less: allowance for impairment losses (Note 45)	(1,552)	(1,397)
	68,373	77,264

23 Inventories

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Raw materials	4,294	3,104
Work-in-progress	4,319	4,622
Finished goods	15,063	13,318
Properties:		
– Properties under development	16,684	86,927
– Properties held-for-sale	5,472	18,460
– Others	1,391	2,190
Others	1,682	1,826
	48,905	130,447

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Carrying amount of inventories sold	148,416	146,594
Write-down of inventories (Note 45)	1,035	831
Reversal of write-down of inventories (Note 45)	(483)	(145)
	148,968	147,280

As at 31 December 2016, the Group's inventories included an amount of HK\$18,515 million expected to be recovered after more than one year (31 December 2015: HK\$89,589 million).

As at 31 December 2016, the carrying amount of restricted inventories of CITIC Resources Holdings Limited ("CITIC Resources"), a subsidiary of the Group, was HK\$ Nil (31 December 2015: HK\$270 million).

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24 Financial assets held under resale agreements

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Analysed by counterparties:		
– Banks	164,363	165,091
– Non-bank financial institutions	29,252	300
	193,615	165,391
Analysed by types of collateral:		
– Discounted bills	–	84,495
– Securities	193,577	80,251
– Others	38	645
	193,615	165,391
Analysed by remaining maturity:		
– Within 1 month	193,577	161,380
– Between 1 month and 1 year	38	3,892
– Over 1 year	–	119
	193,615	165,391

25 Loans and advances to customers and other parties

(a) Loans and advances

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Corporate loans:		
– Loans	2,034,571	2,093,945
– Discounted bills	83,949	110,721
– Finance lease receivables	38,579	21,340
	2,157,099	2,226,006
Personal loans:		
– Residential mortgages	484,297	320,999
– Business loans	125,151	126,251
– Credit cards	265,745	209,841
– Others	194,224	140,987
	1,069,417	798,078
	3,226,516	3,024,084
Less: Impairment allowance (Note 45)		
– Individually assessed	(32,240)	(21,973)
– Collectively assessed	(56,370)	(54,313)
	(88,610)	(76,286)
	3,137,906	2,947,798

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For the year ended 31 December 2016

25 Loans and advances to customers and other parties (continued)

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

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Unsecured loans	617,132	588,325
Guaranteed loans	567,054	588,124
Secured loans		
– Loans secured by collateral	1,583,998	1,397,259
– Pledged loans	374,383	339,655
	3,142,567	2,913,363
Discounted bills	83,949	110,721
Gross loans and advances	3,226,516	3,024,084

(c) Assessment method of allowance for impairment losses

	As at 31 December 2016				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 (i))		Total HK\$ million	
		for which the allowance is collectively assessed HK\$ million	for which the allowance is individually assessed HK\$ million		
Gross loans and advances	3,168,261	11,826	46,429	3,226,516	1.81%
Less: allowance for impairment losses	(47,308)	(9,062)	(32,240)	(88,610)	
	3,120,953	2,764	14,189	3,137,906	

	As at 31 December 2015				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 (i))		Total HK\$ million	
		for which the allowance is collectively assessed HK\$ million	for which the allowance is individually assessed HK\$ million		
Gross loans and advances	2,977,437	9,553	37,094	3,024,084	1.54%
Less: allowance for impairment losses	(47,335)	(6,978)	(21,973)	(76,286)	
	2,930,102	2,575	15,121	2,947,798	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 Loans and advances to customers and other parties (continued)

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

Notes:

- (i) Identified impaired loans and advances to customers and other parties include loans and advances for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses which are assessed individually or collectively (portfolios of homogeneous loans and advances).
- (ii) As at 31 December 2016, the loans and advances of the Group for which the impairment allowance were individually assessed amounted to HK\$46,429 million (31 December 2015: HK\$37,094 million). The secured and unsecured portion of these loans and advances were as follows:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Secured portion	25,254	12,396
Unsecured portion	21,175	24,698
	46,429	37,094

As at 31 December 2016, the fair value of pledge and collateral held against these loans and advances amounted to HK\$20,842 million (31 December 2015: HK\$19,935 million).

The fair value of pledge and collateral was estimated by management based on the latest available external valuations adjusted by taking into account the current realisation experience as well as market situation.

(d) Movements of allowance for impairment losses

	For the year ended 31 December 2016			Total HK\$ million
	Loans and advances for which the allowance is collectively assessed HK\$ million	Impaired loans and advances for which the allowance is collectively assessed HK\$ million	for which the allowance is individually assessed HK\$ million	
At 1 January	47,335	6,978	21,973	76,286
Charge for the year:				
– impairment allowance on loans charged	3,201	8,094	45,587	56,882
– Reversal of impairment for the year	(113)	(474)	(2,692)	(3,279)
Unwinding of discount on allowance	–	–	(660)	(660)
Write-offs	–	(5,449)	(30,763)	(36,212)
Recovery of loans and advances written off in previous year	–	474	195	669
Changes of exchange rate	(3,115)	(561)	(1,400)	(5,076)
At 31 December	47,308	9,062	32,240	88,610

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25 Loans and advances to customers and other parties (continued)

(d) Movements of allowance for impairment losses (continued)

	For the year ended 31 December 2015			Total HK\$ million
	Loans and advances for which the allowance is collectively assessed HK\$ million	Impaired loans and advances for which the allowance is collectively assessed HK\$ million	for which the allowance is individually assessed HK\$ million	
At 1 January	46,554	4,920	17,627	69,101
Charge for the year:				
– Impairment allowance on loans charged	5,968	7,062	37,830	50,860
– Reversal of impairment for the year	(106)	(354)	(2,573)	(3,033)
Unwinding of discount on allowance	–	–	(737)	(737)
Write-offs	(2,235)	(4,707)	(29,351)	(36,293)
Recovery of loans and advances written off in previous year	–	446	302	748
Changes of exchange rate	(2,846)	(389)	(1,125)	(4,360)
At 31 December	47,335	6,978	21,973	76,286

(e) Overdue loans by overdue period

	As at 31 December 2016					Total HK\$ million
	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		
Unsecured loans	4,455	6,235	3,073	335	14,098	
Guaranteed loans	8,693	13,022	7,978	128	29,821	
Secured loans						
– Loans secured by collateral	25,364	19,297	9,867	750	55,278	
– Pledged loans	1,780	3,091	1,169	70	6,110	
	40,292	41,645	22,087	1,283	105,307	

	As at 31 December 2015					Total HK\$ million
	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		
Unsecured loans	4,088	3,657	2,993	355	11,093	
Guaranteed loans	10,632	6,308	6,093	275	23,308	
Secured loans						
– Loans secured by collateral	25,754	14,732	7,569	458	48,513	
– Pledged loans	3,685	1,903	1,194	74	6,856	
	44,159	26,600	17,849	1,162	89,770	

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

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26 Available-for-sale financial assets

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Debt securities (note (a))	449,754	360,040
Certificates of deposit and certificates of interbank deposit (note (b))	129,736	89,897
Wealth management products issued by financial institutions (note (c))	17,555	33,138
Equity investments (note (d))	15,763	10,660
Investment funds (note (e))	30,532	1,904
	643,340	495,639
Less: allowance for impairment losses (Note 45)	(863)	(853)
	642,477	494,786
Issued by:		
– Government	202,541	136,925
– Policy banks	102,744	87,008
– Banks and non-bank financial institutions	225,284	162,884
– Corporates	111,908	107,969
	642,477	494,786
Analysed by remaining maturity:		
– Within 3 months	150,556	77,175
– Between 3 months and 1 year	106,324	122,040
– Over 1 year	370,052	287,217
– No fixed terms	15,545	8,354
	642,477	494,786

The remaining term to maturity of available-for-sale financial assets does not represent the Group's intended holding period.

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26 Available-for-sale financial assets (continued)

(a) Debt securities

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Debt securities	449,754	360,040
Less: allowance for impairment losses	(148)	(168)
	449,606	359,872
Representing:		
– Listed in Hong Kong	18,521	14,874
– Listed outside Hong Kong	398,907	309,119
– Unlisted	32,178	35,879
	449,606	359,872

(b) Certificates of deposit and certificates of interbank deposit

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Certificates of deposit and certificates of interbank deposit	129,736	89,897
Representing:		
– Listed outside Hong Kong	129,736	89,897

(c) Wealth management products issued by financial institutions

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Wealth management products issued by financial institutions	17,555	33,138
Less: allowance for impairment losses	(373)	(256)
	17,182	32,882
Representing:		
– Listed outside Hong Kong	–	17
– Unlisted	17,182	32,865
	17,182	32,882

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26 Available-for-sale financial assets (continued)

(d) Equity investments

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Equity investments	15,763	10,660
Less: allowance for impairment losses	(309)	(401)
	15,454	10,259
Representing:		
– Listed in Hong Kong	2,292	1,370
– Listed outside Hong Kong	1,678	1,394
– Unlisted	11,484	7,495
	15,454	10,259

(e) Investment funds

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Investment funds	30,532	1,904
Less: allowance for impairment losses	(33)	(28)
	30,499	1,876
Representing:		
– Listed in Hong Kong	1,492	12
– Listed outside Hong Kong	21,894	–
– Unlisted	7,113	1,864
	30,499	1,876

Note:

Debt securities traded on the China Domestic Inter-bank Bond Market are included in "Listed outside Hong Kong".

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27 Held-to-maturity investments

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Debt securities	244,123	216,244
Others	30	72
	244,153	216,316
Less: allowance for impairment losses (Note 45)	(2)	(49)
	244,151	216,267
Representing:		
– Listed in Hong Kong	1,017	462
– Listed outside Hong Kong	238,128	208,704
– Unlisted	5,006	7,101
	244,151	216,267
Issued by:		
– Government	55,098	59,759
– Policy banks	78,100	76,419
– Banks and non-bank financial institutions	86,397	48,658
– Public entities	4	5
– Corporates	24,552	31,426
	244,151	216,267
Analysed by remaining maturity:		
– Within 3 months	13,663	5,655
– Between 3 months and 1 year	64,873	22,222
– Over 1 year	165,615	188,390
	244,151	216,267
Fair value	244,876	222,501
Of which: listed debt securities	240,837	215,396

Note:

Debt securities traded on the China Domestic Inter-bank Bond Market are included in “Listed outside Hong Kong”.

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28 Investments classified as receivables

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Trust investment plans	145,595	168,036
Investment management products managed by securities companies	509,120	986,781
Wealth management products issued by financial institutions	512,448	176,186
Others	1,296	1,468
	1,168,459	1,332,471
Less: allowance for impairment losses (Note 45)	(2,134)	(1,190)
	1,166,325	1,331,281

As at 31 December 2016, certain of the Group's investments with an aggregate amount of HK\$164,894 million (31 December 2015: HK\$90,285 million) were managed by certain subsidiaries and related parties of the Group.

The underlying assets of investments classified as receivables primarily include interbank assets and wealth management products issued by other banks, credit assets and rediscounted bills.

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29 Subsidiaries

The particulars of the principal subsidiaries are set out in Note 57.

The following table lists out the information relating to CITIC Bank, CITIC Heavy Industries Co., Limited (“CITIC Heavy Industries”) and CITIC Telecom International Holdings Limited (“CITIC Telecom International”), CITIC Resources, which are listed subsidiaries of the Group, and have material non-controlling interests. The summarised financial information below is before elimination of inter-group transactions and balances:

	As at 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Listed in:	Hong Kong and Shanghai		Shanghai		Hong Kong		Hong Kong	
Non-controlling interests percentage	34.03%	32.87%	32.73%	30.27%	39.76%	41.23%	40.50%	40.50%
Total assets	6,630,502	6,114,125	22,106	24,785	18,183	16,982	13,269	14,066
Including:								
Cash and deposits	851,828	706,620	4,431	6,236	1,459	1,223	1,161	1,300
Placements with banks and non-bank financial institutions	186,927	141,775	-	-	-	-	-	-
Financial assets at fair value through profit and loss	72,566	31,297	-	-	-	-	2,884	1,839
Derivative financial assets	52,952	16,458	-	-	-	-	61	-
Financial assets held under resale agreements	190,947	165,391	-	-	-	-	-	-
Loans and advances to customers and other parties	3,132,871	2,946,219	-	-	-	-	-	-
Available-for-sale financial assets	597,571	446,143	1,667	1,498	-	-	1	1
Held-to-maturity investments	243,148	214,770	-	-	-	-	-	-
Investments classified as receivables	1,157,872	1,327,565	-	-	-	-	-	-
Total liabilities	(6,200,662)	(5,732,538)	(14,037)	(14,296)	(10,283)	(9,925)	(8,573)	(9,961)
Including:								
Borrowing from central banks	(205,755)	(44,761)	-	-	-	-	-	-
Deposits from banks and non-bank financial institutions	(1,097,188)	(1,275,447)	-	-	-	-	-	-
Placements from banks and non-bank financial institutions	(93,596)	(58,784)	-	-	-	-	-	-
Derivative financial liabilities	(50,373)	(13,629)	-	-	-	-	(10)	(910)
Financial assets sold under repurchase agreements	(134,534)	(84,948)	-	-	-	-	-	-
Deposits from customers	(4,068,473)	(3,799,058)	-	-	-	-	-	-
Bank and other loans	-	-	(5,046)	(4,860)	(7,901)	(7,472)	(7,527)	(7,806)

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For the year ended 31 December 2016

29 Subsidiaries (continued)

	For the year ended 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million	2016 HK\$ million	2015 HK\$ million
Net assets	429,840	381,587	8,069	10,489	7,900	7,057	4,696	4,105
Equity attributable to								
– Ordinary shareholders of subsidiaries	384,869	379,264	7,941	10,489	7,871	7,029	4,804	4,167
– Non-controlling interests in subsidiaries	44,971	2,323	128	–	29	28	(108)	(62)
Carrying amount of non-controlling interests	175,942	138,175	2,727	3,433	3,158	2,926	1,838	1,626
Revenue	180,347	181,265	4,412	5,007	7,699	8,371	2,957	3,713
Profit/(loss) for the year	48,885	51,984	(1,831)	77	863	815	344	(6,172)
Total comprehensive income/(loss) for the year	43,357	59,013	(1,832)	62	852	777	591	(6,778)
Profit attributable to non-controlling interests	17,131	17,574	(584)	22	349	343	128	(2,539)
Dividends paid to non-controlling interests	183	171	–	64	11	169	–	–
Net cash generated from/(used in) operating activities	244,615	(25,948)	(798)	69	1,883	1,776	233	714
Net cash (used in)/generated from investing activities	(197,260)	(177,540)	(1,313)	218	(1,337)	(875)	199	(917)
Net cash generated from/(used in) financing activities	123,110	192,080	573	909	(332)	(1,213)	(554)	(1,735)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30 Interests in associates

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Carrying value	86,440	53,094
Less: allowance for impairment losses (Note 45)	(2,315)	(2,431)
	84,125	50,663

Notes:

- (i) The particulars of the principal associates are set out in Note 57.

Summarised financial information of the material associates are disclosed below:

	As at 31 December				
	China Overseas Land & Investment Limited 2016 HK\$ million	CITIC Securities Co., Ltd. 2016 2015 HK\$ million HK\$ million		MMG South America Management Co., Ltd. 2016 2015 HK\$ million HK\$ million	
	Hong Kong	Hong Kong, Shanghai		Unlisted	
Gross amount of the associates					
Total assets	615,294	667,895	735,406	90,328	83,979
Total liabilities	(343,866)	(504,913)	(566,224)	(61,757)	(57,013)
Net assets	271,428	162,982	169,182	28,571	26,966
Equity attributable to:					
– Associates' shareholders	266,253	159,524	166,079	28,571	26,966
– Non-controlling interests in associates	5,175	3,458	3,103	–	–
	271,428	162,982	169,182	28,571	26,966

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For the year ended 31 December 2016

30 Interests in associates (continued)

Summarised financial information of the material associates are disclosed below (continued):

	China Overseas Land & Investment Limited From the date of investment to 31 December 2016 HK\$ million	For the year ended 31 December			
		CITIC Securities Co., Ltd.		MMG South America Management Co., Ltd.	
		2016	2015	2016	2015
		HK\$ million	HK\$ million	HK\$ million	HK\$ million
Revenue	note	58,572	90,821	9,893	-
Profit/(loss) for the year	note	12,847	25,357	1,444	(433)
Other comprehensive (loss)/income for the year	note	(958)	2,907	-	-
Total comprehensive income/(loss) for the year	note	11,889	28,264	1,444	(433)
Dividends received from associates	383	1,170	699	-	-

Reconciled to the Group's interests in associates

Gross amounts of net assets of associates attributable to the associates' shareholders	266,253	159,524	166,079	28,571	26,966
Group's effective interest	10.00%	16.66%	15.59%	15.00%	15.00%
Group's share of net assets of associates	26,625	26,577	25,892	4,286	4,045
Goodwill and others	1,397	1,366	1,035	-	-
Carrying amounts in the consolidated balance sheet	28,022	27,943	26,927	4,286	4,045

Note:

No further disclosure due to the immaterial equity pick-up impact in the period from the date of investment to 31 December 2016.

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For the year ended 31 December 2016

30 Interests in associates (continued)

Aggregate information of associates that are not individually material:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	23,874	19,691
Aggregate amount of the Group's share of those immaterial associates:		
(Loss)/profit for the year	(604)	738
Other comprehensive income/(loss) for the year	543	(830)
Total comprehensive loss for the year	(61)	(92)

31 Interests in joint ventures

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Carrying value	20,894	24,198
Less: allowance for impairment losses (Note 45)	(1,507)	(1,497)
	19,387	22,701

The principals of the principal joint ventures are set out in Note 57.

Summarised financial information of the material joint ventures are disclosed below:

	CITIC Prudential Life Insurance Co., Ltd.		As at 31 December CSSC Complex Property Co., Ltd.		山東新巨龍能源 有限責任公司	
	2016	2015	2016	2015	2016	2015
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Gross amount of the joint ventures						
Total assets	61,119	57,264	7,610	9,782	10,303	10,425
Total liabilities	(56,870)	(53,304)	(2,355)	(5,909)	(6,321)	(7,859)
Net assets	4,249	3,960	5,255	3,873	3,982	2,566
Equity attributable to:						
– Joint ventures' shareholders	4,249	3,960	5,255	3,873	3,982	2,566
– Non-controlling interests in joint ventures	–	–	–	–	–	–
	4,249	3,960	5,255	3,873	3,982	2,566

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For the year ended 31 December 2016

31 Interests in joint ventures (continued)

Summarised financial information of the material joint ventures are disclosed below (continued):

	CITIC Prudential Life Insurance Co., Ltd.		For the year ended 31 December CSSC Complex Property Co., Ltd.		山東新巨龍能源 有限責任公司	
	2016	2015	2016	2015	2016	2015
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Revenue	11,517	10,192	5,402	2,382	6,027	5,092
Profit for the year	819	476	1,698	780	1,452	817
Other comprehensive (loss)/income for the year	(254)	32	–	(227)	–	–
Total comprehensive income for the year	565	508	1,698	553	1,452	817
Dividends received from joint ventures	–	–	–	–	–	408

Reconciled to the Group's interests in joint ventures

Gross amounts of net assets of joint ventures attributable to joint ventures' shareholders:	4,249	3,960	5,255	3,873	3,982	2,566
Group's effective interest	50.00%	50.00%	50.00%	50.00%	30.00%	30.00%
Group's share of net assets of joint ventures	2,125	1,980	2,628	1,937	1,195	770
Goodwill and others	1,257	1,342	42	626	1,160	1,343
Carrying amount in the consolidated balance sheet	3,382	3,322	2,670	2,563	2,355	2,113

Note:

In December 2016, the Group disposed 1.75% of its interest in CITIC Capital Holdings Limited and the remaining interest was classified as available-for-sale financial assets.

Aggregate information of joint ventures that are not individually material:

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	10,980	14,703
Aggregate amount of the Group's share of those joint ventures		
Profit/(loss) for the year	1,182	(982)
Other comprehensive loss for the year	(20)	(46)
Total comprehensive income/(loss) for the year	1,162	(1,028)

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For the year ended 31 December 2016

32 Fixed assets

	Property, plant and equipment								Investment properties HK\$ million	
	Plant and buildings HK\$ million	Machinery and equipment HK\$ million	Construction in progress HK\$ million	Office and other equipment HK\$ million	Vehicles and vessels HK\$ million	Others HK\$ million	Sub-total HK\$ million	Land use rights HK\$ million		Total HK\$ million
Cost or valuation:										
At 1 January 2016	61,382	122,464	33,678	14,360	13,207	8,637	253,728	18,840	272,568	28,508
Exchange adjustments	(3,053)	(4,294)	(915)	(878)	(425)	(388)	(9,953)	(706)	(10,659)	(776)
Disposal of subsidiaries	(1,579)	(321)	(869)	(189)	(179)	(1,863)	(5,000)	(1,512)	(6,512)	(1,539)
Additions	6,357	2,432	13,077	2,178	515	209	24,768	921	25,689	6,008
Disposals	(1,270)	(1,316)	(306)	(606)	(539)	(1,047)	(5,084)	(33)	(5,117)	(1,011)
Transfers	1,562	26,607	(30,934)	378	12	2,354	(21)	(806)	(827)	(231)
Change in fair value of investment properties	-	-	-	-	-	-	-	-	-	580
At 31 December 2016	63,399	145,572	13,731	15,243	12,591	7,902	258,438	16,704	275,142	31,539
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2016	(13,997)	(47,646)	(10,646)	(8,340)	(4,126)	(2,601)	(87,356)	(1,472)	(88,828)	-
Exchange adjustments	816	1,969	9	534	161	115	3,604	28	3,632	-
Disposal of subsidiaries	540	168	6	59	150	647	1,570	100	1,670	-
Charge for the year	(2,043)	(5,342)	-	(2,195)	(874)	(506)	(10,960)	(250)	(11,210)	-
Written back on disposals	133	447	-	425	368	709	2,082	3	2,085	-
Transfers	-	(10,543)	10,543	-	-	-	-	-	-	-
Impairment losses (Note 45)	(2,300)	(6,302)	(74)	(27)	(368)	(1,184)	(10,255)	-	(10,255)	-
At 31 December 2016	(16,851)	(67,249)	(162)	(9,544)	(4,689)	(2,820)	(101,315)	(1,591)	(102,906)	-
Net book value:										
At 31 December 2016	46,548	78,323	13,569	5,699	7,902	5,082	157,123	15,113	172,236	31,539
Represented by:										
Cost	63,399	145,572	13,731	15,243	12,591	7,902	258,438	16,704	275,142	-
Valuation	-	-	-	-	-	-	-	-	-	31,539
	63,399	145,572	13,731	15,243	12,591	7,902	258,438	16,704	275,142	31,539

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For the year ended 31 December 2016

32 Fixed assets (continued)

	Property, plant and equipment								Investment properties HK\$ million	
	Plant and buildings HK\$ million	Machinery and equipment HK\$ million	Construction in progress HK\$ million	Office and other equipment HK\$ million	Vehicles and vessels HK\$ million	Others HK\$ million	Sub-total HK\$ million	Land use rights HK\$ million		Total HK\$ million
Cost or valuation:										
At 1 January 2015	54,006	104,830	25,987	13,311	12,726	5,962	216,822	17,962	234,784	28,744
Exchange adjustments	(2,835)	(3,974)	(646)	(725)	(404)	(186)	(8,770)	(1,125)	(9,895)	(871)
Business combinations	4,846	16,296	777	125	36	3,223	25,303	565	25,868	-
Additions	4,255	1,210	16,164	1,804	855	667	24,955	1,706	26,661	590
Disposals	(855)	(897)	-	(353)	(644)	(651)	(3,400)	(268)	(3,668)	-
Transfers	1,965	4,999	(8,604)	198	638	(378)	(1,182)	-	(1,182)	(616)
Change in fair value of investment properties	-	-	-	-	-	-	-	-	-	661
At 31 December 2015	61,382	122,464	33,678	14,360	13,207	8,637	253,728	18,840	272,568	28,508
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2015	(10,913)	(23,777)	(6,917)	(7,241)	(2,964)	(2,475)	(54,287)	(1,194)	(55,481)	-
Exchange adjustments	761	1,724	4	435	149	163	3,236	83	3,319	-
Business combinations	(1,808)	(8,374)	-	(72)	(19)	(759)	(11,032)	(31)	(11,063)	-
Charge for the year	(2,101)	(5,056)	-	(1,699)	(1,018)	(361)	(10,235)	(362)	(10,597)	-
Written back on disposals	188	515	-	269	202	598	1,772	-	1,772	-
Transfers	130	161	-	-	-	344	635	32	667	-
Impairment losses (Note 45)	(254)	(12,839)	(3,733)	(32)	(476)	(111)	(17,445)	-	(17,445)	-
At 31 December 2015	(13,997)	(47,646)	(10,646)	(8,340)	(4,126)	(2,601)	(87,356)	(1,472)	(88,828)	-
Net book value:										
At 31 December 2015	47,385	74,818	23,032	6,020	9,081	6,036	166,372	17,368	183,740	28,508
Represented by:										
Cost	61,382	122,464	33,678	14,360	13,207	8,637	253,728	18,840	272,568	-
Valuation	-	-	-	-	-	-	-	-	-	28,508
	61,382	122,464	33,678	14,360	13,207	8,637	253,728	18,840	272,568	28,508

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For the year ended 31 December 2016

32 Fixed assets (continued)

As at 31 December 2016, the Group was in the process of applying the ownership certificates in respect of certain premises and land use rights of HK\$4,854 million (31 December 2015: HK\$4,804 million). The Group anticipates that there would be no significant issues and costs in completing such procedures.

(a) The tenure of the plant and buildings, land use rights and investment properties is as follows:

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
In Mainland China		
– leases of over fifty years	4,916	5,964
– leases of between ten to fifty years	63,581	58,765
– leases of less than ten years	1,134	1,466
	<hr/> 69,631	<hr/> 66,195
In Hong Kong		
– leases of over fifty years	758	688
– leases of between ten to fifty years	16,702	16,663
	<hr/> 17,460	<hr/> 17,351
Properties held overseas		
– freehold	1,448	1,932
– leases of more than fifty years	292	–
– leases of between ten to fifty years	4,293	7,710
– leases of less than ten years	76	73
	<hr/> 6,109	<hr/> 9,715
Total	<hr/> 93,200	<hr/> 93,261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32 Fixed assets (continued)

(b) Fair value measurement of investment properties

(i) Property valuation

Investment properties were revalued as at 31 December 2016 and 2015 by the following independent professionally qualified valuers. Management of the Group had discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each balance sheet date.

Properties located in	Valuers in 2016
Mainland China and Hong Kong	China Appraisal Associates
	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	China Enterprise Appraisals Company
	Zhong Ming International Asset Appraisal (Beijing) Co., Ltd.
	Prudential Surveyors International Limited
	Knight Frank Petty Limited
	Centaline Surveyors Limited
Overseas	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	Network Real Estate Appraisal Co., Ltd.
Properties located in	Valuers in 2015
Mainland China and Hong Kong	China Enterprise Appraisals Company
	Deve China International Appraisals Company Limited
	Knight Frank Petty Limited
	Prudential Surveyors International Limited
	Yinxin Appraisal Co., Ltd.
	China Appraisal Associates
	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
Overseas	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	Network Real Estate Appraisal Co., Ltd.

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For the year ended 31 December 2016

32 Fixed assets (continued)

(b) Fair value measurement of investment properties (continued)

(ii) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the balance sheet dates on a recurring basis, categorised into the three-level hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

Level 3 valuations: Fair value measured using significant unobservable inputs.

	Level 3	
	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Recurring fair value measurement		
Investment properties – Mainland China		
At 1 January	13,713	13,955
Exchange adjustments	(788)	(836)
Additions	5,366	580
Disposal of subsidiaries	(1,539)	–
Disposals	(72)	–
Transfers	(171)	(294)
Change in fair value of investment properties	431	308
At 31 December	16,940	13,713
Investment properties – Hong Kong		
At 1 January	14,285	14,272
Exchange adjustments	6	–
Additions	636	2
Disposals	(761)	–
Transfers	(60)	(322)
Change in fair value of investment properties	122	333
At 31 December	14,228	14,285
Investment properties – Overseas		
At 1 January	510	517
Exchange adjustments	6	(35)
Additions	6	8
Disposals	(178)	–
Change in fair value of investment properties	27	20
At 31 December	371	510

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32 Fixed assets (continued)

(b) Fair value measurement of properties (continued)

(ii) Fair value hierarchy (continued)

The Group's policy is to recognise transfers between levels of fair value hierarchy at the balance sheet date in which they occur. During the year ended 31 December 2016, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2015: Nil).

(iii) Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of investment properties located in Mainland China is determined by using income capitalisation approach and depreciated replacement cost approach under the circumstances.

The income capitalisation approach is the sum of the term value and the reversionary value by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period.

Depreciated replacement cost values a property by taking into account of its current cost of replacement or reproduction, less deduction for physical deterioration and all relevant forms of obsolescence and optimisation. The fair value measurement is based on an estimate of the market value for the existing use of the land, plus the depreciated replacement cost.

The fair value of certain of investment properties located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The fair value of certain other investment properties located in Hong Kong is determined by using income capitalisation approach and with reference to sales evidence as available in the market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33 Intangible assets

	For the year ended 31 December			
	Roads operating rights HK\$ million	Mining assets HK\$ million	Others HK\$ million	Total HK\$ million
Cost:				
At 1 January 2016	11,324	19,211	10,327	40,862
Exchange adjustments	(717)	–	(445)	(1,162)
Additions	10	84	1,853	1,947
Disposal of subsidiaries	–	–	(41)	(41)
Disposals	–	(25)	(1,338)	(1,363)
At 31 December 2016	10,617	19,270	10,356	40,243
Accumulated amortisation and impairment losses:				
At 1 January 2016	(768)	(15,870)	(3,652)	(20,290)
Exchange adjustments	57	–	130	187
Disposal of subsidiaries	–	–	22	22
Charge for the year	(203)	(65)	(1,026)	(1,294)
Written back on disposals	–	–	1,196	1,196
Impairment losses (Note 45)	–	(735)	(7)	(742)
At 31 December 2016	(914)	(16,670)	(3,337)	(20,921)
Net book value:				
At 31 December 2016	9,703	2,600	7,019	19,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33 Intangible assets (continued)

	For the year ended 31 December			
	Roads and tunnels operating rights HK\$ million	Mining assets HK\$ million	Others HK\$ million	Total HK\$ million
Cost:				
At 1 January 2015	13,990	18,851	7,105	39,946
Exchange adjustments	(702)	(5)	(374)	(1,081)
Additions	36	365	1,265	1,666
Disposals	–	–	(37)	(37)
Transfers (note)	(2,000)	–	–	(2,000)
Business combinations	–	–	2,368	2,368
At 31 December 2015	11,324	19,211	10,327	40,862
Accumulated amortisation and impairment losses:				
At 1 January 2015	(2,447)	(13,603)	(2,872)	(18,922)
Exchange adjustments	45	2	121	168
Charge for the year	(287)	(37)	(855)	(1,179)
Written back on disposals	–	–	35	35
Transfers (note)	1,921	–	–	1,921
Impairment losses (Note 45)	–	(2,232)	(1)	(2,233)
Business combinations	–	–	(80)	(80)
At 31 December 2015	(768)	(15,870)	(3,652)	(20,290)
Net book value:				
At 31 December 2015	10,556	3,341	6,675	20,572

Amortisation charge is included in “cost of sales and services” and “other operating expenses” in the consolidated income statement.

Note:

The roads and tunnels operating rights include a franchise to operate the Eastern Harbour Crossing in Hong Kong for the period ended 7 August 2016. At the end of the franchise period, the assets of the franchise had been vested in the franchisor, the Hong Kong government, for no compensation other than for certain plant, machinery and equipment as specified under the terms of the franchise. As at 31 December 2015, the intangible assets of roads and tunnels operating rights related to this franchise had been reclassified to trade and other receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

34 Goodwill

	For the year ended 31 December	
	2016 HK\$ million	2015 HK\$ million
Cost:		
At 1 January	19,855	14,093
Additions	2,695	6,397
Transfers	–	(7)
Exchange differences	(245)	(628)
At 31 December	22,305	19,855
Accumulated impairment losses:		
At 1 January	(374)	(384)
Additions (Note 45)	(63)	–
Exchange differences	3	10
At 31 December	(434)	(374)
Net book value:		
At 31 December	21,871	19,481

Goodwill is allocated to the Group's cash-generating units identified in segments as follows:

	As at 31 December	
	2016 HK\$ million	2015 HK\$ million
Resources and energy	1,376	1,409
Financial services	1,498	1,529
Manufacturing	1,105	612
Real estate	348	359
Others	17,544	15,572
	21,871	19,481

Based on management's impairment assessment, impairment loss of HK\$63 million was recognised for the year ended 31 December 2016 (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

35 Income tax in the balance sheet

(a) Current income tax in the balance sheet represents:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Income tax payable	9,999	8,987
Land appreciation tax payable	–	427
	9,999	9,414

(b) Deferred tax assets/(liabilities) recognised:

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the years ended 31 December 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Tax losses	Accrued expenses	Impairment loss on assets other than fixed assets and intangible assets	Fair value changes of financial instruments	Fixed assets and intangible assets	Others	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Deferred tax assets							
At 1 January 2015	6,457	2,858	11,000	777	2,202	1,876	25,170
Credited/(charged) to profit or loss	5,295	(1,070)	1,658	3	737	156	6,779
Credited/(charged) to other comprehensive income	–	7	4	(6)	–	349	354
Business combination	–	–	–	–	5	–	5
Exchange adjustments and others	44	(221)	(625)	(59)	(121)	(344)	(1,326)
At 31 December 2015	11,796	1,574	12,037	715	2,823	2,037	30,982
Credited/(charged) to profit or loss	1,650	464	4,247	(20)	1,772	(467)	7,646
Charged to other comprehensive income	–	(1)	1	(343)	–	(281)	(624)
Disposal of subsidiaries	(244)	(118)	(41)	–	–	(220)	(623)
Exchange adjustments and others	87	(91)	(934)	(1)	50	(63)	(952)
At 31 December 2016	13,289	1,828	15,310	351	4,645	1,006	36,429

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For the year ended 31 December 2016

35 Income tax in the balance sheet (continued)

(b) Deferred tax assets/(liabilities) recognised (continued):

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the years ended 31 December 2016 and 2015, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Fair value changes of financial instruments HK\$ million	Temporary differences on fixed assets and intangible assets HK\$ million	Revaluation of investment properties HK\$ million	Others HK\$ million	Total HK\$ million
Deferred tax liabilities					
At 1 January 2015	(1,845)	(546)	(3,276)	(2,635)	(8,302)
(Charged)/credited to profit or loss	(452)	87	296	(445)	(514)
Charged to other comprehensive income	(497)	–	(93)	(263)	(853)
Business combination	–	(168)	–	(241)	(409)
Exchange adjustments and others	44	(3)	(159)	(23)	(141)
At 31 December 2015	(2,750)	(630)	(3,232)	(3,607)	(10,219)
(Charged)/credited to profit or loss	(593)	(233)	(527)	(328)	(1,681)
Credited/(charged) to other comprehensive income	2,452	–	(57)	39	2,434
Disposal of subsidiaries	102	–	182	743	1,027
Exchange adjustments and others	85	(88)	219	(102)	114
At 31 December 2016	(704)	(951)	(3,415)	(3,255)	(8,325)

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For the year ended 31 December 2016

35 Income tax in the balance sheet (continued)

(c) Deferred tax assets not recognised

The Group has not recognised any deferred tax assets in respect of the following items:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Deductible temporary differences	2,196	1,992
Tax losses	11,394	12,681
	13,590	14,673

It is not probable that future taxable profits against which the above deductible temporary differences and tax losses can be utilised by the Group. As at 31 December 2016, tax losses amounting to HK\$6,862 million (31 December 2015: HK\$8,421 million) that can be carried forward against future taxable income are expiring within 5 years.

(d) Deferred tax liabilities not recognised

As at 31 December 2016, the Group has not recognised any temporary differences relating to the undistributed profits of certain subsidiaries as the Group does not intend to have these subsidiaries making any profit distribution in the foreseeable future (31 December 2015: Nil).

36 Deposits from banks and non-bank financial institutions

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Banks	502,387	493,190
Non-bank financial institutions	594,777	782,231
	1,097,164	1,275,421
<i>Analysed by remaining maturity:</i>		
– On demand	205,334	269,043
– Within 3 months	658,028	373,031
– Between 3 months and 1 year	233,187	630,237
– Over 1 year	615	3,110
	1,097,164	1,275,421

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37 Placements from banks and non-bank financial institutions

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Banks	71,237	41,753
Non-bank financial institutions	22,359	16,388
	93,596	58,141
<i>Analysed by remaining maturity:</i>		
– Within 3 months	60,304	43,567
– Between 3 months and 1 year	33,292	14,174
– Over 1 year	–	400
	93,596	58,141

38 Trade and other payables

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Trade and bills payables	52,895	52,920
Advances from customers	5,547	24,332
Interest payables	44,214	47,933
Other taxes payables	4,309	4,297
Settlement accounts	33,575	28,311
Other payables	66,745	72,843
	207,285	230,636

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

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Within 1 year	36,050	36,216
Between 1 and 2 years	8,725	11,556
Between 2 and 3 years	6,732	3,356
Over 3 years	1,388	1,792
	52,895	52,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39 Financial assets sold under repurchase agreements

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
By counterparties:		
The People's Bank of China	95,488	10,644
Banks	38,968	71,954
Non-bank financial institutions	78	2,351
	134,534	84,949
By types of collateral:		
Debt securities	102,053	52,133
Discounted bills	32,481	32,816
	134,534	84,949

The Group did not derecognise financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2016, legal title of these collateral pledged has not been transferred to counterparties.

40 Deposits from customers

(a) Types of deposits from customers

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Demand deposits		
– Corporate customers	1,845,451	1,385,738
– Personal customers	260,433	213,561
	2,105,884	1,599,299
Time and call deposits		
– Corporate customers	1,554,160	1,727,112
– Personal customers	363,387	432,611
	1,917,547	2,159,723
Outward remittance and remittance payables	8,091	7,826
	4,031,522	3,766,848

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For the year ended 31 December 2016

40 Deposits from customers (continued)

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

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Bank acceptances	238,817	349,205
Letters of credit	10,759	11,031
Guarantees	28,867	25,992
Others	166,345	144,801
	444,788	531,029

41 Bank and other loans

(a) Types of loans

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Bank loans		
Unsecured loans	80,128	92,931
Loan pledged with assets (note (d))	23,900	33,996
Guaranteed loans	643	708
	104,671	127,635
Other loans		
Unsecured loans	6,883	17,962
Loan pledged with assets (note (d))	1,143	1,624
Guaranteed loans	122	–
	8,148	19,586
	112,819	147,221

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For the year ended 31 December 2016

41 Bank and other loans (continued)

(b) Maturity of loans

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Bank and other loans are repayable:		
– Within 1 year or on demand	29,413	37,645
– Between 1 and 2 years	10,985	22,778
– Between 2 and 5 years	27,464	40,806
– Over 5 years	44,957	45,992
	112,819	147,221

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

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
RMB	33,045	70,886
US\$	50,453	58,633
HK\$	14,876	8,754
Other currencies	14,445	8,948
	112,819	147,221

(d) As at 31 December 2016, the Group's bank and other loans of HK\$25,043 million (31 December 2015 HK\$35,620 million) are pledged with cash and deposits, inventories, trade and other receivables, fixed assets and intangible assets with an aggregate carrying amount of HK\$86,290 million (31 December 2015: HK\$83,858 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 47(b). As at 31 December 2016, none of the covenants relating to drawn down facilities have been breached (31 December 2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42 Debt instruments issued

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Corporate bonds issued (note (a))	81,376	72,762
Notes issued (note (b))	64,916	69,244
Subordinated bonds issued (note (c))	85,234	92,840
Certificates of deposit issued (note (d))	10,612	10,390
Certificates of interbank deposit issued (note (e))	301,755	204,536
	543,893	449,772
<i>Analysed by remaining maturity:</i>		
– Within 1 year or on demand	320,997	219,157
– Between 1 and 2 years	34,395	11,158
– Between 2 and 5 years	55,073	79,894
– Over 5 years	133,428	139,563
	543,893	449,772

The Group did not have any defaults of principal, interest or other breaches with respect to its debt instruments issued during the year ended 31 December 2016 (2015: Nil).

Certain debt instruments issued were purchased by certain subsidiaries of the Group during the year ended 31 December 2015. These debt instruments issued were eliminated in full on consolidation. No such situation occurred for the year ended 31 December 2016.

Notes:

(a) Corporate bonds issued

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
The Company (note (ii))	54,832	36,713
CITIC Corporation Limited ("CITIC Corporation") (note (ii))	16,166	20,896
CITIC Real Estate Co., Ltd. ("CITIC Real Estate") (note (iii))	–	4,391
CITIC Telecom International (note (iv))	3,483	3,480
CITIC Heavy Industries (note (v))	3,460	3,330
CITIC Pacific Limited's ("CITIC Pacific") subsidiaries (note (vi))	2,236	2,149
CITIC Environment Investment Group Co., Limited's ("CITIC Environment") subsidiaries (note (vii))	1,199	1,803
	81,376	72,762

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For the year ended 31 December 2016

42 Debt instruments issued (continued)

Notes (continued):

(a) Corporate bonds issued (continued)

(i) Details of corporate bonds issued by the Company

As at 31 December 2016					
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
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%

As at 31 December 2015					
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
RMB Notes 1	RMB	1,000	2011-08-03	2016-08-03	2.70%
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%

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For the year ended 31 December 2016

42 Debt instruments issued (continued)

Notes (continued):

(a) Corporate bonds issued (continued)

(ii) Details of corporate bonds issued by CITIC Corporation

	Denominated currency	As at 31 December 2016				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
02 CITIC bond	RMB	4,500	2002-09-26	2017-09-26	4.08%	
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%	

	Denominated currency	As at 31 December 2015				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
02 CITIC bond	RMB	4,500	2002-09-26	2017-09-26	4.08%	
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%	
15 CITIC bond-SCP001	RMB	3,000	2015-04-20	2016-01-17	4.18%	
Samurai bond	JPY	10,000	1996-09-19	2016-09-18	4.95%	

(iii) Details of corporate bonds issued by CITIC Real Estate

	Denominated currency	As at 31 December 2015				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
Corporate bonds	RMB	4,000	2015-12-09	2020-12-09	4.80%	

(iv) Details of corporate bonds issued by CITIC Telecom International

	Denominated currency	As at 31 December 2016				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
Guaranteed bonds	US\$	450	2013-03-05	2025-03-05	6.10%	

	Denominated currency	As at 31 December 2015				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
Guaranteed bonds	US\$	450	2013-03-05	2025-03-05	6.10%	

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For the year ended 31 December 2016

42 Debt instruments issued (continued)

Notes (continued):

(a) Corporate bonds issued (continued)

(v) Details of corporate bonds issued by CITIC Heavy Industries

	As at 31 December 2016				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Short Term Corporate Bonds	RMB	1,500	2016-02-26	2017-02-26	3.20%
Corporate bonds	RMB	1,000	2014-11-26	2019-11-26	4.98%
Corporate bonds	RMB	600	2013-01-25	2020-01-25	5.20%

	As at 31 December 2015				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Corporate bonds	RMB	1,200	2013-01-25	2016-01-25	4.85%
Corporate bonds	RMB	600	2013-01-25	2020-01-25	5.20%
Corporate bonds	RMB	1,000	2014-11-26	2019-11-26	4.98%

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

	As at 31 December 2016				
	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%
Hubei Xin Yegang Steel Co., Ltd. – RMB Notes 2	RMB	500	2012-06-25	2017-06-25	5.23%
Jiangyin Xingcheng Special Steel Works Co., Ltd. – RMB Notes 3	RMB	200	2012-11-27	2017-11-26	6.06%
Jiangyin Ligang Electric Power Generation Co., Ltd. –16 Ligang SCP001	RMB	100	2016-09-01	2017-06-02	3.02%
–16 Ligang SCP002	RMB	200	2016-09-21	2017-06-20	3.04%
–16 Ligang SCP003	RMB	200	2016-10-19	2017-07-18	2.99%
–16 Ligang SCP004	RMB	300	2016-11-15	2017-08-14	3.28%

	As at 31 December 2015				
	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%
Hubei Xin Yegang Steel Co., Ltd. – RMB Notes 2	RMB	500	2012-06-25	2017-06-25	5.23%
Jiangyin Xingcheng Special Steel Works Co., Ltd. – RMB Notes 3	RMB	200	2012-11-27	2017-11-26	6.06%
– RMB Notes 4	RMB	500	2013-06-05	2016-06-04	4.93%
Jiangyin Ligang Electric Power Generation Co., Ltd. – Medium Term Notes	RMB	100	2013-10-28	2016-10-28	6.30%

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For the year ended 31 December 2016

42 Debt instruments issued (continued)

Notes (continued):

(a) Corporate bonds issued (continued)

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

As at 31 December 2016					
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
CITIC Envirotech Co., Ltd. ("CITIC Envirotech") – Medium Term Notes	SG\$	225	2015-04-29	2018-04-29	4.70%
As at 31 December 2015					
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
CITIC Envirotech – Medium Term Notes	SG\$	100	2013-09-02	2016-09-02	7.25%
– Medium Term Notes	SG\$	225	2015-04-29	2018-04-29	4.70%

(b) Notes issued

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
CITIC Corporation (note (i))	29,938	31,889
CITIC Bank (note (ii))	34,978	37,355
	64,916	69,244

(i) Details of notes issued by CITIC Corporation

As at 31 December 2016					
	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%

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42 Debt instruments issued (continued)

Notes (continued):

(b) Notes issued (continued)

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

	Denominated currency	As at 31 December 2015				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
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%	

(ii) Details of notes issued by CITIC Bank

	Denominated currency	As at 31 December 2016				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
Financial debts	RMB	15,000	2013-11-08	2018-11-12	5.20%	
Dim Sum bonds	RMB	1,500	2014-02-27	2017-02-27	4.13%	
Financial bonds	RMB	7,000	2015-05-21	2020-05-25	3.98%	
Financial bonds	RMB	8,000	2015-11-13	2020-11-17	3.61%	

	Denominated currency	As at 31 December 2015				Interest rate per annum
		Face value in denominated currency million	Issue date	Maturity date		
Financial debts	RMB	15,000	2013-11-08	2018-11-12	5.20%	
Dim Sum bonds	RMB	1,500	2014-02-27	2017-02-27	4.13%	
Financial bonds	RMB	7,000	2015-05-21	2020-05-25	3.98%	
Financial bonds	RMB	8,000	2015-11-13	2020-11-17	3.61%	

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42 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:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Fixed rate notes maturing		
– In June 2020 (note (i))	4,071	4,133
– In September 2022 (note (ii))	2,322	2,307
– In May 2024 (note (iii))	2,328	2,328
Fixed rate bonds maturing		
– In June 2021 (note (iv))	–	2,387
– In May 2025 (note (v))	12,856	13,727
– In June 2027 (note (vi))	22,335	23,845
– In August 2024 (note (vii))	41,322	44,113
	85,234	92,840

As at 31 December 2016						
	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	2012-09-27	2022-09-28	3.88%
(iii)	Subordinated Notes	US\$	300	2013-11-07	2024-05-07	6.00%
(v)	Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(vi)	Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(vii)	Subordinated Fixed Rate Bonds	RMB	37,000	2014-08-26	2024-08-26	6.13%

As at 31 December 2015						
	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	2012-09-27	2022-09-28	3.88%
(iii)	Subordinated Notes	US\$	300	2013-11-07	2024-05-07	6.00%
(iv)	Subordinated Fixed Rate Bonds	RMB	2,000	2006-06-22	2021-06-22	4.12%
(v)	Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(vi)	Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(vii)	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 0.46% to 3.62% per annum (31 December 2015: 0.46% to 3.73% per annum).

(e) **Certificates of interbank deposit issued**

As at 31 December 2016, CITIC Bank issued certain certificates of interbank deposit with a total value of RMB269,923 million (approximately HK\$301,755 million) (31 December 2015: RMB171,356 million (approximately HK\$204,536 million)). The yield ranges from 2.68% to 3.75% per annum (31 December 2015: 2.75% to 4.77% per annum). The original expiry terms are between 1 month to 2 years (31 December 2015: between 1 month to 2 years).

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43 Provisions

	Environmental restoration expenditures HK\$ million	Others HK\$ million	Total HK\$ million
At 1 January 2016	2,037	1,530	3,567
Exchange differences	(2)	(89)	(91)
Charge for the year	–	593	593
Disposal of subsidiaries	–	(352)	(352)
Payments made during the year	(18)	(31)	(49)
At 31 December 2016	2,017	1,651	3,668
At 1 January 2015	1,924	1,008	2,932
Exchange differences	(32)	(44)	(76)
Charge for the year	153	580	733
Payments made during the year	(8)	(14)	(22)
At 31 December 2015	2,037	1,530	3,567

44 Share capital, perpetual capital securities and reserves

(a) Share capital

On 12 August 2015, Xin Ma Apparel International Limited (a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Youngor Group Co., Ltd.) subscribed for 859,218,000 new shares of the Company at a price of HK\$13.95 per share for an aggregate amount of HK\$11,986,091,100.

On 3 August 2015, the Company allotted and issued to Chia Tai Bright Investment Company Limited (“CT Bright”) 3,327,721,000 fully paid convertible preferred shares of the Company (“Preferred Shares”) for a total consideration of HK\$45,922,549,800. On 14 August 2015, CT Bright converted all of the Preferred Shares at the conversion price of HK\$13.80 per ordinary share and the Company allotted and issued 3,327,721,000 ordinary shares to CT Bright.

As at 31 December 2016, the number of ordinary shares in issue of the Company was 29,090,262,630 (31 December 2015: 29,090,262,630).

Details of the movements in share capital of the Group during the year are set out in the consolidated statement of changes in equity.

(b) Share based payment

Share Option Plan

During the period between the adoption of the CITIC Pacific Share Incentive Plan 2000 (“the Plan 2000”) on 31 May 2000 and its expiry on 30 May 2010, the Company has granted six lots of share options.

All options granted and accepted under the Plan 2000 can be exercised in whole or in part within 5 years from the date of grant.

The share options at the exercise price of HK\$18.20 per share, HK\$19.90 per share, HK\$22.10 per share, HK\$47.32 per share, HK\$22.00 per share and HK\$20.59 per share expired at the close of business on 27 May 2007, 31 October 2009, 19 June 2011, 15 October 2012, 18 November 2014 and 13 January 2015, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44 Share capital, perpetual capital securities and reserves (continued)

(b) Share based payment (continued)

Other than the Plan 2000, certain of the Company's subsidiaries have issued equity-settled share-based payments to certain of their employees. The aggregate amount of the share-based payments recognised by these companies is not material to the Group.

As the Plan 2000 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, pursuant to which 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, consultant or representative of any member of the Group who shall make payment of HK\$1 to the Company on acceptance. The exercise price determined by the board will be at least 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 on the date of offer the grant; and (iii) the average of the closing prices of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of offer of the grant. The maximum number of the Company's shares which may be issued upon exercise of all share options to be granted under the Plan 2011 must not exceed 10% of the Company's shares in issue as at the date of adopting the Plan 2011 (i.e. as at 31 December 2016, the maximum 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 year ended 31 December 2016 (2015: Nil).

- (i) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Average exercise price in HK\$ per share	Share Options	Average exercise price in HK\$ per share	Share Options
At 1 January	–	–	20.59	400,000
Lapsed	–	–	20.59	(400,000)
At 31 December	–	–	–	–
Weighted average remaining contractual life		–		–

There were no share options granted or exercised during the year ended 31 December 2016 (2015: Nil).

(c) Perpetual capital securities

In April 2011 and May 2013, the Company issued perpetual subordinated capital securities (the "perpetual capital securities") with a nominal amount of US\$750 million (approximately HK\$5,850 million) and US\$1,000 million (approximately HK\$7,800 million), respectively. 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. On 15 April 2016, the perpetual capital securities of US\$750 million were redeemed by the Company. The amounts as at 31 December 2016 and 2015 included the accrued distribution payments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44 Share capital, perpetual capital securities and reserves (continued)

(d) Nature and purpose of reserves

(i) Capital reserve

In 2014, the Company paid a total consideration of HK\$286,585 million to acquire the shares of CITIC Corporation, and the amount of the consideration was debited against the capital reserve in the Group's consolidated financial statements. In addition, the potential cash payments related to put options issued in conjunction with business combination and gains or losses from transactions with non-controlling interests are directly debited or credited to the capital reserve in the Group's consolidated financial statements.

(ii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedge pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in Note 2(j)(ii).

(iii) Investment related reserves

The investment related reserves comprise the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and share of other comprehensive income of associates and joint ventures, and are dealt with in accordance with the accounting policies set out in Note 2(i)(ii) and Note 2(f) respectively.

(iv) General reserve

Pursuant to the relevant notices issued by regulatory bodies, certain subsidiaries in the financial services segment in the Mainland China are required to set aside a general reserve to cover potential losses.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(h).

(e) 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 that might be possible with of borrowings obtained and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

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 31 December 2016 (31 December 2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45 Movement of allowances for impairment losses

	For the year ended 31 December 2016						At 31 December HK\$ million
	At 1 January HK\$ million	Charge for the year HK\$ million	Reversal for the year HK\$ million	Recovery of write-off/ (write-off) HK\$ million	Disposal of subsidiaries HK\$ million	Exchange differences and others HK\$ million	
Deposits and placements with banks and non-bank financial institutions (Note 18 and 19)	10	40	-	1	-	(2)	49
Trade and other receivables (Note 22)	5,080	8,240	(722)	(3,930)	(1,130)	(181)	7,357
Amounts due from customers for contract work	1,777	10	(805)	-	-	(77)	905
Inventories (Note 23)	2,433	1,035	(483)	(73)	(393)	(6)	2,513
Loans and advances to customers and other parties (Note 25)	76,286	56,882	(3,279)	(36,212)	-	(5,067)	88,610
Available-for-sale financial assets (Note 26)	853	810	(8)	(349)	(423)	(20)	863
Held-to-maturity investments (Note 27)	49	2	-	(48)	-	(1)	2
Investment classified as receivables (Note 28)	1,190	1,631	(564)	(1)	-	(122)	2,134
Interests in associates (Note 30)	2,431	5	-	(82)	(3)	(36)	2,315
Interests in joint ventures (Note 31)	1,497	11	-	(1)	-	-	1,507
Fixed assets (Note 32)	26,612	10,255	-	(53)	(95)	217	36,936
Intangible assets (Note 33)	15,814	742	-	(154)	(3)	4	16,403
Other assets	3,965	2,249	(82)	(339)	(1,213)	(148)	4,432
	137,997	81,912	(5,943)	(41,241)	(3,260)	(5,439)	164,026

	For the year ended 31 December 2015						At 31 December HK\$ million
	At 1 January HK\$ million	Charge for the year HK\$ million	Reversal for the year HK\$ million	Recovery of write-off/ (write-off) HK\$ million	Exchange differences and others HK\$ million		
Deposits and placements with banks and non-bank financial institutions (Note 18 and 19)	10	-	-	1	(1)		10
Trade and other receivables (Note 22)	4,292	4,756	(635)	(3,065)	(268)		5,080
Amounts due from customers for contract work	1,687	-	-	-	90		1,777
Inventories (Note 23)	2,029	831	(145)	(198)	(84)		2,433
Loans and advances to customers and other parties (Note 25)	69,101	50,860	(3,033)	(36,293)	(4,349)		76,286
Available-for-sale financial assets (Note 26)	1,845	756	(723)	(950)	(75)		853
Held-to-maturity investments (Note 27)	53	1	(5)	3	(3)		49
Investment classified as receivables (Note 28)	525	4,760	(113)	(3,921)	(61)		1,190
Interests in associates (Note 30)	3,616	476	-	(1,682)	21		2,431
Interests in joint ventures (Note 31)	1,613	-	-	-	(116)		1,497
Fixed assets (Note 32)	9,259	17,448	(3)	101	(193)		26,612
Intangible assets (Note 33)	13,597	2,233	-	(13)	(3)		15,814
Other assets	2,410	2,142	(602)	(11)	26		3,965
	110,037	84,263	(5,259)	(46,028)	(5,016)		137,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

46 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.

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Contractual amount		
Loan commitments		
With an original maturity of within 1 year	9,292	8,462
With an original maturity of 1 year or above	74,332	83,510
	83,624	91,972
Guarantees	195,605	168,190
Letters of credit	96,798	109,784
Acceptances	598,680	753,607
Credit card commitments	241,299	178,015
Others	3	5,040
	1,216,009	1,306,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

46 Contingent liabilities and commitments (continued)

(b) Credit commitments analysed by credit risk weighted amount

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Credit risk weighted amount on credit commitments	376,984	467,758

Note:

- (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) As at 31 December 2016 and 2015, 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 interest unpaid and accrued up to 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 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 at the balance sheet date:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Redemption commitment for treasury bonds	14,223	15,960

As at 31 December 2016, the original maturities of these bonds vary from one to five years (31 December 2015: 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 year ended 31 December 2016

46 Contingent liabilities and commitments (continued)

(d) Guarantees provided

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

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Related parties (note)	17,712	15,469
Third parties	2,940	7,208
	20,652	22,677

Note:

As at 31 December 2016, the guarantees provided to related parties by the Group include guarantees provided to former subsidiaries of the Group that were disposed to China Overseas Land & Investment Limited ("China Overseas") in 2016 amounting to RMB5,300 million (approximately HK\$5,900 million). The guarantees are being transferred to China Overseas which has provided counter guarantees to the Group (Note 48(b)).

The relationship of related parties is disclosed in Note 48(a).

Included in the above table, the Group's counter guarantees issued to related parties and third parties at the balance sheet date are as follows:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Related parties	261	146
Third parties	11	99
	272	245

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

46 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) The Hong Kong Securities and Futures Commission (the "SFC") Investigation

Following the Company's announcement of a foreign exchange related loss, on 22 October 2008, 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 alleges 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 is asking 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 SFC has not yet quantified the amount of such restoration or compensation sought in the proceedings in the High Court, which have been stayed pending the MMT results.

The MMT hearing was completed in July 2016 with the outcome pending.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

46 Contingent liabilities and commitments (continued)

(e) Outstanding litigation and disputes (continued)

(i) The Hong Kong Securities and Futures Commission (the "SFC") Investigation (continued)

In the absence of the findings of these proceedings and investigations being made available to the Company and due to the inherent difficulties involved in attempting to predict the outcome of such proceedings and 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 proceedings and 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 proceedings and investigations that might have a material adverse financial impact on the consolidated financial position or liquidity of the Group.

(ii) Mineralogy Disputes

The MRSLAs provide that royalties are payable to Mineralogy by each of Sino Iron and Korean Steel on magnetite ore mined (Royalty Component A) and concentrate produced (Royalty Component B). The MRSLAs also provide that, unless certain exceptions apply, a Minimum Production Royalty is payable to Mineralogy by each of Sino Iron and Korean Steel where a minimum production level was not achieved by a specified date.

Due to changes in the way in which seaborne-traded iron ore is priced, the Company considers that it is no longer possible to calculate Royalty Component B. Mineralogy and its related company, Queensland Nickel Pty Ltd., have commenced a number of proceedings against the Company, Sino Iron, Korean Steel, Sino Iron Holdings Pty Ltd. and certain officers of those companies containing or derived from claims for Royalty Component B and/or the Minimum Production Royalty. To the extent those proceedings remain on foot, they are described above in Note 3(l). Those proceedings continue to be vigorously contested by the Group. A trial in the Royalty Component B proceeding has been provisionally listed to commence on 14 June 2017 and to run for 15 sitting days.

Despite the orders made by Justice Kenneth Martin in the remitted injunction application (described above), the Group does not consider that a reliable estimate can be made of the amount of any potential liability (if such liability is found to exist) for Royalty Component B arising from the Royalty B proceeding. Therefore, no provision has been recognised in the financial statements.

There are a number of disputes with Mineralogy. Refer to Note 3(l) for details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

46 Contingent liabilities and commitments (continued)

(e) Outstanding litigation and disputes (continued)

(iii) CITIC Resources Litigation

- (1) In August 2014, 山煤煤炭進出口有限公司 (the Shanxi Coal Import & Export Co., Ltd.) ("Shanxi Coal I/E"), a wholly-owned subsidiary of 山煤國際能源集團股份有限公司 (Shanxi Coal International Energy Group Co., Ltd.), commenced a claim in 山西省高級人民法院 (Shanxi High People's Court) (the "Shanxi Court") against, amongst others, CITIC Australia Commodity Trading Pty Limited ("CACT") ("Shanxi Claim A"). Shanxi Coal I/E claimed from CACT (i) the sum of US\$89,755,000 (HK\$700,089,000) plus interest for breach of contract resulting from the alleged non-delivery of certain aluminium ingots by CACT to Shanxi Coal I/E, and (ii) costs in respect of Shanxi Claim A.

In connection with Shanxi Claim A, Shanxi Coal I/E obtained an asset protection order from the Shanxi Court over a certain quantity of the Inventories. Service of Shanxi Claim A was effected on CACT in September 2015 by way of a public notice issued by the Shanxi Court. Court hearings were held subsequently.

In January 2017, pursuant to a civil ruling of the Shanxi Court, the Shanxi Court has ruled Shanxi Claim A be transferred to the Public Security Bureau pursuant to Article 12. Any remedy Shanxi Coal I/E may have in respect of the aluminium ingots that are the subject of Shanxi Claim A will be determined in accordance with China's criminal legal procedures. Following its transfer to the Public Security Bureau, Shanxi Claim A has terminated and Shanxi Coal I/E has no further recourse or rights against CACT in respect of Shanxi Claim A.

- (2) In the second half of 2015, CACT received an arbitration request notice from the International Court of Arbitration of the International Chamber of Commerce (the "ICC") in respect of an arbitration application by Shanxi Coal I/E pursuant to which, Shanxi Coal I/E is (i) alleging that CACT has entered into two contracts for the supply of, and has failed to deliver, copper cathodes to Shanxi Coal I/E (the "Contracts"); and (ii) claiming the amount of US\$27,890,000 (HK\$217,542,000) as the aggregate purchase price Shanxi Coal I/E alleges it has paid to CACT under the Contracts, plus interest ("Shanxi Claim B").

CACT has not entered into the Contracts as alleged by Shanxi Coal I/E and considers Shanxi Claim B to be baseless. Accordingly, no adjustment has been made in the financial statements with respect to Shanxi Claim B.

- (3) In August 2014, CITIC Resources noted from an announcement issued by Qingdao Port International Co., Ltd. (the "Qingdao Port Int'l") that a legal complaint dated 14 July 2014 ("ABN Claim") had been issued by ABN AMRO Bank N.V., Singapore Branch ("ABN AMRO") against CACT. According to the announcement, among other things, ABN AMRO had issued ABN Claim alleging that CACT had taken wrongful preservative measures in respect of cargo over which ABN AMRO claimed it had been granted a pledge (the "Subject Cargo") and was seeking an order that (i) CACT compensate ABN AMRO for loss of RMB1,000,000 (HK\$1,167,000), (ii) CACT withdraw its asset protection order over the Subject Cargo; and (iii) CACT bear all fees and legal costs of ABN Claim.

In October 2016, CITIC Resources noted from an announcement issued by Qingdao Port Int'l that ABN AMRO had withdrawn ABN Claim.

- (iv) There are some issues in dispute with MCC, and their details are disclosed in Note 3(k).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

46 Contingent liabilities and commitments (continued)

(f) Capital commitments

As at the balance sheet date, the Group had the following capital commitments not provided for in these consolidated financial statements:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Contracted for	18,004	30,888

(g) Operating lease commitments

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

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Within 1 year	4,309	4,469
Between 1 and 2 years	3,362	3,794
Between 2 and 3 years	2,817	3,141
Over 3 years	8,442	10,429
	18,930	21,833

47 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(a) Credit risk

Credit risk represents the potential loss that may arise from a customer or counterparty's failure to meet its obligation when due. For loan business, the Group identifies and manages the credit risk through its target markets definitions, credit approval process, post-disbursement monitoring and remedial management procedures. In respect of treasury businesses, credit risk mainly represents impairment losses of different types of investments due to default by issuers or counterparties, and inability of derivative counterparties in fulfilling their obligations. The Group sets credit limits for treasury activities and monitors them regularly with reference to the fair values of the relevant financial instruments.

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.

(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 exposure is as follows:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Deposits with central banks, banks and non-bank financial institutions	918,392	792,788
Placements with banks and non-bank financial institutions	186,927	141,775
Financial assets at fair value through profit or loss	75,053	33,682
Derivative financial assets	53,281	16,509
Trade and other receivables	116,283	118,008
Financial assets held under resale agreements	193,615	165,391
Loans and advances to customers and other parties	3,137,906	2,947,798
Available-for-sale financial assets	579,342	449,769
Held-to-maturity investments	244,151	216,267
Investments classified as receivables	1,166,325	1,331,281
	6,671,275	6,213,268
Credit commitments and guarantees provided	1,236,661	1,329,285
Maximum credit risk exposure	7,907,936	7,542,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(ii) Distribution by credit exposure is as follows:

	As at 31 December 2016				
	Loans and advances to customers and other parties HK\$ million	Due from central banks, banks and non-bank financial institutions HK\$ million	Financial asset held under resale agreements HK\$ million	Debt securities investments and certificates of deposit HK\$ million	Investments classified as receivables HK\$ million
Impaired					
<i>Individually assessed</i>					
Gross balance	46,429	36	–	68	31
Allowance for impairment losses	(32,240)	(9)	–	(35)	(16)
	14,189	27	–	33	15
<i>Collectively assessed</i>					
Gross balance	11,826	–	–	–	–
Allowance for impairment losses	(9,062)	–	–	–	–
	2,764	–	–	–	–
Overdue but not impaired (note (1))					
Gross balance	50,757	–	–	–	148
Within which:					
– Within 3 months	38,754	–	–	–	148
– Between 3 months and 1 year	12,003	–	–	–	–
Allowance for impairment losses	(9,393)	–	–	–	(3)
	41,364	–	–	–	145
Neither overdue nor impaired					
Gross balance	3,117,504	1,105,332	193,615	896,110	1,168,280
Allowance for impairment losses (note (2))	(37,915)	(40)	–	(115)	(2,115)
	3,079,589	1,105,292	193,615	895,995	1,166,165
Net balance	3,137,906	1,105,319	193,615	896,028	1,166,325

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For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(ii) Distribution by credit exposure is as follows: (continued)

	As at 31 December 2015				
	Loans and advances to customers and other parties HK\$ million	Due from central banks, banks and non-bank financial institutions HK\$ million	Financial asset held under resale agreements HK\$ million	Debt securities investments and certificates of deposit HK\$ million	Investments classified as receivables HK\$ million
Impaired					
<i>Individually assessed</i>					
Gross balance	37,094	36	–	198	33
Allowance for impairment losses	(21,973)	(10)	–	(128)	(16)
	15,121	26	–	70	17
<i>Collectively assessed</i>					
Gross balance	9,553	–	–	–	–
Allowance for impairment losses	(6,978)	–	–	–	–
	2,575	–	–	–	–
Overdue but not impaired (note (1))					
Gross balance	49,896	–	–	–	148
Within which:					
– Within 3 months	41,997	–	–	–	148
– Between 3 months and 1 year	7,899	–	–	–	–
Allowance for impairment losses	(6,685)	–	–	–	(44)
	43,211	–	–	–	104
Neither overdue nor impaired					
Gross balance	2,927,541	934,537	165,391	696,455	1,332,290
Allowance for impairment losses (note (2))	(40,650)	–	–	(89)	(1,130)
	2,886,891	934,537	165,391	696,366	1,331,160
Net balance	2,947,798	934,563	165,391	696,436	1,331,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(ii) Distribution by credit exposure is as follows: (continued)

Notes:

- (1) Collateral and other credit enhancements for overdue but not impaired loans and advances:

As at 31 December 2016, the corporate loans and advances of the Group which were overdue but not impaired were HK\$42,556 million (31 December 2015: HK\$36,693 million). As at 31 December 2016, the secured portion of these loans and advances were HK\$29,775 million (31 December 2015: HK\$25,286 million), and the remaining loans and advances were unsecured.

The fair value of collateral held against these loans and advances amounted to HK\$28,672 million as at 31 December 2016 (31 December 2015: HK\$24,554 million).

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

- (2) The balances represent collectively assessed allowance of impairment losses.

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

	2016		As at 31 December		2015	
	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	427,307	14%	223,605	494,368	17%	240,563
– Wholesale and retail	266,677	8%	163,971	311,149	10%	192,861
– Real estate	334,116	10%	278,240	307,585	10%	261,357
– Transportation, storage and postal services	181,078	6%	94,720	176,102	6%	86,347
– Water, environment and public utility management	167,601	5%	87,097	152,110	5%	76,776
– Rental and business services	203,030	6%	130,565	176,416	6%	103,917
– Construction	101,321	3%	44,362	122,469	4%	57,306
– Production and supply of electric power, gas and water	67,127	2%	28,157	65,296	2%	24,134
– Public management and social organisations	22,187	1%	4,949	24,869	1%	5,825
– Others	302,706	9%	125,048	284,921	9%	116,578
	2,073,150	64%	1,180,714	2,115,285	70%	1,165,664
Personal loans	1,069,417	33%	777,667	798,078	26%	571,250
Discounted bills	83,949	3%	–	110,721	4%	–
	3,226,516	100%	1,958,381	3,024,084	100%	1,736,914

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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

	2016		As at 31 December			
			2015			
	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	3,032,139	94%	1,881,768	2,852,755	94%	1,665,593
Hong Kong and Macau	175,682	5%	66,741	146,504	5%	55,634
Overseas	18,695	1%	9,872	24,825	1%	15,687
	3,226,516	100%	1,958,381	3,024,084	100%	1,736,914

(v) 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.

	2016		2015	
	Gross balance HK\$ million	% of total loans and advances	Gross balance HK\$ million	% of total loans and advances
Rescheduled loans and advances overdue less than 3 months	2,855	0.09%	4,236	0.14%
Rescheduled loans and advances overdue more than 3 months	16,411	0.51%	9,378	0.31%
	19,266	0.60%	13,614	0.45%

(vi) 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 31 December 2016, the Group did not enter into significant enforceable master netting arrangements with counterparties and therefore there were no significant offsettings of any assets and liabilities in the consolidated balance sheet (31 December 2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(b) Liquidity risk

Liquidity risk arises when there is mismatch between amounts and maturity dates of 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 indicate the analysis by remaining maturities of the Group's financial assets and liabilities:

	As at 31 December 2016					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	290,434	3,518,796	1,279,761	1,031,725	625,327	6,746,043
Total financial liabilities	(2,727,659)	(3,064,248)	(511,839)	(160,971)	(4,643)	(6,469,360)
Financial asset-liability gap	(2,437,225)	454,548	767,922	870,754	620,684	276,683

	As at 31 December 2015					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	313,863	3,302,808	1,384,146	702,505	570,499	6,273,821
Total financial liabilities	(1,981,905)	(3,242,186)	(623,643)	(197,096)	(1,766)	(6,046,596)
Financial asset-liability gap	(1,668,042)	60,622	760,503	505,409	568,733	227,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 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 31 December 2016			Total HK\$ million
	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	
Loan commitments	16,811	31,118	35,695	83,624
Guarantees	106,027	88,426	1,152	195,605
Letters of credit	95,121	1,677	–	96,798
Acceptances	598,680	–	–	598,680
Credit card commitments	241,299	–	–	241,299
Others	–	3	–	3
Total	1,057,938	121,224	36,847	1,216,009

	As at 31 December 2015			Total HK\$ million
	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	
Loan commitments	41,282	28,952	21,738	91,972
Guarantees	102,315	63,774	2,101	168,190
Letters of credit	108,840	944	–	109,784
Acceptances	753,607	–	–	753,607
Credit card commitments	178,015	–	–	178,015
Others	–	5,040	–	5,040
Total	1,184,059	98,710	23,839	1,306,608

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(c) Interest rate risk

Each of the Group's operating entities 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-liability gap

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

	As at 31 December 2016				Total HK\$ million
	Non-interest bearing HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	
Total financial assets	314,617	4,827,499	1,372,794	231,133	6,746,043
Total financial liabilities	(225,551)	(5,645,273)	(477,137)	(121,399)	(6,469,360)
Financial asset-liability gap	89,066	(817,774)	895,657	109,734	276,683

	As at 31 December 2015				Total HK\$ million
	Non-interest bearing HK\$ million	Within 1 year HK\$ million	Between 1 and 5 years HK\$ million	More than 5 years HK\$ million	
Total financial assets	202,696	4,872,776	1,006,508	191,841	6,273,821
Total financial liabilities	(217,139)	(5,086,478)	(566,746)	(176,233)	(6,046,596)
Financial asset-liability gap	(14,443)	(213,702)	439,762	15,608	227,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(ii) Effective interest rate

	As at 31 December			
	2016 Effective interest rate	HK\$ million	2015 Effective interest rate	HK\$ million
Assets				
Cash and deposits	1.40%–1.52%	927,259	1.22%–1.47%	801,615
Placements with banks and non-bank financial institutions	2.56%	186,927	2.59%	141,775
Financial assets held under resale agreements	2.30%	193,615	3.90%	165,391
Loans and advances to customers and other parties	4.82%	3,137,906	5.85%	2,947,798
Investments classified as receivable	4.01%	1,166,325	5.20%	1,331,281
Investments (note (1))	3.41%	1,067,959	3.86%	824,808
Others		558,004		590,641
		<u>7,237,995</u>		<u>6,803,309</u>
Liabilities				
Borrowing from central banks	3.02%	205,755	3.50%	44,761
Deposits from banks and non-bank financial institutions	2.81%	1,097,164	3.80%	1,275,421
Placements from banks and non-bank financial institutions	2.10%	93,596	1.81%	58,141
Financial assets sold under repurchase agreements	2.42%	134,534	2.43%	84,949
Deposits from customers	1.68%	4,031,522	2.16%	3,766,848
Bank and other loans	0.33%–7.8%	112,819	0.63%–8.50%	147,221
Debt instruments issued	2.80%–6.90%	543,893	1.00%–7.25%	449,772
Others		322,861		313,027
		<u>6,542,144</u>		<u>6,140,140</u>

Note:

- (1) The Group's investments include financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments, and interests in associates and joint ventures. 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 year ended 31 December 2016

47 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 31 December 2016, 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 profit before taxation would decrease or increase by HK\$9,393 million (31 December 2015: decrease or increase by HK\$2,968 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.

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

	HK\$	As at 31 December 2016			Total
		US\$	RMB	Others	
Total financial assets	166,422	403,896	6,135,557	40,168	6,746,043
Total financial liabilities	(180,068)	(443,208)	(5,781,541)	(64,543)	(6,469,360)
Financial asset-liability gap	(13,646)	(39,312)	354,016	(24,375)	276,683

	HK\$	As at 31 December 2015			Total
		US\$	RMB	Others	
Total financial assets	142,259	358,265	5,729,973	43,324	6,273,821
Total financial liabilities	(137,807)	(437,680)	(5,403,623)	(67,486)	(6,046,596)
Financial asset-liability gap	4,452	(79,415)	326,350	(24,162)	227,225

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(d) Currency risk (continued)

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

Assuming all other risk variables remained constant, a 100 basis points strengthening or weakening of HK\$ against US\$, RMB and other currencies as at 31 December 2016 would decrease or increase the Group's profit before taxation by HK\$2,982 million (31 December 2015: decrease or increase by HK\$2,228 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 change in the same direction simultaneously and do 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.

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying amounts of financial instruments measured 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 Financial risk management and fair values (continued)

(e) Fair values (continued)

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

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.

	As at 31 December 2016			Total HK\$ million
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	
Assets				
Financial assets at fair value through profit or loss	8,517	69,270	32	77,819
Derivative financial assets	206	53,073	2	53,281
Available-for-sale financial assets	60,874	553,965	18,057	632,896
	69,597	676,308	18,091	763,996
Liabilities				
Derivative financial liabilities	–	(52,646)	(2)	(52,648)
As at 31 December 2015				
	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million	Total HK\$ million
Assets				
Financial assets at fair value through profit or loss	4,713	35,597	81	40,391
Derivative financial assets	20	16,485	4	16,509
Available-for-sale financial assets	57,070	417,381	18,911	493,362
	61,803	469,463	18,996	550,262
Liabilities				
Derivative financial liabilities	(1)	(16,566)	(908)	(17,475)

For the year ended 31 December 2016, there were no significant transfers between instruments in different levels (2015: Nil) and no significant changes in valuation techniques for determining the fair values of the instruments (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 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:

	For the year ended 31 December 2016				Liabilities Derivatives financial liabilities HK\$ million
	Financial assets at fair value through profit or loss HK\$ million	Assets		Total HK\$ million	
		Derivatives financial assets HK\$ million	Available- for-sale financial assets HK\$ million		
At 1 January 2016	81	4	18,911	18,996	(908)
Disposal of subsidiaries	–	–	(162)	(162)	–
Total (losses)/gains:	(44)	1	(292)	(335)	903
– in profit or loss	(44)	1	(122)	(165)	34
– in other comprehensive income	–	–	(170)	(170)	869
Net settlements	(5)	(3)	(400)	(408)	3
At 31 December 2016	32	2	18,057	18,091	(2)
Total (losses)/gains for the year included in profit or loss for assets and liabilities held in Level 3 as at the balance sheet date	(44)	1	(122)	(165)	34

	For the year ended 31 December 2015				Liabilities Derivatives financial liabilities HK\$ million
	Financial assets at fair value through profit or loss HK\$ million	Assets		Total HK\$ million	
		Derivatives financial assets HK\$ million	Available- for-sale financial assets HK\$ million		
At 1 January 2015	21	9	32,524	32,554	(765)
Business combination	–	–	28	28	–
Total gains/(losses):	19	(3)	1,348	1,364	(143)
– in profit or loss	19	(3)	–	16	(143)
– in other comprehensive income	–	–	1,348	1,348	–
Net settlements	41	(2)	(14,989)	(14,950)	–
At 31 December 2015	81	4	18,911	18,996	(908)
Total gains/(losses) for the year included in profit or loss for assets and liabilities held in Level 3 as at the balance sheet date	19	(3)	–	16	(143)

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For the year ended 31 December 2016

47 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 31 December 2016				
	Carrying amount HK\$ million	Fair value HK\$ million	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million
Financial assets					
Held-to-maturity investments	244,151	244,876	1,075	243,771	30
Investments classified as receivables	1,166,325	1,164,797	-	295,917	868,880
	1,410,476	1,409,673	1,075	539,688	868,910
Financial liabilities					
Debt instruments issued					
- Corporate bonds issued	81,376	77,110	3,460	73,650	-
- Notes issued	64,916	65,357	-	65,357	-
- Subordinated bonds issued	85,234	88,226	9,082	79,144	-
- Certificates of deposit (not for trading purpose)	10,612	10,557	-	10,557	-
- Certificates of interbank deposit issued	301,755	300,347	-	300,347	-
	543,893	541,597	12,542	529,055	-
As at 31 December 2015					
	Carrying amount HK\$ million	Fair value HK\$ million	Level 1 HK\$ million	Level 2 HK\$ million	Level 3 HK\$ million
Financial assets					
Held-to-maturity investments	216,267	222,501	1,131	221,298	72
Investments classified as receivables	1,331,281	1,345,573	-	541,782	803,791
	1,547,548	1,568,074	1,131	763,080	803,863
Financial liabilities					
Debt instruments issued					
- Corporate bonds issued	72,762	74,593	3,353	71,240	-
- Notes issued	69,244	71,174	-	71,174	-
- Subordinated bonds issued	92,840	99,288	9,090	90,198	-
- Certificates of deposit (not for trading purpose)	10,390	10,392	-	10,392	-
- Certificates of interbank deposit issued	204,536	204,709	-	204,709	-
	449,772	460,156	12,443	447,713	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

47 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), available-for-sale financial assets, and held-to-maturity investments if there is an active market. If an active market does not exist for available-for-sale financial assets, 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 to 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 to their fair values.

Derivatives

The fair values of foreign currency and interest rate contracts are either based on their listed market prices or by discount 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 year ended 31 December 2016

48 Material related parties

(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:

	For the year ended 31 December 2016			
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	Total HK\$ million
Sales of goods	–	354	124	478
Purchase of goods	–	689	1,721	2,410
Interest income (note (2))	12	177	92	281
Interest expenses	13	273	263	549
Fee and commission income	–	9	995	1,004
Fee and commission expenses	–	–	70	70
Income from other services	2	33	100	135
Expenses for other services	–	23	669	692
Interest income from deposits and receivables	–	50	50	100
Other operating expenses	–	69	26	95

	For the year ended 31 December 2015			
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	Total HK\$ million
Sales of goods	–	340	144	484
Purchase of goods	–	25	1,151	1,176
Interest income (note (2))	16	96	29	141
Interest expenses	177	31	320	528
Fee and commission income	–	4	173	177
Fee and commission expenses	–	–	56	56
Income from other services	–	48	54	102
Expenses for other services	–	19	638	657
Interest income from deposits and receivables	–	94	264	358
Other operating expenses	–	47	22	69

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 years, 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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

48 Material related parties (continued)

(b) Related party transactions (continued)

(ii) Outstanding balances with related parties:

	As at 31 December 2016			Total HK\$ million
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	
Trade and other receivables	69	3,202	1,249	4,520
Loans and advances to customers and other parties (note (2))	–	12,837	4,058	16,895
Placements with banks and non-bank financial institutions	–	27	748	775
Cash and deposits	–	–	2,549	2,549
Derivative financial instruments and other assets	–	3	736	739
Trade and other payables	3,055	21,405	2,043	26,503
Deposits from customers	1,365	8,000	9,067	18,432
Deposits from bank and non-bank financial institutions	–	1	11,737	11,738
Derivative financial instruments and other liabilities	3	233	76	312
Bank and other loans	6,643	–	171	6,814
Entrusted funds	–	–	9,145	9,145
Funds raised from investors of non- principle guaranteed wealth management products	–	7	–	7
Guarantees provided (note (3))	–	261	17,451	17,712
Guarantees received	–	2,716	5,813	8,529

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For the year ended 31 December 2016

48 Material related parties (continued)

(b) Related party transactions (continued)

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

	As at 31 December 2015			
	Parent company HK\$ million	Holding company's fellow entities HK\$ million	Associates and joint ventures HK\$ million	Total HK\$ million
Trade and other receivables	78	3,627	8,868	12,573
Loans and advances to customers and other parties (note (2))	–	8,814	3,187	12,001
Placements with banks and non-bank financial institutions	–	27	–	27
Cash and deposits	–	–	116	116
Derivative financial instruments and other assets	–	–	72	72
Trade and other payables	3,251	24,425	1,250	28,926
Deposits from customers	1,938	3,116	26,753	31,807
Deposits from bank and non-bank financial institutions	–	5	28,161	28,166
Derivative financial instruments and other liabilities	–	140	13	153
Bank and other loans	–	–	38	38
Entrusted funds	–	–	1,194	1,194
Funds raised from investors of non- principle guaranteed wealth management products	–	8	–	8
Guarantees provided (note (3))	–	146	15,323	15,469
Guarantees received	–	783	4,360	5,143

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 year ended 31 December 2016

48 Material related parties (continued)

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

In addition to these related party transactions disclosed in Note 48(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.

(d) Key management personnel remuneration

For the year ended 31 December 2016, the aggregate amount of the remuneration before tax paid to directors and executive officers of the Company amounted to HK\$8.84 million (2015: HK\$19.38 million).

49 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.

(b) Structured entities sponsored by third party institutions in which the Group holds an interest

The Group holds an interest in some structured entities sponsored by third party institutions 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 securities and investment funds and the Group does not consolidate these structured entities.

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For the year ended 31 December 2016

49 Structured entities (continued)

(b) Structured entities sponsored by third party institutions in which the Group holds an interest (continued)

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 sponsored by third party institutions, as well as an analysis of the line items in the balance sheet in which the relevant assets are recognised:

Carrying amount	As at 31 December 2016						
	Financial assets at fair value through profit or loss 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	-	-	12,336	512,448	524,784	-	524,784
Investment management products managed by non-bank financial institutions	-	-	1,077	509,064	510,141	-	510,141
Trust investment plans	-	-	2,757	141,203	143,960	-	143,960
Asset-backed securities	-	1,707	10,896	-	12,603	-	12,603
Investment funds	1,118	-	28,990	1,096	31,204	-	31,204
Total	1,118	1,707	56,056	1,163,811	1,222,692	-	1,222,692

Carrying amount	As at 31 December 2015						
	Financial assets at fair value through profit or loss 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	-	-	21,206	176,186	197,392	-	197,392
Investment management products managed by non-bank financial institutions	-	-	420	986,698	987,118	-	987,118
Trust investment plans	-	-	4,836	167,074	171,910	5,040	176,950
Asset-backed securities	-	6,333	6,150	-	12,483	-	12,483
Investment funds	3,227	-	2,133	-	5,360	-	5,360
Total	3,227	6,333	34,745	1,329,958	1,374,263	5,040	1,379,303

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

49 Structured entities (continued)

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

Wealth management products and trust plans

As at 31 December 2016, 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\$2,662,231 million (31 December 2015: HK\$1,977,449 million).

As at 31 December 2016, the carrying amounts of management fee receivables being recognised in the balance sheet were HK\$601 million (31 December 2015: HK\$650 million).

As at 31 December 2016, the amount of placements from the Group with non-principal-guaranteed wealth management products sponsored by the Group was HK\$69,312 million (31 December 2015: HK\$30,158 million).

The aggregate amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2016 but matured before 31 December 2016 was HK\$829,515 million (2015: HK\$721,217 million).

During the year ended 31 December 2016, the maximum exposure of the placements from the Group with non-principal guaranteed wealth management products sponsored by the Group was HK\$64,170 million (2015: HK\$43,776 million). In the opinion of management, the transactions were conducted in the ordinary course of business under normal terms and conditions and at market rates.

During the year ended 31 December 2016, the amount of fee and commission income recognised from the abovementioned structured entities sponsored by the Group was HK\$12,711 million (2015: HK\$11,355 million).

Securitisation transactions and loan transfers

For the year ended 31 December 2016, the Group entered into transactions which involved transfers of financial assets including securitisation transactions, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements. Details of the financial assets sold under repurchase agreements are set forth in Note 39. Details of securitisation and loan transfer transactions conducted by the Group for the year ended 31 December 2016 totalled HK\$133,175 million are set forth below.

During the year ended 31 December 2016, the Group entered into securitisation transactions backed by financial assets transferred with book value before impairment of HK\$54,952 million (2015: HK\$49,307 million), of which HK\$49,922 million (2015: HK\$46,432 million) were qualified for full de-recognition.

The balance of HK\$5,030 million (2015: HK\$2,874 million) was in respect of non-performing loans transferred and the Group concluded that it had continuing involvement in these assets as at 31 December 2016 based on the related criteria set forth in Note 2(i) and Note 3. As at 31 December 2016, the Group continued to recognise assets of HK\$771 million (31 December 2015: HK\$341 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 25).

During the year ended 31 December 2016, the Group also through other types of transactions transferred loans of book value before impairment of HK\$78,223 million (2015: HK\$56,200 million), of which HK\$60,396 million represented non-performing loans (2015: HK\$52,063 million). The Group carried out assessment based on the criteria as detailed in Note 2(i) and Note 3 and concluded that these transferred assets qualified for full de-recognition (Note 25(d)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

50 Discontinued operations

On 14 March 2016, the Company, CITIC Pacific and CITIC Corporation entered into an agreement with China Overseas to sell the Group's interest in certain residential real estate projects in the PRC to one of the affiliates of China Overseas. Completion of the transaction took place in September 2016.

In accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the results and cash flows of the above mentioned residential real estate projects have been included in the discontinued operations of the Group. Comparative figures for the year ended 31 December 2015 have been reclassified accordingly.

The aggregate results of the discontinued operations were as follows:

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Revenue	11,639	21,503
Expenses	(15,294)	(18,842)
(Loss)/profit before taxation	(3,655)	2,661
Income tax	(2,246)	(1,189)
(Loss)/profit arising from discontinued operations before disposal gain	(5,901)	1,472
Net gain on disposal	16,210	–
Profit for the year from discontinued operations	10,309	1,472
Attributable to:		
– Ordinary shareholders of the Company	10,337	1,311
– Non-controlling interests	(28)	161
	10,309	1,472

51 Supplementary information to the consolidated cash flow statement

(a) Cash and cash equivalents held by the Group are as follows:

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Cash	8,867	8,827
Bank deposits on demand	39,478	54,612
Surplus deposit reserve funds	65,795	75,983
Investments in debt securities due within three months	57,318	23,954
Deposits with banks and non-bank financial institutions due within three months	252,074	113,796
Placements with banks and non-bank financial institutions due within three months	70,606	76,939
Cash and cash equivalents in the consolidated cash flow statement	494,138	354,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

51 Supplementary information to the consolidated cash flow statement (continued)

(b) Disposal of subsidiaries

	For the year ended 31 December	
	2016	2015
	HK\$ million	HK\$ million
Total assets	147,240	10,546
Total liabilities	(126,116)	(6,687)
Non-controlling interests	(908)	(125)
Net assets disposed	20,216	3,734
Total consideration	(37,270)	(5,973)
Release of other comprehensive income relating to interests in disposed subsidiaries	(515)	–
Gains on disposal of subsidiaries		
– Continuing operations	(1,359)	(492)
– Discontinued operations	(16,210)	(1,747)
	(17,569)	(2,239)
Net cash (outflow)/inflow is determined as follows:		
Cash proceeds received	773	3,590
Less: cash and cash equivalents disposed	(13,152)	(664)
– Continuing operations	754	1,411
– Discontinued operations	(13,133)	1,515
	(12,379)	2,926

(C) In 2016, issuance of preference shares and other equity instruments by subsidiaries was mainly from CITIC Bank, a subsidiary of the Group, which issued RMB35 billion preference shares to qualified investors.

52 Major Transactions with non-controlling interests

Acquisition of additional interests in indirectly held subsidiaries

In January 2016, CITIC Corporation acquired an additional 11.63% interest in CITIC Real Estate for an aggregate purchase consideration of RMB3,028 million (approximately HK\$3,601 million). The Group recognised a decrease in non-controlling interests of HK\$1,589 million, and a decrease in equity attributable to shareholders of the Company of HK\$2,012 million.

For the year ended 31 December 2016, the Company through its subsidiaries increased its shareholding in CITIC Bank by acquiring approximately 1.79% equity interests, for an aggregate purchase consideration of HK\$4,176 million. The Group recognised a decrease in non-controlling interests of HK\$6,900 million, and an increase in equity attributable to shareholders of the Company of HK\$2,724 million.

The effect of changes in the ownership interests of CITIC Real Estate and CITIC Bank on the equity attributable to shareholders of the Company during the year is summarised as follows:

	For the year ended 31 December 2016 HK\$ million
Carrying amount of non-controlling interests acquired	8,489
Consideration paid to non-controlling interests	(7,777)
Purchase gains recognised within equity	712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

53 Balance sheet and reserve movement of the Company

	As at 31 December	
	2016	2015
	HK\$ million	HK\$ million
Non-current assets		
Fixed assets	7	6
Interests in subsidiaries	431,098	444,970
Interests in joint ventures	3,886	3,886
Available-for-sale financial assets	3,444	–
Derivative financial instruments	44	–
	438,479	448,862
Current assets		
Derivative financial instruments	4	–
Amounts due from subsidiaries	47,839	17,764
Trade and other receivables	251	20
Cash and deposits	4,897	10,869
	52,991	28,653
Total assets	491,470	477,515
Current liabilities		
Bank and other loans	2,058	2,438
Amounts due to subsidiaries and other related parties	23,023	23,500
Trade and other payables	1,425	1,417
Derivative financial instruments	44	117
Income tax payable	134	–
Debt instruments issued	–	1,193
	26,684	28,665
Non-current liabilities		
Long term borrowings	11,357	8,518
Debt instruments issued	54,832	35,520
Derivative financial instruments	1,090	1,368
	67,279	45,406
Total liabilities	93,963	74,071
Equity		
Share capital	381,710	381,710
Perpetual capital securities	7,873	13,836
Reserves	7,924	7,898
Total ordinary shareholders' funds and perpetual capital securities	397,507	403,444
Total liabilities and equity	491,470	477,515

The balance sheet of the Company was approved and authorised for issue by the board of directors on 23 March 2017.

Director: Chang Zhenming

Director: Wang Jiong

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For the year ended 31 December 2016

53 Balance sheet and reserve movement of the Company (continued)

(a) Reserve movement of the Company

	Share capital HK\$ million (Note 44(a))	Perpetual capital securities HK\$ million (Note 44(c))	Capital reserve HK\$ million (Note 44(d)(i))	Hedging reserve HK\$ million (Note 44(d)(ii))	Investment related reserves HK\$ million (Note 44(d)(iii))	Retained earnings HK\$ million	Total HK\$ million
At 1 January 2016	381,710	13,836	630	(1,278)	-	8,546	403,444
Cash flow hedges:							
- Fair value loss during the year	-	-	-	(28)	-	-	(28)
- Transfer to net finance charges	-	-	-	367	-	-	367
	-	-	-	339	-	-	339
Profit attributable to shareholders of the Company	-	790	-	-	-	8,552	9,342
Redemption of perpetual capital securities	-	(5,850)	-	-	-	-	(5,850)
Dividends paid to ordinary shareholders of the Company	-	-	-	-	-	(8,727)	(8,727)
Distributions to holders of perpetual capital securities	-	(903)	-	-	-	-	(903)
Available-for-sale financial assets: net movement in the fair value reserve	-	-	-	-	(138)	-	(138)
At 31 December 2016	381,710	7,873	630	(939)	(138)	8,371	397,507

	Share capital HK\$ million (Note 44(a))	Convertible preferred shares HK\$ million (Note 44(a))	Perpetual capital securities HK\$ million (Note 44(c))	Capital reserve HK\$ million (Note 44(d)(i))	Hedging reserve HK\$ million (Note 44(d)(ii))	Retained earnings HK\$ million	Total HK\$ million
At 1 January 2015	324,198	-	13,834	632	(1,572)	9,371	346,463
Cash flow hedges:							
- Fair value gain during the year	-	-	-	-	4	-	4
- Transfer to net finance charges	-	-	-	-	290	-	290
	-	-	-	-	294	-	294
Profit attributable to shareholders of the Company	-	-	1,135	-	-	7,063	8,198
Release upon lapse of share options	-	-	-	(2)	-	2	-
Issue of shares (Note 44(a))	11,986	45,923	-	-	-	-	57,909
Conversion of convertible preferred shares into ordinary shares (Note 44(a))	45,923	(45,923)	-	-	-	-	-
Dividends paid to ordinary shareholders of the Company	-	-	-	-	-	(7,890)	(7,890)
Distributions to holders of perpetual capital securities	-	-	(1,133)	-	-	-	(1,133)
Others	(397)	-	-	-	-	-	(397)
At 31 December 2015	381,710	-	13,836	630	(1,278)	8,546	403,444

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

54 Post balance sheet events

- (a) The Company, CITIC Capital China Partners III, L.P. (“CITIC Capital”) and Carlyle Asia Partners IV, L.P. (“Carlyle”) propose to acquire a controlling interest in McDonald’s Mainland China and Hong Kong businesses (the “Acquisition”) through Grand Foods Investment Holdings Limited (the “Purchaser”, being an indirect non-wholly-owned subsidiary of the Company).

On 9 January 2017, the Purchaser entered into a sale and purchase agreement with, among others, McDonald’s China Holdings Limited (“MCHL”) and Golden Arches Investments Limited (“GAIL” and together with MCHL, the “Sellers”, being subsidiaries of McDonald’s Corporation) for the acquisition of the entire issued share capital of McDonald’s China Management Limited (the “Target”), at a total consideration of up to US\$2,080 million (equivalent to approximately HK\$16,141 million). The consideration for the Acquisition will be settled partly by way of cash and partly by way of new shares in Grand Foods Holdings Limited, being the intermediate holding company of the Purchaser, to be issued to GAIL.

Upon closing of the Acquisition (“Closing”), the Target will be owned by Fast Food Holdings Limited (which is in turn indirectly owned as to approximately 61.54% and 38.46% by the Company and CITIC Capital respectively), Carlyle and GAIL as to 52%, 28% and 20%, respectively. The Target will become an indirect non-wholly-owned subsidiary of the Company. As Closing is subject to the fulfilment (or, if applicable, waiver) of certain conditions precedent, the Acquisition may or may not proceed.

- (b) On 27 December 2016, CITIC Corporation, a wholly-owned subsidiary of the Company, Beijing Guoan Football Club Co., Ltd. (“Guoan FC”), a wholly-owned subsidiary of CITIC Corporation, and SINOBO Land Co., Ltd. (“SINOBO Land”), an independent third party, entered into a capital increase agreement; and on the same day, CITIC Corporation and SINOBO Land entered into a shareholder agreement (the “Agreements”). Pursuant to the Agreements, the registered capital of Guoan FC will be increased by RMB133,333,335, which will be fully subscribed by SINOBO Land at the consideration of RMB3,555,555,600 (the “Capital Increase”). The Capital Increase was approved by Chinese Football Association on 24 January 2017. When all the conditions in the Agreements are met, CITIC Corporation and SINOBO Land will hold 36% and 64% equity interest in Guoan FC, respectively.
- (c) On 5 January 2017, CITIC Bank received approval from China Banking Regulatory Commission to establish China CITIC Baixin Bank Corporation Limited (“Baixin Bank”) with Fujian Baidu Borui Network Technology Company Limited. CITIC Bank will hold 1,400 million shares, representing 70% of the total shares of Baixin Bank.

55 Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 23 March 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

56 Possible impact of amendments, new standards and interpretations issued but not yet adopted

The Group has not applied the following amendments to standards and new standards which are effective for the financial year beginning after 1 January 2016 and which have not been early adopted in these consolidated financial statements.

HKAS 12 (Amendments)	Income taxes ⁽¹⁾
HKAS 7 (Amendments)	Statement of cash flows ⁽¹⁾
HKFRS 15	Revenue from contracts with customers ⁽²⁾
HKFRS 9	Financial instruments ⁽²⁾
HKFRS 16	Leases ⁽³⁾
HKAS 28 and HKFRS 10 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture ⁽⁴⁾

(1) Effective for the annual periods beginning on or after 1 January 2017.

(2) Effective for the annual periods beginning on or after 1 January 2018.

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

(4) Originally effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.

The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 9, Financial instruments

The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group is undertaking a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

The Group is undertaking a detailed assessment of the effect of HKFRS 9. HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

56 Possible impact of amendments, new standards and interpretations issued but not yet adopted (continued)

HKFRS 15, Revenue from contracts with customers

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has made an initial assessment on the impact of this new standard, and not believed it is expected to have a significant effect on the consolidated financial statements of the Group. The Group will make further detailed assessments on the impact in 2017.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

HKFRS 16, Leases

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments HK\$18,930 million (Note 46(g)). However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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57 Principal subsidiaries, associates and joint ventures

(a) Principal subsidiaries

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest		
				Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Corporation Limited 中國中信有限公司	Mainland China	Investment holding	N/A	100%	100%	0%
CITIC Pacific Limited 中信泰富有限公司	British Virgin Islands	Investment holding	46,881	100%	100%	0%
Jiangsu CP Xingcheng Special Steel Co., Ltd. 江蘇泰富興澄特殊鋼有限公司	Mainland China	Manufacturing	N/A	100%	0%	100%
Daye Special Steel Co., Ltd. 大冶特殊鋼股份有限公司	Mainland China	Manufacturing	449,408,480	58.13%	0%	58.13%
Dah Chong Hong Holdings Limited 大昌行集團有限公司	Hong Kong	Investment holding	1,832,133,000	56.07%	0%	56.07%
CITIC Mining International Ltd. 中信礦業國際有限公司	Cayman Islands	Resources and energy	1	100%	100%	0%
CITIC Telecom International Holdings Limited 中信國際電訊集團有限公司	Hong Kong	Telecom services	3,534,581,049	60.24%	0%	60.24%
China CITIC Bank Corporation Limited 中信銀行股份有限公司	Mainland China	Financial services	48,934,796,573	65.97%	0%	65.97%
CITIC International Financial Holdings Limited 中信國際金融控股有限公司	Hong Kong	Financial services	7,459,172,916	65.97%	0%	100%
CITIC Trust Co., Ltd. 中信信託有限責任公司	Mainland China	Financial services	N/A	100%	0%	100%
CITIC Finance Company Limited 中信財務有限公司	Mainland China	Financial services	N/A	100%	0%	100%
CITIC Metal Group Ltd. 中信金屬集團有限公司	Hong Kong	Resources and energy	11,800,000,000	100%	0%	100%
CITIC Resources Holdings Limited 中信資源控股有限公司	Bermuda	Resources and energy	7,857,727,149	59.50%	0%	59.50%
CITIC Australia Pty Limited 中信澳大利亞有限公司	Australia	Resources and energy	85,882,017	100%	0%	100%
CITIC Kazakhstan LLP 中信哈薩克斯坦有限公司	Kazakhstan	Resources and energy	N/A	100%	0%	100%
CITIC Heavy Industries Co., Ltd. 中信重工機械股份有限公司	Mainland China	Manufacturing	4,339,419,293	67.27%	0%	67.27%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

57 Principal subsidiaries, associates and joint ventures (continued)

(a) Principal subsidiaries (continued)

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest		
				Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Dicastal Co., Ltd. 中信戴卡股份有限公司	Mainland China	Manufacturing	1,377,962,404	100%	0%	100%
CITIC Construction Company Limited 中信建設有限責任公司	Mainland China	Engineering contracting	N/A	100%	0%	100%
CITIC Engineering Design and Construction Company Limited 中信工程設計建設有限公司	Mainland China	Engineering contracting	N/A	100%	0%	100%
CITIC Urban Development & Operation Co., Ltd. 中信城市開發運營有限責任公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Heye Investment Co., Ltd. 中信和業投資有限公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Capital Mansion Co., Ltd. 中信京城大廈有限責任公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Building Property Management Co., Ltd. 北京中信國際大廈物業管理有限公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Industrial Investment Group Corp., Ltd. 中信興業投資集團有限公司	Mainland China	Infrastructure	N/A	100%	0%	100%
CITIC Environment Investment Group Co., Limited 中信環境投資集團有限公司	Mainland China	Energy saving and environmental protection	N/A	100%	0%	100%
China Zhonghaizhi Corporation 中國中海直有限責任公司	Mainland China	General aviation	N/A	51.03%	0%	51.03%
CITIC Investment Holdings Limited 中信投資控股有限公司	Mainland China	Investment holding	N/A	100%	0%	100%
CITIC Asia Satellite Holding Company Limited 中信亞洲衛星控股有限公司	British Virgin Islands	Information industry	60,524,465	100%	0%	100%
CITIC Press Corporation 中信出版集團股份有限公司	Mainland China	Publishing	142,613,636	88%	0%	88%
CITIC Holdings Co., Ltd. 中信控股有限責任公司	Mainland China	Service	N/A	100%	0%	100%
CITIC Tourism Group Co., Ltd. 中信旅遊集團有限公司	Mainland China	Service	N/A	100%	0%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

57 Principal subsidiaries, associates and joint ventures (continued)

(b) Principal associates

Details of the Group's interest in principal associates, which are accounted for using the equity method in the consolidated financial statements of the Group are as follows:

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest		
				Attributable to the Group	Held by the Company	Held by subsidiaries
China Overseas Land & Investment Ltd. 中國海外發展有限公司	Hong Kong	Real estate	10,956,201,535	10%	0%	10%
CITIC Securities Co., Ltd. 中信證券股份有限公司	Mainland China	Securities related services	12,116,908,400	16.66%	0%	16.66%
MMG South America Management Co., Ltd.	Hong Kong	Resources and energy	1,200	15%	0%	15%

(c) Principal joint ventures

Details of the Group's interest in principal joint ventures, which are accounted for using the equity method in the consolidated financial statements of the Group are as follows:

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest		
				Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Prudential Life Insurance Co., Ltd. 信誠人壽保險有限公司	Mainland China	Insurance and reinsurance	N/A	50%	0%	50%
CSSC Complex Property Co., Ltd. 中船置業有限公司	Mainland China	Real estate	N/A	50%	50%	0%
山東新巨龍能源有限責任公司	Mainland China	Resources and energy	N/A	30%	0%	30%

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

INDEPENDENT AUDITOR'S REPORT
To the Members of CITIC Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of CITIC Limited (the "Company") and its subsidiaries (the "Group") set out on pages 158 to 302, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

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

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INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

- Impairment of loans and advances to customers and other parties and investments classified as receivables of China CITIC Bank Corporation Limited ("CITIC Bank")
- Consolidation of structured entities – non-principal guaranteed wealth management products of CITIC Bank
- De-recognition of financial assets of CITIC Bank
- Impairment of the Sino Iron Project

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of loans and advances to customers and other parties and investments classified as receivables of CITIC Bank</p>	
<p><i>Loans and advances to customers and other parties</i></p>	<p><i>Loans and advances to customers and other parties</i></p>
<p>Refer to Note 2(i), Note 3 and Note 25 to the consolidated financial statements.</p>	<p>We evaluated and tested the design and operating effectiveness of the relevant controls over the impairment assessments and impairment allowance computations for loans and advances to customers and other parties, including review and approval of results of credit reviews on impaired loans, the periodic revaluations of collateral, the estimation of future cash flows for impaired loans, and the collective impairment computations (including the selection and changes of models, data inputs and key assumptions and changes thereof used in the computations).</p>
<p>As at 31 December 2016, loans and advances to customers and other parties of CITIC Bank amounted to RMB2,874.3 billion (approximately HK\$3,213.3 billion), and the corresponding allowance for impairment losses was RMB75.5 billion (approximately HK\$84.4 billion).</p>	<p>We performed independent credit reviews of selected samples, considering the credit profiles of the related borrowers, guarantors and the collateral, as well as external evidence and factors, to ascertain whether management's identification of impaired loans was appropriate.</p>
<p>Allowance for impairment losses represented management's best estimates of losses incurred within loans and advances to customers and other parties as at the balance sheet date. The allowance was computed individually or on a collective basis, where appropriate.</p>	<p>For impaired loans identified individually, we examined, on a sample basis, data inputs to the discounted cash flow models, including the cash flow status of the borrowers and guarantors, latest collateral valuations, applicable haircut rates and disposal plans, in supporting the estimation of future cash flows and present value.</p>
<p>Corporate loans were initially assessed for impairment individually by management. If objective evidence of impairment was identified, management regularly assesses the amount and timing of the expected future cash flows from the loans to calculate the allowance for impairment losses, which was the difference between the carrying amount of the loans and the present value of their expected future cash flows.</p>	<p>For those loans and advances to customers and other parties which were assessed by management on a collective basis for impairment losses, we conducted independent testing on the appropriateness of the design and logic of the models employed by management. We tested the migration model for corporate loans and the roll rate models for personal loans, respectively, including completeness of the source data, appropriateness of the key assumptions, and mathematical accuracy of the calculations.</p>
<p>Non-impaired corporate loans and all personal loans were included in homogeneous groups with similar credit risk characteristics for performance of impairment assessments on a collective basis. Models were used for this purpose, considering the similarity of credit risks and applying key assumptions such as, historical loss experience, loss identification period for incurred but unidentified impairment losses, macro-economic factors, and special considerations for high risk products and geographical locations in the calculation methodology. Management assessed these key assumptions on a periodic basis, and made adjustments where deemed appropriate.</p>	<p>We discussed with management and scrutinised the appropriateness of those key assumptions applied in management's impairment assessment, and compared them with available external evidence where necessary. We also applied sensitivities to underlying key assumptions.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of loans and advances to customers and other parties and investments classified as receivables of CITIC Bank (Continued)</p> <p><i>Investments classified as receivables</i></p> <p>Refer to Note 2(i), Note 3 and Note 28 to the consolidated financial statements.</p> <p>As at 31 December 2016, investments classified as receivables ("Investments") of CITIC Bank amounted to RMB1,037.5 billion (approximately HK\$1,159.9 billion), and the corresponding allowance for impairment losses was RMB1.8 billion (approximately HK\$2 billion).</p> <p>Management focused on and assessed the Investments with credit-type underlying assets individually for impairment. Underlying assets not identified as impaired from the individual assessments were included in homogenous groups with similar credit risk characteristics, considering risk factors relating to different industries and different types of underlying assets, and were assessed for impairment on a collective basis.</p> <p>Identification and assessment of impairment of loans and advances to customers and other parties and Investments involved complex and significant judgements by management, and, as such, we focused on this area as a key audit matter.</p>	<p><i>Investments classified as receivables</i></p> <p>Loans and advances to customers and other parties and Investments relating to the same borrower were included in the integrated credit approval and management system of CITIC Bank so that management manages its credit risk exposure in a holistic manner.</p> <p>For Investments with credit-type underlying assets, the testing of relevant controls over impairment identification and assessments of these Investments was covered through our testing of internal controls over loans and advances to customers and other parties mentioned above.</p> <p>For Investments with credit-type underlying assets where the underlying assets related to borrowers who also had outstanding balances of loans and advances with CITIC Bank, we applied a consistent approach, to selection of samples and conducting credit reviews. For borrowers with no outstanding balances of loans and advances to customers and other parties with CITIC Bank, we separately selected samples and performed procedures on them to ascertain whether there was objective evidence of impairment for the underlying assets.</p> <p>Based on the procedures performed above, in the context of the inherent uncertainties associated with impairment assessments, the assessment approaches, methodologies and key assumptions adopted by management were considered acceptable.</p>

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

Consolidation of structured entities – non-principal guaranteed wealth management products of CITIC Bank

Refer to Note 2(e), Note 3 and Note 49 to the consolidated financial statements.

As at 31 December 2016, unconsolidated structured entities included non-principal guaranteed wealth management products ("WMPs") issued and managed by CITIC Bank.

Management's decision on whether or not to consolidate structured entities was based on an assessment of the power of CITIC Bank, its variable returns and the ability to exercise its power to influence the variable returns from these structured entities.

We focused on the consolidation assessment and judgement made by management involving the structures entities for non-principal guaranteed WMPs during our audit as whether or not to consolidate these entities involved significant judgement.

How our audit addressed the Key Audit Matter

We evaluated and tested the design and operating effectiveness of management's relevant controls over the consolidation of structured entities for non-principal guaranteed WMPs. These controls primarily included the review and approval of the contractual terms, the results in variable return calculations, and the consolidation assessment conclusions for these structured entities.

We selected samples of structured entities for non-principal guaranteed WMPs and performed the following tests:

- assessed the contractual rights and obligations of CITIC Bank in light of the transaction structures, and evaluated the power of CITIC Bank over the structured entities;
- performed independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities;
- assessed whether CITIC Bank acted as a principal or an agent through analysis of the scope of the decision-making authority of CITIC Bank, its remuneration entitlement, other interests CITIC Bank held, and the rights held by other parties.

Based on the procedures performed above, we found management's judgement relating to the consolidation of structured entities for non-principal guaranteed WMPs acceptable.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter

How our audit addressed the Key Audit Matter

De-recognition of financial assets of CITIC Bank

Refer to Note 2(i), Note 3 and Note 49 to the consolidated financial statements.

During the year ended 31 December 2016, CITIC Bank entered into transactions which involved transfers of financial assets including those through securitisation and loan transfers.

Management analysed the contractual rights and obligations of CITIC Bank in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, CITIC Bank assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met.

The de-recognition assessment relating to the transfer of financial assets involved significant judgement from management, and as such, we focused our audit on the de-recognition of these financial assets.

We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results.

We selected samples and read through transaction agreements to assess the contractual rights and obligations of CITIC Bank, and whether CITIC Bank transferred the rights to receive contractual cash flows from the financial assets, or the transfer qualified for the "pass through" of those cash flows, to independent third parties.

We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations.

For financial assets where CITIC Bank neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether CITIC Bank had relinquished its control over these financial assets, and if CITIC Bank had a continuing involvement in these transferred financial assets.

Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Impairment of the Sino Iron Project</p> <p>Refer to Note 3 and Note 8 to the consolidated financial statements.</p> <p>Construction of the Sino Iron Project ("the Project") was completed in the second quarter, with commercial production achieved from July 2016. In light of the reduction in long term iron ore price forecasts, an impairment assessment has been undertaken as at 31 December 2016.</p> <p>Management has assessed the recoverable amount of the Project using the Fair Value Less Cost of Disposal ("FVLCD") method as consistent with the approach taken previously. As a result, a total impairment charge of US\$1,302 million (approximately HK\$10,152 million) has been recognised in the consolidated income statement.</p> <p>In the impairment assessment, the most significant areas of judgement applied by management relate to:</p> <ul style="list-style-type: none">• The production profile of the Project (including production rates as the Project ramps up, ore grades and operating and capital expenditures);• Iron ore prices (inclusive of base price and premium on product grade);• The discount rate adopted in the valuation;• Foreign exchange rates, particularly between Australian and United States dollars. <p>As the impairment assessment involves significant assumptions and judgements, we regard this as a key audit matter.</p>	<p>In evaluating management's valuation of the Project we undertook the following procedures:</p> <ul style="list-style-type: none">• Evaluated the reasonableness of management's judgement in relation to non-current asset impairment indicators, cash flow forecasts and the adoption of the FVLCD model;• Assessed whether management had included all appropriate assets and liabilities in the cash generating unit with appropriate consideration of tax impact;• Compared assumptions adopted in cash flow forecasts on production, future capital and operating expenditure with approved Life of Mine Plans, operating budgets and, where applicable, actual performance outcomes achieved to date;• With the support of our valuation experts, benchmarked key market related assumptions included in the valuation model, being base price, foreign exchange rates and the discount rate, against external market data; assessed the forecast premium on product grade with actual premiums achieved to date; and validated the competence and objectivity of the third party experts utilised by management to develop these assumptions; and• Performed sensitivity analysis on the key assumptions. <p>Based on the above procedures, we found the assumptions and judgements applied by management to be reasonable and consistent with the audit evidence we obtained.</p>

Other Information

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Responsibilities of Directors and Audit and Risk Management Committee for the Consolidated Financial Statements

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

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

Audit and risk management committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Kin.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23 March 2017