CONTENTS OF FINANCIAL STATEMENTS AND NOTES

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 HK$ million	 2016 HK$ million (Restated)
Continuing operations			
Interest income		256,108	251,423
Interest expenses		(139,426)	(125,504)
Net interest income	5(a)	116,682	125,919
Fee and commission income		64,797	58,196
Fee and commission expenses		(5,617)	(3,618)
Net fee and commission income	5(b)	59,180	54,578
Sales of goods and services	5(c)	260,481	194,136
Other revenue	5(d)	14,193	7,029
		274,674	201,165
Total revenue		450,536	381,662
Cost of sales and services	6,10	(222,869)	(166,323)
Other net income	7	14,596	7,301
Impairment losses on	8		
– Loans and advances to customers and other parties		(58,167)	(53,603)
– Others		(20,758)	(19,985)
Other operating expenses	10	(83,981)	(76,942)
Net valuation gain on investment properties	32	58	615
Share of profits of associates, net of tax		7,564	2,323
Share of profits of joint ventures, net of tax		5,889	2,876
Profit before net finance charges and taxation		92,868	77,924
Finance income		1,412	1,575
Finance costs		(11,497)	(8,708)
Net finance charges	9	(10,085)	(7,133)
Profit before taxation	10	82,783	70,791
Income tax	11	(17,687)	(18,404)
Profit for the year from continuing operations		65,096	52,387
Discontinued operations			
Profit for the year from discontinued operations	50	–	10,309
Profit for the year		65,096	62,696

	Note	For the year ended 31 December 2017 HK$ million	2016 HK$ million (Restated)
Profit for the year		**65,096**	62,696
Attributable to:			
– Ordinary shareholders of the Company		**43,902**	43,146
– Holders of perpetual capital securities		**673**	790
– Non-controlling interests		**20,521**	18,760
Profit for the year		**65,096**	62,696
Profit attributable to ordinary shareholders of the Company arising from:			
– Continuing operations		**43,902**	32,809
– Discontinued operations		**–**	10,337
		43,902	43,146
Earnings per share for profit attributable to ordinary shareholders of the Company during the year (HK$):	15		
Basic earnings per share from:			
– Continuing operations		**1.51**	1.13
– Discontinued operations		**–**	0.35
		1.51	1.48
Diluted earnings per share from:			
– Continuing operations		**1.51**	1.13
– Discontinued operations		**–**	0.35
		1.51	1.48

The notes on pages 175 to 339 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 HK$ million	 2016 HK$ million (Restated)
Profit for the year		**65,096**	62,696
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		**(9,892)**	(8,930)
Cash flow hedge: net movement in the hedging reserve		**968**	1,155
Share of other comprehensive income/(loss) of associates and joint ventures		**1,373**	(1,132)
Exchange differences on translation of financial statements and others		**44,961**	(40,295)
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		**47**	28
Other comprehensive income/(loss) for the year, net of tax		**37,457**	(49,174)
Total comprehensive income for the year		**102,553**	13,522
Attributable to:			
– Ordinary shareholders of the Company		**70,453**	9,249
– Holders of perpetual capital securities		**673**	790
– Non-controlling interests		**31,427**	3,483
Total comprehensive income for the year		**102,553**	13,522
Total comprehensive income/(loss) attributable to ordinary shareholders of the Company arising from:			
– Continuing operations		**70,453**	(269)
– Discontinued operations		**–**	9,518
		70,453	9,249

The notes on pages 175 to 339 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2017

	Note	As at 31 December 2017 HK$ million	2016 HK$ million (Restated)
Assets			
Cash and deposits	18	924,584	927,382
Placements with banks and non-bank financial institutions	19	205,346	186,927
Financial assets at fair value through profit or loss	20	91,350	77,819
Derivative financial instruments	21	79,339	53,281
Trade and other receivables	22	149,204	139,166
Amounts due from customers for contract work		1,820	1,949
Inventories	23	58,552	49,000
Financial assets held under resale agreements	24	65,349	193,615
Loans and advances to customers and other parties	25	3,721,886	3,137,850
Available-for-sale financial assets	26	807,912	642,477
Held-to-maturity investments	27	261,654	244,151
Investments classified as receivables	28	644,789	1,166,325
Interests in associates	30	98,644	84,125
Interests in joint ventures	31	37,418	19,387
Fixed assets	32	196,047	173,326
Investment properties	32	33,073	31,539
Intangible assets	33	23,721	19,322
Goodwill	34	23,989	21,871
Deferred tax assets	35	48,585	34,802
Other assets		47,477	35,175
Total assets		7,520,739	7,239,489

Consolidated Balance Sheet

As at 31 December 2017

	Note	As at 31 December 2017 HK$ million	2016 HK$ million (Restated)
Liabilities			
Borrowing from central banks		**284,818**	205,755
Deposits from banks and non-bank financial institutions	36	**954,638**	1,097,164
Placements from banks and non-bank financial institutions	37	**90,131**	93,596
Derivative financial instruments	21	**80,075**	52,648
Trade and other payables	38	**226,110**	207,600
Amounts due to customers for contract work		**3,334**	2,892
Financial assets sold under repurchase agreements	39	**160,902**	134,534
Deposits from customers	40	**4,056,158**	4,031,519
Employee benefits payables		**20,429**	18,292
Income tax payable	35	**13,446**	10,002
Bank and other loans	41	**142,442**	113,125
Debt instruments issued	42	**653,371**	543,893
Provisions	43	**5,474**	3,668
Deferred tax liabilities	35	**9,438**	6,682
Other liabilities		**26,332**	21,446
Total liabilities		**6,727,098**	6,542,816
Equity	44		
Share capital		**381,710**	381,710
Perpetual capital securities		**7,873**	7,873
Reserves		**161,368**	101,419
Total ordinary shareholders' funds and perpetual capital securities		**550,951**	491,002
Non-controlling interests		**242,690**	205,671
Total equity		**793,641**	696,673
Total liabilities and equity		**7,520,739**	7,239,489

Approved and authorised for issue by the board of directors on 28 March 2018.

Director: **Chang Zhenming**

Director: **Wang Jiong**

The notes on pages 175 to 339 form part of these consolidated financial statements.

	Note	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))	General reserve HK$ million (Note 44(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 44(d)(v))	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2017 (Previously reported)		381,710	7,873	(62,209)	1,203	(2,445)	44,497	158,040	(38,036)	490,633	205,218	695,851
Business combination under common control	51(c)	–	–	299	–	–	–	94	(24)	369	453	822
Balance at 1 January 2017 (Restated)		381,710	7,873	(61,910)	1,203	(2,445)	44,497	158,134	(38,060)	491,002	205,671	696,673
Profit for the year		–	673	–	–	–	–	43,902	–	44,575	20,521	65,096
Other comprehensive income/(loss) for the year	16	–	–	–	714	(5,158)	–	–	30,995	26,551	10,906	37,457
Total comprehensive income/(loss) for the year		–	673	–	714	(5,158)	–	43,902	30,995	71,126	31,427	102,553
Capital injection by non-controlling interests		–	–	–	–	–	–	–	–	–	464	464
Issue of other equity instruments by subsidiaries		–	–	–	–	–	–	–	–	–	1,330	1,330
Transfer of profits to general reserve		–	–	–	–	–	591	(591)	–	–	–	–
Dividends paid to ordinary shareholders of the Company	14	–	–	–	–	–	–	(9,891)	–	(9,891)	–	(9,891)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(8,828)	(8,828)
Distribution to holders of perpetual capital securities		–	(673)	–	–	–	–	–	–	(673)	–	(673)
New subsidiaries	51(a)	–	–	–	–	–	–	–	–	–	3,793	3,793
Disposal of subsidiaries	52(b)	–	–	–	–	–	–	–	–	–	(132)	(132)
Transactions with non-controlling interests	53	–	–	269	–	–	–	–	–	269	8,727	8,996
Capital injection in business combination under common control	51(c)	–	–	(530)	–	–	–	–	–	(530)	530	–
Others		–	–	(352)	–	–	–	–	–	(352)	(292)	(644)
Other changes in equity		–	(673)	(613)	–	–	591	(10,482)	–	(11,177)	5,592	(5,585)
Balance at 31 December 2017		381,710	7,873	(62,523)	1,917	(7,603)	45,088	191,554	(7,065)	550,951	242,690	793,641

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	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))	General reserve HK$ million (Note 44(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 44(d)(v))	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2016												
(Previously reported)		381,710	13,836	(65,387)	294	4,306	37,013	131,132	(10,002)	492,902	170,267	663,169
Business combination under common control	51(c)	–	–	300	–	–	–	67	(3)	364	449	813
Balance at 1 January 2016 (Restated)		381,710	13,836	(65,087)	294	4,306	37,013	131,199	(10,005)	493,266	170,716	663,982
Profit for the year		–	790	–	–	–	–	43,146	–	43,936	18,760	62,696
Other comprehensive income/(loss)												
for the year	16	–	–	–	909	(6,751)	–	–	(28,055)	(33,897)	(15,277)	(49,174)
Total comprehensive income/(loss)												
for the year		–	790	–	909	(6,751)	–	43,146	(28,055)	10,039	3,483	13,522
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		–	–	–	–	–	–	–	–	–	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	52(b)	–	–	–	–	–	–	–	–	–	(908)	(908)
Termination of part of put options issued		–	–	2,229	–	–	–	–	–	2,229	–	2,229
Transaction with non-controlling interests		–	–	865	–	–	–	–	–	865	(8,418)	(7,553)
Others		–	–	83	–	–	–	–	–	83	(28)	55
Other changes in equity		–	(6,753)	3,177	–	–	7,484	(16,211)	–	(12,303)	31,472	19,169
Balance at 31 December 2016 (Restated)		381,710	7,873	(61,910)	1,203	(2,445)	44,497	158,134	(38,060)	491,002	205,671	696,673

The notes on pages 175 to 339 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 HK$ million	2016 HK$ million (Restated)
Cash flows from operating activities			
Profit before taxation from continuing operations		82,783	70,791
Adjustments for:			
– Depreciation and amortisation	10(b)	14,171	12,292
– Impairment losses	8	78,925	73,588
– Net valuation gain on investment properties	32	(58)	(615)
– Net valuation gain on investments		(3,746)	(299)
– Share of profits of associates and joint ventures, net of tax		(13,453)	(5,199)
– Interest expenses on debts instruments issued	5(a)	22,113	16,438
– Finance income	9	(1,412)	(1,575)
– Finance costs	9	11,497	8,708
– Net gain on available-for-sale financial assets		(5,127)	(3,113)
– Net gain on disposal of subsidiaries, associates and joint ventures		(9,011)	(2,237)
		176,682	168,779
Changes in working capital			
Decrease/(increase) in deposits with central banks, banks and non-bank financial institutions		8,201	(46,273)
Decrease/(increase) in placements with banks and non-bank financial institutions		12,561	(57,754)
Decrease/(increase) in financial assets at fair value through profit or loss		18,149	(42,130)
Increase in trade and other receivables		(11,368)	(18,459)
Decrease in amounts due from customers for contract work		129	285
Increase in inventories		(9,775)	(12,784)
Decrease/(increase) in financial assets held under resale agreements		136,684	(40,458)
Increase in loans and advances to customers and other parties		(422,202)	(424,989)
Decrease in investments classified as receivables		581,091	83,565
Increase in other assets		(38,751)	(13,817)
Decrease in deposits from banks and non-bank financial institutions		(210,828)	(101,989)
(Decrease)/increase in placements from banks and non-bank financial institutions		(7,788)	39,480
Increase in trade and other payables		21,709	16,915
Increase/(decrease) in amounts due to customers for contract work		442	(4,332)
Increase in financial assets sold under repurchase agreements		16,326	57,525
(Decrease)/increase in deposits from customers		(231,665)	520,610
Increase in borrowing from central banks		62,290	171,446
Increase/(decrease) in other liabilities		22,269	(3,024)
Increase in employee benefits payables		2,137	127
Increase in provisions		1,806	101
Cash generated from operating activities of continuing operations		128,099	292,824
Income tax paid		(20,966)	(17,816)
Net cash generated from operating activities of continuing operations		107,133	275,008
Net cash generated from operating activities of discontinued operations		–	5,656
Net cash generated from operating activities		107,133	280,664

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	For the year ended 31 December 2017 HK$ million	2016 HK$ million (Restated)
Cash flows from investing activities			
Proceeds from disposal and redemption of financial investments		1,214,792	681,316
Proceeds from disposal of fixed assets, intangible assets and other assets		1,281	805
Proceeds from disposal of associates and joint ventures		1,991	3,848
Net cash received from disposal of subsidiaries	52(b)	864	754
Dividends received from equity investments, associates and joint ventures		4,277	4,217
Payments for purchase of financial investments		(1,374,211)	(855,491)
Payments for additions of fixed assets, intangible assets and other assets		(21,723)	(21,842)
Net cash payment for acquisition of subsidiaries, associates and joint ventures		(13,872)	(10,163)
Net cash used in investing activities of continuing operations		(186,601)	(196,556)
Net cash used in investing activities of discontinued operations		–	(14,887)
Net cash used in investing activities		(186,601)	(211,443)
Cash flows from financing activities			
Capital injection received from non-controlling interests		420	686
Transaction with non-controlling interests	53	9,020	(7,553)
Proceeds from new bank and other loans	52(c)	104,354	96,731
Repayment of bank and other loans and debt instruments issued	52(c)	(1,024,877)	(707,062)
Proceeds from new debt instruments issued	52(c)	1,013,629	727,321
Proceeds from preference shares and other equity instruments issued		1,330	46,131
Interest paid on bank and other loans and debt instruments issued	52(c)	(31,797)	(28,937)
Dividends paid to non-controlling interests		(8,165)	(6,238)
Dividends paid to ordinary shareholders of the Company	14	(9,891)	(8,727)
Redemption of perpetual capital securities		–	(5,850)
Distribution paid to holders of perpetual capital securities		(673)	(903)
Net cash generated from financing activities of continuing operations		53,350	105,599
Net cash used in financing activities of discontinued operations		–	(11,803)
Net cash generated from financing activities		53,350	93,796
Net (decrease)/increase in cash and cash equivalents		(26,118)	163,017
Cash and cash equivalents at 1 January		494,179	354,171
Effect of exchange changes		23,302	(23,009)
Cash and cash equivalents at 31 December	52(a)	491,363	494,179

The notes on pages 175 to 339 form part of these consolidated financial statements.

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 2017, the equity interests held by CITIC Group in the Company through its overseas wholly-owned subsidiaries was 58.13% (31 December 2016: 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. None of these had a significant effect on the consolidated financial statements of the Group.

(i) Amendments to HKAS 7, Statement of cash flows

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

(ii) Amendments to HKAS 12, Income taxes

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

(iii) Amendment to HKFRS 12, Disclosure of interest in other entities

The amendment is part of the annual improvements to HKFRSs 2014-2016 cycle. It clarifies that the disclosure requirement of HKFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of HKFRS 12). Previously, it was unclear whether all other HKFRS 12 requirements were applicable for these interests.

2 Significant accounting policies (continued)

(b) Functional currency and presentation currency

The functional currency of the Company is Hong Kong dollars ("HK$"). The functional currencies of subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into HK$ 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$.

(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.

2 Significant accounting policies (continued)

(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.

(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.

2 Significant accounting policies (continued)

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

(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.

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.

2 Significant accounting policies (continued)

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

(iii) Consolidated financial statements (continued)

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)).

(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.

2 Significant accounting policies (continued)

(f) Associates and joint ventures (continued)

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)).

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.

2 Significant accounting policies (continued)

(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.

(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.

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(ii) Categorisation (continued)

Financial assets at fair value through profit or loss (Continued)

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 financial assets.

Loans and receivables mainly comprise loans and advances to customers 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.

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.

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(ii) Categorisation (continued)

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 or 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.

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.

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(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.

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(iv) De-recognition (continued)

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.

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 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 the unconsolidated securitisation vehicles that the Group acquired. 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, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

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.

2 Significant accounting policies (continued)

(i) Financial instruments (continued)

(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.

(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.

2 Significant accounting policies (continued)

(j) Hedging (continued)

(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.

(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.

2 Significant accounting policies (continued)

(j) Hedging (continued)

(iii) Hedge effectiveness testing (continued)

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.

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 – 50 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).

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
– Franchise right	Over the estimated useful lives of 20 years

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.

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".

2 Significant accounting policies (continued)

(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)).

(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.

2 Significant accounting policies (continued)

(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.

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.

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.

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.

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 reversable.

(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.

2 Significant accounting policies (continued)

(u) Employee benefits (continued)

(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") 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.

(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.

2 Significant accounting policies (continued)

(v) Financial guarantees issued, provisions and contingent liabilities (continued)

(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.

(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.

2 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(i) Interest income (continued)

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.

2 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(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.

(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.

2 Significant accounting policies (continued)

(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.

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.

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.

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.

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)

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 over-capacity 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.

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 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.

3 Critical accounting estimates and judgements (continued)

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

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.

(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.

3 Critical accounting estimates and judgements (continued)

(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.

(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.

3 Critical accounting estimates and judgements (continued)

(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.

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.

3 Critical accounting estimates and judgements (continued)

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

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 2017.

(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) (together referred to as the "CITIC Parties") commenced a legal proceeding in the Supreme Court of Western Australia. On 30 September 2015, the Court made the declarations sought by the Company, including that the Company had not repudiated the Option Agreement as initially asserted by Mineralogy and Mr. Palmer.

3 Critical accounting estimates and judgements (continued)

(l) Mineralogy Pty Ltd ("Mineralogy") disputes (continued)

Option Agreement Dispute (continued)

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

On 26 February 2018, Justice Kenneth Martin granted leave for Cape Preston Resource Holdings Pty Ltd, a subsidiary of the Company, to be added as a plaintiff to the proceeding and for the writ to be amended for that purpose. Justice Kenneth Martin also made, inter alia, orders for the programming of any strike out application by the plaintiffs in respect of the defendants' defence and any counterclaim.

No trial date has been set for this proceeding.

Royalty Component B Dispute

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

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

3 Critical accounting estimates and judgements (continued)

(l) Mineralogy Pty Ltd ("Mineralogy") disputes (continued)

Royalty Component B Dispute (continued)

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

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

(i) against each of Sino Iron and Korean Steel in the amount of US$82,409,227.91 (including US$7,702,492.91 interest); and

(ii) against the Company in the amount of US$153,859,032.00 (including US$4,445,562.00 interest), pursuant to the guarantee in the Fortescue Coordination Deed ("FCD").

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

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

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

The CITIC Parties have appealed the consolidation orders and final orders made by Justice Kenneth Martin on 18 December 2017. No date has been set for the hearing of the appeal.

3 Critical accounting estimates and judgements (continued)

(l) Mineralogy Pty Ltd ("Mineralogy") disputes (continued)

FCD Indemnity Disputes

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

(i) Queensland Nickel FCD Indemnity Claim

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

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

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

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

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

No trial date has been set for this proceeding.

3 Critical accounting estimates and judgements (continued)

(l) Mineralogy Pty Ltd ("Mineralogy") disputes (continued)

FCD Indemnity Disputes (continued)

(ii) Palmer Petroleum FCD Indemnity Claim

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

(1) from December 2009, funding; and

(2) in or about 2013, all future working capital,

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

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

This proceeding is still in its early stages. On 26 February 2018, Justice Kenneth Martin suspended the obligations of the CITIC Parties under the Court Rules to file any defence and counterclaim, to bring a strikeout application or to apply for summary judgement pending further orders or directions in this proceeding.

(iii) Other Threatened FCD Indemnity Claims

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

3 Critical accounting estimates and judgements (continued)

(l) Mineralogy Pty Ltd ("Mineralogy") disputes (continued)

Minimum Production Royalty Dispute

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

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

Mineralogy has applied to join Mr. Palmer (as a plaintiff) and the Company (as a defendant) to this proceeding. Mineralogy has also indicated to the CITIC Parties that Mineralogy proposes to plead the following additional claims in an amended statement of claim:

(i) that Mineralogy is entitled to recover loss suffered as a result of the CITIC Parties' unconscionable conduct, under section 21 of the Australian Consumer Law; and

(ii) that Mr. Palmer is entitled to recover loss suffered in relation to the CITIC Parties' failure to pay the minimum production royalty, pursuant to the indemnity in the FCD.

A hearing date has been set for 26 June 2018 for CITIC Parties' application that the proceeding be permanently stayed or dismissed, or the statement of claim be struck out, and Mineralogy's application to join Mr. Palmer (as a plaintiff) and the Company (as a defendant).

No trial date has been set for this proceeding.

3 Critical accounting estimates and judgements (continued)

(l) Mineralogy Pty Ltd ("Mineralogy") disputes (continued)

Port Dispute

Sino Iron and Korean Steel, through their agent CITIC Pacific Mining Management Pty Ltd, have developed port infrastructure at the Port of Cape Preston to be used to export product from the Sino Iron Project. In 2013, Mineralogy commenced a proceeding in the Federal Court of Australia seeking declarations that the port terminal facilities had vested in it, that it was 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 Federal Court refused to grant any of the relief sought by Mineralogy.

Mineralogy appealed the decision at first instance. The Full Court of the Federal Court of Australia dismissed the appeal on all grounds raised by Mineralogy. The Full Court found that Sino Iron and Korean Steel, and not Mineralogy, were solely responsible for the operation and maintenance of the port terminal facilities.

Mineralogy applied for special leave to appeal the decision of the Full Court to the High Court of Australia. On 15 September 2017, the High Court refused Mineralogy's application for special leave to appeal. A decision to refuse special leave is final and cannot be appealed. Accordingly, this proceeding is now at an end, save for the recovery by the CITIC Parties of their costs.

4 Taxation

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the year ended 31 December 2017 is 16.5% (2016: 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 2017 is 25% (2016: 25%).

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

5 Revenue

As a multi-industry conglomerate, the Group is principally 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.

5 Revenue (continued)

(a) Net interest income

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Interest income arising from:		
Deposits with central banks, banks and non-bank financial institutions	12,589	11,179
Placements with banks and non-bank financial institutions	7,173	4,363
Financial assets held under resale agreements	1,391	1,078
Investments classified as receivables	41,484	54,275
Loans and advances to customers and other parties	163,317	155,248
Investments in debt securities	30,034	25,274
Others	120	6
	256,108	251,423
Interest expenses arising from:		
Borrowing from central banks	(7,088)	(3,143)
Deposits from banks and non-bank financial institutions	(42,534)	(38,172)
Placements from banks and non-bank financial institutions	(3,478)	(1,721)
Financial assets sold under repurchase agreements	(3,103)	(1,007)
Deposits from customers	(60,936)	(64,577)
Debt instruments issued	(22,113)	(16,438)
Others	(174)	(446)
	(139,426)	(125,504)
Net interest income	116,682	125,919

(b) Net fee and commission income

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
Consultancy and advisory fees	4,904	6,821
Bank card fees	35,107	22,561
Settlement and clearing fees	1,400	1,633
Commission for wealth management services	6,382	8,323
Agency fees and commission	5,094	7,197
Guarantee fees	2,422	2,790
Trustee commission and fees	8,980	7,997
Others	508	874
	64,797	58,196
Fee and commission expenses	(5,617)	(3,618)
Net fee and commission income	59,180	54,578

5 Revenue (continued)

(c) Sales of goods and services

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million (Restated)
Sales of goods	**217,333**	157,372
Services rendered to customers	**26,382**	26,895
Revenue from construction contracts	**16,766**	9,869
	260,481	194,136

(d) Other revenue

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million
Net trading gain (note (i))	**7,580**	4,153
Net gain on investment assets under financial services segment	**3,580**	2,022
Others	**3,033**	854
	14,193	7,029

(i) Net trading gain

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million
Trading profit:		
– debt securities and certificates of deposits	**3,187**	1,358
– foreign currencies	**1,932**	2,705
– derivatives	**2,461**	90
	7,580	4,153

6 Costs of sales and services

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million (Restated)
Costs of goods sold	**191,752**	139,840
Costs of services rendered	**17,402**	18,172
Costs of construction contracts	**13,715**	8,311
	222,869	166,323

7 Other net income

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million (Restated)
Net gain on disposal/deemed disposal of subsidiaries, associates and joint ventures	**9,005**	2,483
Net gain on financial assets under non-financial services segment	**3,523**	1,889
Net foreign exchange gain and others	**2,068**	2,929
	14,596	7,301

8 Impairment losses

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million (Restated)
Impairment losses (reversed from)/charged on:		
– deposits and placements with banks and non-bank financial institutions	**(37)**	40
– trade and other receivables	**7,499**	6,706
– amounts due from customers for contract work	**(923)**	(795)
– inventories	**16**	585
– loans and advances to customers and other parties (Note 25(d))	**58,167**	53,603
– available-for-sale financial assets	**895**	416
– held-to-maturity investments	**(2)**	2
– investments classified as receivables	**1,520**	1,068
– interests in associates	**166**	2
– interests in joint ventures	**(54)**	11
– fixed assets (note)	**10,683**	10,255
– intangible assets (note)	**254**	742
– others	**741**	953
	78,925	73,588

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. For the purposes of testing for impairment, the carrying amount of the Sino Iron Project is compared with its recoverable amount. Impairment is recognised when the carrying amount of the project exceeds its recoverable amount. The Group has identified indicators of impairment at 31 December 2017, including forecast discounted cash flows being lower than the carrying value.

In the model a discount rate of 10.3% 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 2018 to 2020 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 2017 resulted in a total impairment charge of US$921 million (approximately HK$7,184 million) (2016: US$1,302 million (approximately HK$10,152 million)) being recognised in the consolidated income statement, reflecting changes in the key assumptions mentioned above. The impairment charge was allocated as follows:

- Property, plant & equipment US$891 million (approximately HK$6,950 million) (2016: US$1,208 million (approximately HK$9,417 million))
- Intangible assets US$30 million (approximately HK$234 million) (2016: US$94 million (approximately HK$735 million))

Also included in property, plant & equipment was a write-off of US$61 million (approximately HK$476 million) (2016: Nil).

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	
	2017 **HK$ million**	2016 HK$ million (Restated)
Finance costs		
– Interest on bank loans and other loans	**5,125**	3,504
– Interest on debt instruments issued and other interest expenses	**6,316**	5,718
	11,441	9,222
Less: interest expense capitalised*	**(361)**	(576)
	11,080	8,646
Other finance charges	**417**	62
	11,497	8,708
Finance income	**(1,412)**	(1,575)
	10,085	7,133

* Capitalisation rates applied to funds borrowed are 1.29% – 5.70% per annum for the year ended 31 December 2017 (2016: capitalisation rate of 1.30% – 5.70%).

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	
	2017 HK$ million	2016 HK$ million (Restated)
Salaries and bonuses	40,572	34,038
Contributions to defined contribution retirement schemes	4,322	4,326
Others	7,622	7,773
	52,516	46,137

(b) Other items

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Amortisation	2,407	2,691
Depreciation	11,764	9,601
Operating lease charges: minimum lease payments	6,453	5,424
Tax and surcharges	2,368	5,948
Property management fees	1,421	1,290
Non-operating expenses	949	1,366
Professional fees (other than auditors' remuneration)	981	997
Auditors' remuneration		
– Audit services	162	156
– Non-audit services	52	56
	26,557	27,529

11 Income tax expense

(a) Income tax expense in the income statement

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Current tax – Mainland China		
Provision for enterprise income tax	**23,475**	22,345
Land appreciation tax	**48**	328
	23,523	22,673
Current tax – Hong Kong		
Provision for Hong Kong profits tax	**2,075**	1,524
Current tax – Overseas		
Provision for the year	**367**	310
	25,965	24,507
Deferred tax		
Origination and reversal of temporary differences	**(8,278)**	(6,103)
	17,687	18,404

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	
	2017 HK$ million	2016 HK$ million (Restated)
Profit before taxation	**82,783**	70,791
Less: Share of profits of		
– associates	**(7,564)**	(2,323)
– joint ventures	**(5,889)**	(2,876)
	69,330	65,592
Notional tax on profit before taxation calculated at statutory tax rate of 16.5%	**11,439**	10,823
Effect of different tax rates in other jurisdictions	**5,608**	4,483
Tax effect of unused tax losses not recognised	**3,140**	400
Tax effect of non-deductible expenses	**2,358**	3,054
Tax effect of non-taxable income	**(5,056)**	(1,688)
Others	**198**	1,332
Actual tax expense	**17,687**	18,404

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 2017 are set out as follows:

	For the year ended 31 December 2017									
	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	
	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	Total HK$ million
Name of Current Directors										
Executive Directors:										
Chang Zhenming [i]	–	0.34	0.24	–	0.02	0.13	0.09	–	–	0.82
Wang Jiong [i]	–	0.34	0.24	–	0.02	0.12	0.08	–	–	0.80
Li Qingping [i]	–	0.30	0.22	–	0.02	0.13	0.08	–	–	0.75
Pu Jian [i]	–	0.30	0.22	–	0.02	0.13	0.08	–	–	0.75
Non-executive Directors:										
Liu Yeqiao	–	–	–	–	–	–	–	–	–	–
Song Kangle	–	–	–	–	–	–	–	–	–	–
Yan Shuqin	–	–	–	–	–	–	–	–	–	–
Liu Zhuyu [ii]	–	–	–	–	–	–	–	–	–	–
Liu Zhongyuan	–	–	–	–	–	–	–	–	–	–
Yang Xiaoping	0.38	–	–	–	–	–	–	0.15	–	0.53
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	–	–	–	–	–	–	0.25	–	0.63
Lee Boo Jin	0.38	–	–	–	–	–	–	0.05	–	0.43
Noriharu Fujita	0.38	–	–	–	–	–	–	–	–	0.38
Paul Chow Man Yiu	0.38	–	–	–	–	–	–	0.05	–	0.43
Name of Former Directors										
Yang Jinming [ii]	–	–	–	–	–	–	–	–	–	–
	2.66	1.28	0.92	–	0.08	0.51	0.33	1.13	–	6.91

12 Benefits and interests of directors (continued)

(a) Directors' emoluments (continued)

Notes:

(i) The emoluments for the year ended 31 December 2017 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. Besides the emoluments mentioned above, the Company's Remuneration Committee agrees the executive directors are entitled to allowances for working overseas and cross-border commuting: HK$0.375 million for Mr. Chang Zhenming, HK$0.375 million for Mr. Wang Jiong, HK$0.338 million for Ms. Li Qingping, and HK$0.338 million for Mr. Pu Jian.

(ii) Changes in directors during the year ended 31 December 2017:

(1) Mr. Yang Jinming resigned from the position as non-executive director in June 2017.

(2) Mr. Liu Zhuyu was appointed as non-executive director in August 2017.

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 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									
	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	Total HK$ million
Name of Current Directors										
Executive Directors:										
Chang Zhenming [i]	–	0.35	0.38	–	0.03	0.13	0.11	–	–	1.00
Wang Jiong [i]	–	0.35	0.37	–	0.01	0.12	0.10	–	–	0.95
Li Qingping [i]	–	0.31	0.33	–	0.01	0.13	0.10	–	–	0.88
Pu Jian [i]	–	0.31	0.33	–	0.01	0.13	0.10	–	–	0.88
Non-executive Directors:										
Yang Jinming	–	–	–	–	–	–	–	–	–	–
Liu Yeqiao	–	–	–	–	–	–	–	–	–	–
Song Kangle [ii, iii]	–	–	–	–	–	–	–	–	–	–
Yan Shuqin [ii, 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 [ii, iii]	0.30	–	–	–	–	–	–	0.01	–	0.31
Name of Former Directors										
Yu Zhensheng [ii, iii]	–	–	–	–	–	–	–	–	–	–
Cao Pu [ii, iii]	–	–	–	–	–	–	–	–	–	–
Li Rucheng [ii, iii]	0.29	–	–	–	–	–	–	–	–	0.29
	2.87	1.32	1.41	–	0.06	0.51	0.41	0.85	–	7.43

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 were finalised in accordance with the regulations of the relevant local authorities. Besides the emoluments mentioned above, the Company's Remuneration Committee agrees the executive directors are entitled to allowances for working overseas and cross-border commuting: HK$0.375 million for Mr. Chang Zhenming, HK$0.375 million for Mr. Wang Jiong, HK$0.338 million for Ms. Li Qingping, and HK$0.338 million for Mr. Pu Jian.

(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.

(b) Other benefits and interests

For the year ended 31 December 2017, 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 (2016: None). No consideration was provided to or receivable by third parties for making available directors' services (2016: None). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: 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 2017 (2016: None).

13 Individuals with highest emoluments

For the year ended 31 December 2017, none of the five highest paid individuals are directors (2016: None) whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of these five individuals (2016: five) are as follows:

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
Salaries and other emoluments	**30.40**	26.29
Discretionary bonuses	**30.92**	33.24
Equity settled share based payment expenses	**2.34**	–
Retirement scheme contributions	**1.49**	1.63
	65.15	61.16

The emoluments of the five individuals (2016: five) with the highest emoluments are within the following bands:

	For the year ended 31 December	
	2017 Number of individuals	2016 Number of individuals
HK$11,000,001 to HK$12,000,000	**1**	3
HK$12,000,001 to HK$13,000,000	**2**	1
HK$13,000,001 to HK$14,000,000	**1**	1
HK$14,000,001 to HK$15,000,000	**1**	–
	5	5

14 Dividends

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
2016 Final dividend paid: HK$0.23 (2015: HK$0.20) per share	**6,691**	5,818
2017 Interim dividend paid: HK$0.11 (2016: HK$0.10) per share	**3,200**	2,909
2017 Final dividend proposed: HK$0.25 (2016: HK$0.23) per share	**7,273**	6,691

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$43,902 million for the year ended 31 December 2017 (2016: HK$43,146 million), calculated as follows:

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Profit attributable to ordinary shareholders of the Company arising from:		
– Continuing operations	**43,902**	32,809
– Discontinued operations	**–**	10,337
	43,902	43,146
Weighted average number of ordinary shares (in million)	**29,090**	29,090

Diluted earnings per share for the year ended 31 December 2017 and 2016 are same with basic earnings per share. As at 31 December 2017, 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 2017 (31 December 2016: Nil).

16 Other comprehensive income/(loss)

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

	For the year ended 31 December					
	2017			2016		
	Before tax amount HK$ million	Tax benefit/ (expense) HK$ million	Net-of-tax amount HK$ million	Before tax amount HK$ million (Restated)	Tax benefit/ (expense) HK$ million (Restated)	Net-of-tax amount HK$ million (Restated)
Available-for-sale financial assets: net movement in the fair value reserve	(13,207)	3,315	(9,892)	(11,472)	2,542	(8,930)
Cash flow hedge: net movement in the hedging reserve	1,231	(263)	968	1,509	(354)	1,155
Share of other comprehensive income/ (loss) of associates and joint ventures	1,373	–	1,373	(1,132)	–	(1,132)
Exchange differences on translation of financial statements and others	44,961	–	44,961	(40,295)	–	(40,295)
Reclassification of owner-occupied property as investment property: revaluation gain	63	(16)	47	37	(9)	28
	34,421	3,036	37,457	(51,353)	2,179	(49,174)

16 Other comprehensive income/(loss) (continued)

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

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million
		(Restated)
Fair value losses of available-for-sale financial assets	**(12,857)**	(9,217)
Less: Net amounts previously recognised in other comprehensive income transferred to profit or loss in the current year	**(350)**	(2,255)
Tax effect	**3,315**	2,542
	(9,892)	(8,930)
Gains arising from cash flow hedge	**1,276**	1,388
Less: Net amounts previously recognised in other comprehensive (income)/loss transferred to profit or loss in the current year	**(45)**	121
Tax effect	**(263)**	(354)
	968	1,155
Share of other comprehensive income/(loss) of associates and joint ventures	**1,373**	(1,132)
Exchange differences on translation of financial statements and others	**44,961**	(40,295)
Reclassification of owner-occupied property as investment property: revaluation gain	**63**	37
Less: Tax effect	**(16)**	(9)
	47	28
	37,457	(49,174)

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.

(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.

17 Segment reporting (continued)

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

Information regarding the Group's reportable segments as provided to the board of directors for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	For the year ended 31 December 2017								
	Financial services HK$ million	Resources and energy HK$ million	Manufacturing HK$ million	Engineering contracting HK$ million	Real estate HK$ million	Others HK$ million	Operation management HK$ million	Elimination HK$ million	Total HK$ million
Continuing operations									
Revenue from external customers	190,028	63,456	97,432	14,653	3,227	81,673	67	–	450,536
Inter-segment revenue	(266)	3,215	268	476	134	1,221	–	(5,048)	–
Reportable segment revenue	189,762	66,671	97,700	15,129	3,361	82,894	67	(5,048)	450,536
Share of profits of associates, net of tax	2,352	1,275	25	12	3,836	57	7	–	7,564
Share of profits/(losses) of joint ventures, net of tax	415	1,698	(9)	–	3,181	604	–	–	5,889
Finance income (Note 9)	–	285	408	215	534	151	948	(1,129)	1,412
Finance costs (Note 9)	–	(2,033)	(1,311)	(113)	(512)	(1,758)	(6,799)	1,029	(11,497)
Depreciation and amortisation (Note 10(b))	(3,262)	(3,225)	(4,153)	(152)	(233)	(3,090)	(56)	–	(14,171)
Impairment losses (Note 8)	(65,889)	(8,402)	(2,025)	(872)	(344)	(1,393)	–	–	(78,925)
Profit/(loss) before taxation	69,464	(8,879)	3,942	2,002	9,034	12,892	(5,732)	60	82,783
Income tax	(11,885)	(605)	(418)	(273)	(1,093)	(1,847)	(1,554)	(12)	(17,687)
Profit/(loss) for the year from continuing operations	57,579	(9,484)	3,524	1,729	7,941	11,045	(7,286)	48	65,096
Profit for the year from discontinued operations	–	–	–	–	–	–	–	–	–
Profit/(loss) for the year	57,579	(9,484)	3,524	1,729	7,941	11,045	(7,286)	48	65,096
Attributable to:									
– Ordinary shareholders of the Company	39,506	(9,900)	3,318	1,731	7,660	9,455	(7,908)	40	43,902
Continuing operations	39,506	(9,900)	3,318	1,731	7,660	9,455	(7,908)	40	43,902
Discontinued operations	–	–	–	–	–	–	–	–	–
– Non-controlling interests and holders of perpetual capital securities	18,073	416	206	(2)	281	1,590	622	8	21,194
Continuing operations	18,073	416	206	(2)	281	1,590	622	8	21,194
Discontinued operations	–	–	–	–	–	–	–	–	–

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

17 Segment reporting (continued)

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

	For the year ended 31 December 2016 (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	187,534	51,097	62,350	11,023	4,900	64,723	35	–	381,662
Inter-segment revenue	(320)	3,527	271	315	111	1,039	6	(4,949)	–
Reportable segment revenue	187,214	54,624	62,621	11,338	5,011	65,762	41	(4,949)	381,662
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)	–	422	225	248	375	132	2,521	(2,348)	1,575
Finance costs (Note 9)	–	(2,110)	(716)	(95)	(335)	(1,476)	(6,425)	2,449	(8,708)
Depreciation and amortisation (Note 10(b))	(3,187)	(2,342)	(3,547)	(157)	(250)	(2,755)	(54)	–	(12,292)
Impairment losses (Note 8)	(61,845)	(10,536)	(831)	775	(556)	(595)	–	–	(73,588)
Profit/(loss) before taxation	71,691	(9,175)	2,343	1,969	3,676	4,947	(4,249)	(411)	70,791
Income tax	(16,193)	2,710	(1,033)	(296)	(1,412)	(1,729)	(449)	(2)	(18,404)
Profit/(loss) for the year from continuing operations	55,498	(6,465)	1,310	1,673	2,264	3,218	(4,698)	(413)	52,387
Profit for the year from discontinued operations	–	–	–	–	10,309	–	–	–	10,309
Profit/(loss) for the year	55,498	(6,465)	1,310	1,673	12,573	3,218	(4,698)	(413)	62,696
Attributable to:									
– Ordinary shareholders of the Company	38,406	(6,872)	1,740	1,675	12,111	1,987	(5,488)	(413)	43,146
Continuing operations	38,406	(6,872)	1,740	1,675	1,774	1,987	(5,488)	(413)	32,809
Discontinued operations	–	–	–	–	10,337	–	–	–	10,337
– Non-controlling interests and holders of perpetual capital securities	17,092	407	(430)	(2)	462	1,231	790	–	19,550
Continuing operations	17,092	407	(430)	(2)	490	1,231	790	–	19,578
Discontinued operations	–	–	–	–	(28)	–	–	–	(28)

	As at 31 December 2016 (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
Reportable segment assets	6,729,902	137,337	96,112	36,796	143,596	113,090	150,506	(167,850)	7,239,489
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	161,579	49,474	26,579	94,244	70,059	167,944	(264,710)	6,542,816
Including:									
Bank and other loans	2,964	41,759	15,088	1,276	10,721	32,863	21,749	(13,295)	113,125
Debt instruments issued	432,579	1,453	4,242	–	–	4,682	100,937	–	543,893

17 Segment reporting (continued)

(b) Geographical information

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

	Revenue from external customers For the year ended 31 December		Reportable segment assets As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)	**2017 HK$ million**	2016 HK$ million (Restated)
Mainland China	**347,203**	325,242	**6,902,597**	6,684,245
Hong Kong and Macau	**58,134**	26,996	**505,686**	447,065
Overseas	**45,199**	29,424	**112,456**	108,179
	450,536	381,662	**7,520,739**	7,239,489

18 Cash and deposits

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Cash	**8,150**	8,867
Bank deposits	**56,367**	50,386
Balances with central banks (note (i)):		
– Statutory deposit reserve funds (note (ii))	**555,449**	520,751
– Surplus deposit reserve funds (note (iii))	**106,815**	65,795
– Fiscal deposits (note (iv))	**4,884**	3,989
– Foreign exchange reserves (note (v))	**6,515**	21,090
Deposits with banks and non-bank financial institutions	**186,404**	256,544
Less: allowance for impairment losses on deposits with banks and non-bank financial institutions (Note 45)	**–**	(40)
	924,584	927,382

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 2017, the statutory deposit reserve placed by CITIC Bank with the People's Bank of China was calculated at 15% (31 December 2016: 15%) of eligible RMB deposits for domestic branches of CITIC Bank and at 15% (31 December 2016: 15%) of eligible RMB deposits from overseas financial institutions respectively. In addition, CITIC Bank is required to deposit an amount equivalent to 5% (31 December 2016: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve as at 31 December 2017.

As at 31 December 2017, 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 2016: 9%).

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 2017, the statutory deposit reserve placed by CITIC Finance with the People's Bank of China was calculated at 7% (31 December 2016: 7%) of eligible RMB deposits from the customers of CITIC Finance. As at 31 December 2017, CITIC Finance is also required to deposit an amount equivalent to 5% (31 December 2016: 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 2016: 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 issued by the People's Bank of China on 11 September 2017, the rate of the foreign exchange reserve for forward transactions has been reduced to 0%. The foreign exchange reserve remained in the account will be released on maturity.

(vi) In addition to the statutory deposit reserve funds, fiscal deposits and foreign exchange reserves, HK$1,601 million (31 December 2016: HK$5,517 million) included in cash and deposits as at 31 December 2017 were restricted in use. They mainly include guaranteed deposits.

19 Placements with banks and non-bank financial institutions

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Banks	63,410	32,335
Non-bank financial institutions	141,937	154,601
	205,347	186,936
Less: allowance for impairment losses (Note 45)	(1)	(9)
	205,346	186,927
Analysed by remaining maturity:		
– Within 1 month	139,348	64,619
– Between 1 month and 1 year	65,998	122,281
– Over 1 year	–	27
	205,346	186,927

20 Financial assets at fair value through profit or loss

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Held for trading purpose:		
– Debt trading financial asset (note (a))	**46,331**	10,767
– Certificates of interbank deposit (note (b))	**23,209**	56,677
– Investment funds (note (c))	**5,844**	2,577
– Trading equity investments (note (d))	**176**	189
Financial assets designated at fair value through profit or loss (note (e)):		
– Debt securities	**3,890**	5,121
– Equity investment	**7,296**	–
– Others	**4,604**	2,488
	91,350	77,819
Issued by:		
– Government	**844**	57
– Policy banks	**4,895**	3,177
– Banks and non-bank financial institutions	**38,477**	71,054
– Corporates	**47,134**	3,531
	91,350	77,819
Analysed by remaining maturity:		
– Within 3 months	**30,343**	19,188
– Between 3 months and 1 year	**31,349**	48,585
– Over 1 year	**20,409**	7,262
– No fixed terms	**9,249**	2,784
	91,350	77,819

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	
	2017	2016
	HK$ million	HK$ million
Listed in Hong Kong	**799**	1,092
Listed outside Hong Kong	**44,010**	7,575
Unlisted	**1,522**	2,100
	46,331	10,767

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

(b) Certificates of interbank deposit

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Listed outside Hong Kong	**23,209**	56,677

(c) Investment funds

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Listed in Hong Kong	**226**	–
Listed outside Hong Kong	**2,650**	–
Unlisted	**2,968**	2,577
	5,844	2,577

(d) Trading equity investments

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Listed in Hong Kong	**89**	103
Listed outside Hong Kong	**84**	82
Unlisted	**3**	4
	176	189

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

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Listed in Hong Kong	**7,058**	–
Listed outside Hong Kong	**788**	4,970
Unlisted	**7,944**	2,639
	15,790	7,609

Note:

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

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					
	2017			2016		
	Nominal amount HK$ million	Assets HK$ million	Liabilities HK$ million	Nominal amount HK$ million	Assets HK$ million	Liabilities HK$ million
Hedging instruments						
Fair value hedge (note (c)(i)):						
– Interest rate derivatives	11,722	147	22	15,727	225	26
Cash flow hedge (note (c)(ii)):						
– Interest rate derivatives	15,498	9	1,872	17,416	–	2,187
– Currency derivatives	366	3	–	1,423	9	19
– Other derivatives	2,950	1,025	72	1,253	99	9
Non-hedging instruments						
– Interest rate derivatives	1,953,696	2,907	2,767	945,104	3,548	3,173
– Currency derivatives	4,005,534	74,209	74,821	2,920,994	47,423	44,774
– Precious metals derivatives	61,712	1,039	308	86,511	1,977	2,460
– Other derivatives	15,987	–	213	–	–	–
	6,067,465	79,339	80,075	3,988,428	53,281	52,648

21 Derivative financial instruments (continued)

(a) Nominal amount analysed by remaining maturity

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Within 3 months	**2,236,638**	1,077,629
Between 3 months and 1 year	**3,310,476**	2,573,742
Between 1 year and 5 years	**506,712**	324,205
Over 5 years	**13,639**	12,852
	6,067,465	3,988,428

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 2017, the credit risk weighted amount for counterparty was HK$84,001 million (31 December 2016: HK$41,513 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	
	2017 HK$ million	2016 HK$ million (Restated)
Trade and bills receivables (note (a))	**39,106**	33,186
Interest receivables (note (b))	**39,672**	37,579
Prepayments, deposits and other receivables (note (c))	**70,426**	68,401
	149,204	139,166

As at 31 December 2017, 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$9,356 million (31 December 2016: HK$14,243 million). The remaining trade and other receivables are expected to be recovered or recognised as expense within one year.

(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	
	2017 HK$ million	2016 HK$ million (Restated)
Within 1 year	**36,173**	29,251
Over 1 year	**5,919**	5,370
	42,092	34,621
Less: allowance for impairment losses (Note 45)	**(2,986)**	(1,435)
	39,106	33,186

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 2017 and 2016 are disclosed in Note 45.

As at 31 December 2017, the Group's trade and bills receivables of HK$1,917 million (31 December 2016: HK$103 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.

22 Trade and other receivables (continued)

(a) Trade and bills receivables (continued)

(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	
	2017	2016
	HK$ million	HK$ million
Less than 1 year past due	**1,740**	1,298
Over 1 year past due	**376**	383
	2,116	1,681

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.

(b) Interest receivables

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Interest receivables	**44,444**	41,949
Less: allowance for impairment losses (Note 45)	**(4,772)**	(4,370)
	39,672	37,579

(c) Prepayments, deposits and other receivables

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
		(Restated)
Prepayments, deposits and other receivables	**72,367**	69,953
Less: allowance for impairment losses (Note 45)	**(1,941)**	(1,552)
	70,426	68,401

23 Inventories

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
		(Restated)
Raw materials	**6,629**	4,332
Work-in-progress	**5,749**	4,333
Finished goods	**18,643**	15,106
Properties:		
– Properties under development	**18,635**	16,684
– Properties held-for-sale	**5,423**	5,472
– Others	**1,402**	1,391
Others	**2,071**	1,682
	58,552	49,000

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	
	2017	2016
	HK$ million	HK$ million
		(Restated)
Carrying amount of inventories sold	**191,752**	149,113
Write-down of inventories (Note 45)	**709**	1,035
Reversal of write-down of inventories (Note 45)	**(693)**	(485)
	191,768	149,663

As at 31 December 2017, the Group's inventories included an amount of HK$20,417 million expected to be recovered after more than one year (31 December 2016: HK$18,515 million).

24 Financial assets held under resale agreements

	As at 31 December 2017 HK$ million	As at 31 December 2016 HK$ million
Analysed by counterparties:		
– Banks	33,995	164,363
– Non-bank financial institutions	31,354	29,252
	65,349	193,615
Analysed by types of collateral:		
– Securities	65,349	193,577
– Others	–	38
	65,349	193,615
Analysed by remaining maturity:		
– Within 1 month	65,349	193,577
– Between 1 month and 1 year	–	38
	65,349	193,615

25 Loans and advances to customers and other parties

(a) Loans and advances

	As at 31 December 2017 HK$ million	As at 31 December 2016 HK$ million (Restated)
Corporate loans:		
– Loans	2,177,528	2,034,515
– Discounted bills	130,190	83,949
– Finance lease receivables	54,143	38,579
	2,361,861	2,157,043
Personal loans:		
– Residential mortgages	604,498	484,297
– Business loans	198,604	125,151
– Credit cards	399,228	265,745
– Personal consumption	271,016	194,224
	1,473,346	1,069,417
	3,835,207	3,226,460
Less: Impairment allowance (Note 45)		
– Individually assessed	(38,529)	(32,240)
– Collectively assessed	(74,792)	(56,370)
	(113,321)	(88,610)
	3,721,886	3,137,850

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 2017 HK$ million	2016 HK$ million (Restated)
Unsecured loans	850,404	617,132
Guaranteed loans	615,561	567,054
Secured loans		
– Loans secured by collateral	1,807,140	1,583,942
– Pledged loans	431,912	374,383
	3,705,017	3,142,511
Discounted bills	130,190	83,949
Gross loans and advances	3,835,207	3,226,460

(c) Assessment method of allowance for impairment losses

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

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

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

	As at 31 December 2016 (Restated)				
		Impaired loans and advances (note (i))			
	Loans and advances for which the allowance is collectively assessed HK$ million	for which the allowance is collectively assessed HK$ million	for which the allowance is individually assessed HK$ million	Total HK$ million	Gross impaired loans and advances as a percentage of gross total loans and advances
Gross loans and advances	3,168,205	11,826	46,429	3,226,460	1.81%
Less: allowance for impairment losses	(47,308)	(9,062)	(32,240)	(88,610)	
	3,120,897	2,764	14,189	3,137,850	

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 2017, the loans and advances of the Group for which the impairment allowance were individually assessed amounted to HK$54,997 million (31 December 2016: HK$46,429 million). The secured and unsecured portion of these loans and advances were as follows:

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Secured portion	**33,230**	25,254
Unsecured portion	**21,767**	21,175
	54,997	46,429

As at 31 December 2017, the fair value of pledge and collateral held against these loans and advances amounted to HK$26,556 million (31 December 2016: HK$20,842 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.

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

(d) Movements of allowance for impairment losses

	For the year ended 31 December 2017			
	Loans and advances for which the allowance is collectively assessed	Impaired loans and advances for which the allowance is collectively assessed	Impaired loans and advances for which the allowance is individually assessed	Total
	HK$ million	HK$ million	HK$ million	HK$ million
At 1 January	47,308	9,062	32,240	88,610
Charge for the year:				
– impairment allowance on loans charged	13,087	7,387	43,094	63,568
– Reversal of impairment for the year	(123)	(1,225)	(4,053)	(5,401)
Unwinding of discount on allowance	–	–	(639)	(639)
Write-offs	–	(6,387)	(34,309)	(40,696)
Recovery of loans and advances written off in previous year	–	1,229	461	1,690
Changes of exchange rate	3,782	672	1,735	6,189
At 31 December	64,054	10,738	38,529	113,321

	For the year ended 31 December 2016			
	Loans and advances for which the allowance is collectively assessed	Impaired loans and advances for which the allowance is collectively assessed	Impaired loans and advances for which the allowance is individually assessed	Total
	HK$ million	HK$ million	HK$ million	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

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

(e) Overdue loans by overdue period

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

	As at 31 December 2016				
	Overdue within 3 months HK$ million	Overdue between 3 months and 1 year HK$ million	Overdue between 1 year and 3 years HK$ million	Overdue over 3 years HK$ million	Total HK$ million
Unsecured loans	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

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

26 Available-for-sale financial assets

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Debt securities (note (a))	**566,535**	449,754
Certificates of deposit and certificates of interbank deposit (note (b))	**48,986**	129,736
Wealth management products issued by financial institutions (note (c))	**24,951**	17,555
Equity investments (note (d))	**16,515**	15,763
Investment funds (note (e))	**152,578**	30,532
	809,565	643,340
Less: allowance for impairment losses (Note 45)	**(1,653)**	(863)
	807,912	642,477
Issued by:		
– Government	**309,846**	202,541
– Policy banks	**88,056**	102,744
– Banks and non-bank financial institutions	**281,541**	225,284
– Corporates	**128,469**	111,908
	807,912	642,477
Analysed by remaining maturity:		
– Within 3 months	**64,411**	150,556
– Between 3 months and 1 year	**81,845**	106,324
– Over 1 year	**495,895**	370,052
– No fixed terms	**165,761**	15,545
	807,912	642,477

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

26 Available-for-sale financial assets (continued)

(a) Debt securities

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Debt securities	566,535	449,754
Less: allowance for impairment losses	(60)	(148)
	566,475	449,606
Representing:		
– Listed in Hong Kong	31,995	18,521
– Listed outside Hong Kong	514,133	398,907
– Unlisted	20,347	32,178
	566,475	449,606

(b) Certificates of deposit and certificates of interbank deposit

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Certificates of deposit and certificates of interbank deposit	48,986	129,736
Representing:		
– Listed outside Hong Kong	48,986	129,736

(c) Wealth management products issued by financial institutions

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Wealth management products issued by financial institutions	24,951	17,555
Less: allowance for impairment losses	(1,176)	(373)
	23,775	17,182
Representing:		
– Unlisted	23,775	17,182

26 Available-for-sale financial assets (continued)

(d) Equity investments

	As at 31 December	
	2017 **HK$ million**	2016 HK$ million
Equity investments	**16,515**	15,763
Less: allowance for impairment losses	**(384)**	(309)
	16,131	15,454
Representing:		
– Listed in Hong Kong	**6,408**	2,292
– Listed outside Hong Kong	**1,443**	1,678
– Unlisted	**8,280**	11,484
	16,131	15,454

(e) Investment funds

	As at 31 December	
	2017 **HK$ million**	2016 HK$ million
Investment funds	**152,578**	30,532
Less: allowance for impairment losses	**(33)**	(33)
	152,545	30,499
Representing:		
– Listed in Hong Kong	**159**	1,492
– Listed outside Hong Kong	**142,271**	21,894
– Unlisted	**10,115**	7,113
	152,545	30,499

Note:

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

27 Held-to-maturity investments

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Debt securities	**261,574**	244,123
Others	**80**	30
	261,654	244,153
Less: allowance for impairment losses (Note 45)	**–**	(2)
	261,654	244,151
Representing:		
– Listed in Hong Kong	**2,517**	1,017
– Listed outside Hong Kong	**251,205**	238,128
– Unlisted	**7,932**	5,006
	261,654	244,151
Issued by:		
– Government	**65,922**	55,098
– Policy banks	**64,895**	78,100
– Banks and non-bank financial institutions	**107,026**	86,397
– Public entities	**3**	4
– Corporates	**23,808**	24,552
	261,654	244,151
Analysed by remaining maturity:		
– Within 3 months	**17,958**	13,663
– Between 3 months and 1 year	**35,091**	64,873
– Over 1 year	**208,605**	165,615
	261,654	244,151
Fair value	**254,349**	244,876
Of which: listed debt securities	**248,911**	240,837

Note:

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

28 Investments classified as receivables

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Trust investment plans	**159,267**	145,595
Investment management products managed by securities companies	**322,246**	509,120
Wealth management products issued by financial institutions	**166,310**	512,448
Others	**1,030**	1,296
	648,853	1,168,459
Less: allowance for impairment losses (Note 45)	**(4,064)**	(2,134)
	644,789	1,166,325

As at 31 December 2017, certain of the Group's investments with an aggregate amount of HK$116,069 million (31 December 2016: HK$164,894 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.

29 Subsidiaries

The particulars of the principal subsidiaries are set out in Note 58.

The following table lists out the information relating to CITIC Bank, CITIC Heavy Industries Co., Limited ("CITIC Heavy Industries"), CITIC Telecom International Holdings Limited ("CITIC Telecom International") and CITIC Resources Holdings Limited ("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	
	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million
Listed in:	Hong Kong and Shanghai		Shanghai		Hong Kong		Hong Kong	
Non-controlling interests percentage	34.03%	34.03%	32.73%	32.73%	39.92%	39.76%	40.50%	40.50%
Total assets	6,792,228	6,630,502	23,580	22,106	18,581	18,183	14,133	13,269
Including:								
Cash and deposits	828,618	851,828	4,250	4,431	1,636	1,459	1,406	1,161
Placements with banks and non-bank financial institutions	205,846	186,927	–	–	–	–	–	–
Financial assets at fair value through profit and loss	78,841	72,566	–	–	–	–	3	2,884
Derivative financial assets	78,299	52,952	–	–	–	–	900	61
Financial assets held under resale agreements	65,349	190,947	–	–	–	–	–	–
Loans and advances to customers and other parties	3,715,692	3,132,871	–	–	–	–	–	–
Available-for-sale financial assets	755,691	597,571	1,833	1,667	–	–	1	1
Held-to-maturity investments	259,102	243,148	–	–	–	–	–	–
Investments classified as receivables	635,378	1,157,872	–	–	–	–	–	–
Fixed assets	24,226	20,771	4,465	4,508	2,387	2,378	3,852	4,616
Total liabilities	(6,298,834)	(6,200,662)	(14,835)	(14,037)	(10,150)	(10,283)	(8,186)	(8,573)
Including:								
Borrowing from central banks	(284,241)	(205,755)	–	–	–	–	–	–
Deposits from banks and non-bank financial institutions	(954,656)	(1,097,188)	–	–	–	–	–	–
Placements from banks and non-bank financial institutions	(92,827)	(93,596)	–	–	–	–	–	–
Trade and other payables	–	–	(2,764)	(2,915)	(895)	(752)	(167)	(131)
Derivative financial liabilities	(77,684)	(50,373)	–	–	–	–	(10)	(10)
Financial assets sold under repurchase agreements	(160,902)	(134,534)	–	–	–	–	–	–
Deposits from customers	(4,076,559)	(4,068,473)	–	–	–	–	–	–
Bank and other loans	–	–	(5,945)	(5,046)	(4,342)	(7,901)	(6,988)	(7,527)
Net assets	493,394	429,840	8,745	8,069	8,431	7,900	5,947	4,696
Equity attributable to								
– Ordinary shareholders of subsidiaries	436,271	384,869	8,551	7,941	8,396	7,871	6,064	4,804
– Non-controlling interests in subsidiaries	57,123	44,971	194	128	35	29	(117)	(108)
Carrying amount of non-controlling interests	205,586	175,942	2,993	2,727	3,387	3,158	2,339	1,838

29 Subsidiaries (continued)

	For the year ended 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million
Revenue	181,259	180,347	5,327	4,412	7,451	7,699	3,603	2,957
Profit/(loss) for the year	49,431	48,885	76	(1,831)	896	863	485	344
Total comprehensive income/(loss) for the year	37,162	43,357	79	(1,832)	968	852	1,386	591
Profit attributable to non-controlling interests	18,069	17,131	45	(584)	367	349	176	128
Dividends paid to non-controlling interests	339	183	4	–	10	11	–	–
Net cash generated/(used in) from operating activities	62,337	244,615	652	(798)	1,854	1,883	736	233
Net cash (used in)/generated from investing activities	(154,126)	(197,260)	(456)	(1,313)	(832)	(1,337)	416	199
Net cash generated from/(used in) financing activities	45,473	123,110	(664)	573	(926)	(332)	(920)	(554)

30 Interests in associates

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Carrying value	101,167	86,440
Less: allowance for impairment losses (Note 45)	(2,523)	(2,315)
	98,644	84,125

Notes:

(i) The particulars of the principal associates are set out in Note 58.

30 Interests in associates (continued)

Summarised financial information of the material associates are disclosed below:

	As at 31 December					
	China Overseas Land & Investment Limited		CITIC Securities Co., Ltd.		MMG South America Management Co., Ltd.	
	2017 HK$ million	2016 HK$ million	**2017 HK$ million**	2016 HK$ million	**2017 HK$ million**	2016 HK$ million
Listed in:	**Hong Kong**		**Hong Kong, Shanghai**		**Unlisted**	
Gross amount of the associates						
Total assets	**684,833**	615,294	**748,376**	667,895	**91,548**	90,328
Total liabilities	**(371,861)**	(343,866)	**(565,171)**	(504,913)	**(58,806)**	(61,757)
Net assets	**312,972**	271,428	**183,205**	162,982	**32,742**	28,571
Equity attributable to:						
– Associates' shareholders	**305,123**	266,253	**179,205**	159,524	**32,742**	28,571
– Non-controlling interests in associates	**7,849**	5,175	**4,000**	3,458	**–**	–
	312,972	271,428	**183,205**	162,982	**32,742**	28,571

30 Interests in associates (continued)

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

	For the year ended 31 December					
	China Overseas Land & Investment Limited		CITIC Securities Co., Ltd.		MMG South America Management Co., Ltd.	
	2017 HK$ million	From the date of investment to 31 December 2016 HK$ million	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million
Revenue	166,045	note	65,664	58,572	22,909	9,893
Profit/(loss) for the year	37,565	note	13,808	12,847	3,648	1,444
Other comprehensive income/(loss) for the year	11,641	note	(254)	(958)	–	–
Total comprehensive income for the year	49,206	note	13,554	11,889	3,648	1,444
Dividends received from associates	844	383	837	1,170	–	–
Reconciled to the Group's interests in associates						
Gross amounts of net assets of associates attributable to the associates' shareholders	305,123	266,253	179,205	159,524	32,742	28,571
Group's effective interest	10.00%	10.00%	16.50%	16.66%	15.00%	15.00%
Group's share of net assets of associates	30,512	26,625	29,569	26,577	4,911	4,286
Goodwill and others	1,433	1,397	1,319	1,366	–	–
Carrying amounts in the consolidated balance sheet	31,945	28,022	30,888	27,943	4,911	4,286

Note:

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

30 Interests in associates (continued)

Aggregate information of associates that are not individually material:

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**30,900**	23,874
Aggregate amount of the Group's share of those immaterial associates:		
Profit/(loss) for the year	**1,199**	(604)
Other comprehensive income for the year	**912**	543
Total comprehensive profit/(loss) for the year	**2,111**	(61)

31 Interests in joint ventures

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Carrying value	**38,872**	20,894
Less: allowance for impairment losses (Note 45)	**(1,454)**	(1,507)
	37,418	19,387

The principals of the principal joint ventures are set out in Note 58.

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

	As at 31 December					
	CITIC Prudential Life Insurance Co., Ltd.		上海瑞博置業有限公司		山東新巨龍能源有限責任公司	
	2017 HK$ million	2016 HK$ million	**2017 HK$ million**	2016 HK$ million	**2017 HK$ million**	2016 HK$ million
Gross amount of the joint ventures						
Total assets	**76,929**	61,119	**17,577**	17,687	**15,054**	10,303
Total liabilities	**(71,093)**	(56,870)	**(8,401)**	(14,601)	**(9,525)**	(6,321)
Net assets	**5,836**	4,249	**9,176**	3,086	**5,529**	3,982
Equity attributable to:						
– Joint ventures' shareholders	**5,836**	4,249	**9,176**	3,086	**5,529**	3,982
– Non-controlling interests in joint ventures	**–**	–	**–**	–	**–**	–
	5,836	4,249	**9,176**	3,086	**5,529**	3,982

31 Interests in joint ventures (continued)

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

	As at 31 December					
	CITIC Prudential Life Insurance Co., Ltd.		上海瑞博置業有限公司		山東新巨龍能源有限責任公司	
	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million	2017 HK$ million	2016 HK$ million
Revenue	16,271	11,517	18,060	162	9,257	6,027
Profit for the year	1,212	819	5,678	147	3,346	1,452
Other comprehensive income/(loss) for the year	31	(254)	–	–	–	–
Total comprehensive income for the year	1,243	565	5,678	147	3,346	1,452
Dividends received from joint ventures	–	–	–	–	–	–
Reconciled to the Group's interests in joint ventures						
Gross amounts of net assets of joint ventures attributable to joint ventures' shareholders	5,836	4,249	9,176	3,086	5,529	3,982
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	2,918	2,125	4,588	1,543	1,659	1,195
Goodwill and others	1,345	1,257	250	42	1,155	1,160
Carrying amount in the consolidated balance sheet	4,263	3,382	4,838	1,585	2,814	2,355

Aggregate information of joint ventures that are not individually material:

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	25,503	12,065
Aggregate amount of the Group's share of those joint ventures		
Profit for the year	1,294	1,957
Other comprehensive loss for the year	(1)	(20)
Total comprehensive income for the year	1,293	1,937

32 Fixed assets

	Property, plant and equipment									
	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	Investment properties HK$ million
Cost or valuation:										
At 1 January 2017 (Restated)	63,664	145,876	14,177	15,252	12,596	7,902	259,467	16,979	276,446	31,539
Exchange adjustments	3,217	6,579	915	973	498	859	13,041	1,266	14,307	1,192
Business combination (Note 51(a) and Note 51(b))	7,925	13,527	874	255	35	7,780	30,396	3,056	33,452	–
Disposal of subsidiaries	(153)	(5)	–	(4)	(3)	–	(165)	–	(165)	–
Additions	2,613	2,891	10,106	1,286	597	469	17,962	460	18,422	87
Disposals	(353)	(1,788)	(700)	(258)	(366)	(1,760)	(5,225)	(28)	(5,253)	(13)
Transfers	1,467	3,345	(5,274)	140	5	407	90	–	90	210
Change in fair value of investment properties	–	–	–	–	–	–	–	–	–	58
At 31 December 2017	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	33,073
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2017 (Restated)	(16,905)	(67,371)	(162)	(9,549)	(4,693)	(2,820)	(101,500)	(1,620)	(103,120)	–
Exchange adjustments	(712)	(3,312)	(88)	(627)	(178)	(293)	(5,210)	(110)	(5,320)	–
Business combination (Note 51(a) and Note 51(b))	(1,801)	(5,960)	–	(181)	(10)	(4,087)	(12,039)	(83)	(12,122)	–
Disposal of subsidiaries	101	3	–	4	2	–	110	–	110	–
Charge for the year	(2,180)	(6,455)	–	(1,820)	(776)	(644)	(11,875)	(486)	(12,361)	–
Written back on disposals	115	1,042	–	231	215	641	2,244	–	2,244	–
Impairment losses (Note 45)	(293)	(8,720)	(1,044)	(23)	(425)	(178)	(10,683)	–	(10,683)	–
At 31 December 2017	(21,675)	(90,773)	(1,294)	(11,965)	(5,865)	(7,381)	(138,953)	(2,299)	(141,252)	–
Net book value:										
At 31 December 2017	56,705	79,652	18,804	5,679	7,497	8,276	176,613	19,434	196,047	33,073
Represented by:										
Cost	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	–
Valuation	–	–	–	–	–	–	–	–	–	33,073
	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	33,073

32 Fixed assets (continued)

	Property, plant and equipment									
	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	Investment properties HK$ million
Cost or valuation:										
At 1 January 2016 (Restated)	61,653	122,783	34,154	14,369	13,212	8,637	254,808	19,131	273,939	28,508
Exchange adjustments	(3,068)	(4,312)	(941)	(878)	(425)	(388)	(10,012)	(722)	(10,734)	(776)
Disposal of subsidiaries	(1,579)	(321)	(869)	(189)	(179)	(1,863)	(5,000)	(1,512)	(6,512)	(1,539)
Additions	6,357	2,436	13,106	2,178	515	209	24,801	921	25,722	6,008
Disposals	(1,271)	(1,327)	(319)	(606)	(539)	(1,047)	(5,109)	(33)	(5,142)	(1,011)
Transfers	1,572	26,617	(30,954)	378	12	2,354	(21)	(806)	(827)	(231)
Change in fair value of investment properties	–	–	–	–	–	–	–	–	–	580
At 31 December 2016 (Restated)	63,664	145,876	14,177	15,252	12,596	7,902	259,467	16,979	276,446	31,539
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2016 (Restated)	(14,040)	(47,754)	(10,646)	(8,344)	(4,129)	(2,601)	(87,514)	(1,496)	(89,010)	–
Exchange adjustments	819	1,976	9	535	162	115	3,616	30	3,646	–
Disposal of subsidiaries	540	168	6	59	150	647	1,570	100	1,670	–
Charge for the year	(2,058)	(5,372)	–	(2,197)	(876)	(506)	(11,009)	(257)	(11,266)	–
Written back on disposals	134	456	–	425	368	709	2,092	3	2,095	–
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 (Restated)	(16,905)	(67,371)	(162)	(9,549)	(4,693)	(2,820)	(101,500)	(1,620)	(103,120)	–
Net book value:										
At 31 December 2016 (Restated)	46,759	78,505	14,015	5,703	7,903	5,082	157,967	15,359	173,326	31,539
Represented by:										
Cost	63,664	145,876	14,177	15,252	12,596	7,902	259,467	16,979	276,446	–
Valuation	–	–	–	–	–	–	–	–	–	31,539
	63,664	145,876	14,177	15,252	12,596	7,902	259,467	16,979	276,446	31,539

32 Fixed assets (continued)

As at 31 December 2017, the Group was in the process of applying the ownership certificates in respect of certain premises and land use rights of HK$6,616 million (31 December 2016: HK$4,862 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	
	2017 HK$ million	2016 HK$ million (Restated)
In Mainland China		
– leases of over fifty years	**4,217**	4,916
– leases of between ten to fifty years	**78,879**	63,997
– leases of less than ten years	**1,055**	1,175
	84,151	70,088
In Hong Kong		
– leases of over fifty years	**698**	758
– leases of between ten to fifty years	**17,870**	16,702
	18,568	17,460
Properties held overseas		
– freehold	**1,505**	1,448
– leases of more than fifty years	**12**	292
– leases of between ten to fifty years	**4,868**	4,293
– leases of less than ten years	**108**	76
	6,493	6,109
Total	**109,212**	93,657

32 Fixed assets (continued)

(b) Fair value measurement of investment properties

(i) Property valuation

Investment properties were revalued as at 31 December 2017 and 2016 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 2017
Mainland China and Hong Kong	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	China United Assets Appraisal Group
	Prudential Surveyors International Limited
	Centaline Surveyors Limited
	Beijing K&Z Real Estate Consult Co., Ltd.
	Knight Frank Petty Limited
Overseas	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	Network Real Estate Appraisal Co., Ltd.

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.

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.

32 Fixed assets (continued)

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

(ii) Fair value hierarchy (continued)

	Level 3 For the year ended 31 December 2017 HK$ million	 2016 HK$ million
Recurring fair value measurement		
Investment properties – Mainland China		
At 1 January	16,940	13,713
Exchange adjustments	1,168	(788)
Additions	74	5,366
Disposal of subsidiaries	–	(1,539)
Disposals	(4)	(72)
Transfers	231	(171)
Change in fair value of investment properties	(558)	431
At 31 December	17,851	16,940
Investment properties – Hong Kong		
At 1 January	14,228	14,285
Exchange adjustments	(5)	6
Additions	6	636
Disposals	–	(761)
Transfers	(21)	(60)
Change in fair value of investment properties	571	122
At 31 December	14,779	14,228
Investment properties – Overseas		
At 1 January	371	510
Exchange adjustments	29	6
Additions	7	6
Disposals	(9)	(178)
Change in fair value of investment properties	45	27
At 31 December	443	371

32 Fixed assets (continued)

(b) Fair value measurement of investment 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 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: 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.

33 Intangible assets

	For the year ended 31 December				
	Roads operating rights HK$ million	Mining assets HK$ million	Franchise right HK$ million	Others HK$ million	Total HK$ million
Cost:					
At 1 January 2017 (Restated)	10,617	19,270	–	10,366	40,253
Exchange adjustments	744	–	–	500	1,244
Additions	8	53	–	1,516	1,577
Business combination (Note 51(a))	–	–	3,022	931	3,953
Disposals of subsidiaries	–	–	–	(483)	(483)
Disposals	(11)	–	–	(406)	(417)
At 31 December 2017	11,358	19,323	3,022	12,424	46,127
Accumulated amortisation and impairment losses:					
At 1 January 2017 (Restated)	(914)	(16,670)	–	(3,347)	(20,931)
Exchange adjustments	(71)	–	–	(240)	(311)
Disposals of subsidiaries	–	–	–	202	202
Business combination (Note 51(a))	–	–	(54)	(13)	(67)
Charge for the year	(204)	(69)	(63)	(863)	(1,199)
Written back on disposals	–	–	–	154	154
Impairment losses (Note 45)	–	(232)	–	(22)	(254)
At 31 December 2017	(1,189)	(16,971)	(117)	(4,129)	(22,406)
Net book value:					
At 31 December 2017	10,169	2,352	2,905	8,295	23,721

33 Intangible assets (continued)

	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 (Restated)	11,324	19,211	10,337	40,872
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 (Restated)	10,617	19,270	10,366	40,253
Accumulated amortisation and impairment losses:				
At 1 January 2016 (Restated)	(768)	(15,870)	(3,662)	(20,300)
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 (Restated)	(914)	(16,670)	(3,347)	(20,931)
Net book value:				
At 31 December 2016 (Restated)	9,703	2,600	7,019	19,322

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

34 Goodwill

	For the year ended 31 December	
	2017	2016
	HK$ million	HK$ million
Cost:		
At 1 January	**22,305**	19,855
Additions (Note 51(a))	**1,535**	2,695
Disposals	**(186)**	–
Exchange differences	**719**	(245)
At 31 December	**24,373**	22,305
Accumulated impairment losses:		
At 1 January	**(434)**	(374)
Additions (Note 45)	**–**	(63)
Disposals	**52**	–
Exchange differences	**(2)**	3
At 31 December	**(384)**	(434)
Net book value:		
At 31 December	**23,989**	21,871

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

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Resources and energy	**1,336**	1,376
Financial services	**1,526**	1,498
Manufacturing	**1,165**	1,105
Real estate	**356**	348
Others	**19,606**	17,544
	23,989	21,871

Based on management's impairment assessment, no impairment was recognised for the year ended 31 December 2017 (2016: HK$63 million).

35 Income tax in the balance sheet

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

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Income tax payable	**13,446**	10,002

(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 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Tax losses HK$ million	Accrued expenses HK$ million	Impairment loss on assets other than fixed assets and intangible assets HK$ million	Fair value changes of financial instruments HK$ million	Fixed assets and intangible assets HK$ million	Others HK$ million	Total HK$ million
Deferred tax assets							
At 1 January 2016 (Restated)	11,796	1,574	12,037	715	2,827	2,052	31,001
Credit/(charged) to profit or loss	1,650	464	4,247	(20)	1,771	(469)	7,643
(Charged)/credit 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 (Restated)	13,289	1,828	15,310	351	4,648	1,019	36,445
(Charged)/credit to profit or loss	(1,276)	925	5,256	199	1,909	488	7,501
Credit/(charged) to other comprehensive income	–	3	–	3,282	–	(57)	3,228
Business combination (Note 51(a))	6	12	2	–	49	30	99
Exchange adjustments and others	18	123	1,229	134	105	280	1,889
At 31 December 2017	12,037	2,891	21,797	3,966	6,711	1,760	49,162

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 2017 and 2016, 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 2016	(2,750)	(630)	(3,232)	(3,607)	(10,219)
Charged to profit or loss	(593)	(233)	(527)	(328)	(1,681)
Credit/(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)
(Charged)/credit to profit or loss	(229)	77	(117)	1,046	777
(Charged)/credit to other comprehensive income	(81)	–	(52)	59	(74)
Business combination (Note 51(a))	–	(1,140)	–	(282)	(1,422)
Exchange adjustments and others	(52)	(42)	(248)	(629)	(971)
At 31 December 2017	(1,066)	(2,056)	(3,832)	(3,061)	(10,015)

(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 2017 HK$ million	2016 HK$ million
Deductible temporary differences	3,044	2,196
Tax losses	27,548	11,424
	30,592	13,620

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 2017, tax losses amounting to HK$10,036 million (31 December 2016: HK$6,892 million) that can be carried forward against future taxable income are expiring within 5 years.

35 Income tax in the balance sheet (continued)

(d) Deferred tax liabilities not recognised

As at 31 December 2017 and 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.

36 Deposits from banks and non-bank financial institutions

	As at 31 December	
	2017 **HK$ million**	2016 HK$ million
Banks	**223,640**	502,387
Non-bank financial institutions	**730,998**	594,777
	954,638	1,097,164
Analysed by remaining maturity:		
– On demand	**287,850**	205,334
– Within 3 months	**461,257**	658,028
– Between 3 months and 1 year	**205,525**	233,187
– Over 1 year	**6**	615
	954,638	1,097,164

37 Placements from banks and non-bank financial institutions

	As at 31 December	
	2017 **HK$ million**	2016 HK$ million
Banks	**59,107**	71,237
Non-bank financial institutions	**31,024**	22,359
	90,131	93,596
Analysed by remaining maturity:		
– Within 3 months	**44,486**	60,304
– Between 3 months and 1 year	**45,606**	33,292
– Over 1 year	**39**	–
	90,131	93,596

38 Trade and other payables

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Trade and bills payables	**68,733**	53,147
Advances from customers	**10,848**	5,577
Interest payables	**50,049**	44,214
Other taxes payables	**5,993**	4,317
Settlement accounts	**7,976**	33,575
Other payables	**82,511**	66,770
	226,110	207,600

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	
	2017 HK$ million	2016 HK$ million (Restated)
Within 1 year	**48,751**	36,292
Between 1 and 2 years	**8,505**	8,726
Between 2 and 3 years	**4,672**	6,733
Over 3 years	**6,805**	1,396
	68,733	53,147

39 Financial assets sold under repurchase agreements

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
By counterparties:		
The People's Bank of China	**107,742**	95,488
Banks	**53,160**	38,968
Non-bank financial institutions	**–**	78
	160,902	134,534
By types of collateral:		
Debt securities	**98,198**	102,053
Discounted bills	**62,704**	32,481
	160,902	134,534

The Group did not derecognise financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2017, 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	
	2017	2016
	HK$ million	HK$ million
		(Restated)
Demand deposits		
– Corporate customers	**1,947,517**	1,845,448
– Personal customers	**281,084**	260,433
	2,228,601	2,105,881
Time and call deposits		
– Corporate customers	**1,463,098**	1,554,160
– Personal customers	**357,069**	363,387
	1,820,167	1,917,547
Outward remittance and remittance payables	**7,390**	8,091
	4,056,158	4,031,519

40 Deposits from customers (continued)

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

	As at 31 December	
	2017 HK$ million	2016 HK$ million
Bank acceptances	**233,647**	238,817
Letters of credit	**11,112**	10,759
Guarantees	**29,837**	28,867
Others	**130,193**	166,345
	404,789	444,788

41 Bank and other loans

(a) Types of loans

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Bank loans		
Unsecured loans	**78,106**	80,128
Loan pledged with assets (note (d))	**37,408**	24,206
Guaranteed loans	**5,955**	643
	121,469	104,977
Other loans		
Unsecured loans	**17,765**	6,883
Loan pledged with assets (note (d))	**3,077**	1,143
Guaranteed loans	**131**	122
	20,973	8,148
	142,442	113,125

41 Bank and other loans (continued)

(b) Maturity of loans

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Bank and other loans are repayable:		
– Within 1 year or on demand	31,062	29,719
– Between 1 and 2 years	14,318	10,985
– Between 2 and 5 years	39,200	27,464
– Over 5 years	57,862	44,957
	142,442	113,125

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

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
RMB	43,914	33,351
US$	54,368	50,453
HK$	25,956	14,876
Other currencies	18,204	14,445
	142,442	113,125

(d) As at 31 December 2017, the Group's bank and other loans of HK$40,485 million (31 December 2016 HK$25,349 million) are pledged with cash and deposits, inventories, trade and other receivables, fixed assets and intangible assets with an aggregate carrying amount of HK$149,665 million (31 December 2016: HK$86,627 million), the equity interest of certain subsidiary and the claim right of shareholders' loans of certain entities.

(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 2017, none of the covenants relating to drawn down facilities have been breached (31 December 2016: Nil).

42 Debt instruments issued

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Corporate bonds issued (note (a))	**91,644**	81,376
Notes issued (note (b))	**147,002**	64,916
Subordinated bonds issued (note (c))	**88,200**	85,234
Certificates of deposit issued (note (d))	**3,409**	10,612
Certificates of interbank deposit issued (note (e))	**323,116**	301,755
	653,371	543,893
Analysed by remaining maturity:		
– Within 1 year or on demand	**370,069**	320,997
– Between 1 and 2 years	**7,073**	34,395
– Between 2 and 5 years	**156,004**	55,073
– Over 5 years	**120,225**	133,428
	653,371	543,893

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 2017 (2016: Nil).

Notes:

(a) Corporate bonds issued

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
The Company (note (i))	**64,513**	54,832
CITIC Corporation Limited ("CITIC Corporation") (note (ii))	**19,102**	16,166
CITIC Telecom International (note (iii))	**3,487**	3,483
CITIC Heavy Industries (note (iv))	**2,632**	3,460
CITIC Pacific Limited's ("CITIC Pacific") subsidiaries (note(v))	**598**	2,236
CITIC Environment Investment Group Co., Limited's ("CITIC Environment") subsidiaries (note(vi))	**1,312**	1,199
	91,644	81,376

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 2017				
	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$ Notes1	HK$	500	2013-07-31	2018-07-31	5.90%
US$ Notes 5	US$	500	2013-04-10	2020-04-10	6.38%
US$ Notes 2.1	US$	500	2011-04-15	2021-04-15	6.63%
US$ Notes 2.2	US$	250	2014-06-23	2021-04-15	6.63%
US$ Notes 1	US$	150	2010-08-16	2022-08-16	6.90%
US$ Notes 4.1	US$	750	2012-10-17	2023-01-17	6.80%
US$ Notes 4.2	US$	250	2012-12-11	2023-01-17	6.80%
US$ Notes 4.3	US$	400	2014-07-18	2023-01-17	6.80%
US$ Notes 6.1	US$	110	2014-07-18	2024-01-18	4.70%
US$ Notes 6.2	US$	90	2014-10-29	2024-01-18	4.70%
HK$ Notes 2	HK$	420	2014-07-25	2024-07-25	4.35%
US$ Notes 7	US$	280	2015-04-14	2035-04-14	4.60%
US$ Notes 8	US$	150	2016-02-04	2041-02-04	4.88%
US$ Notes 9	US$	350	2016-02-04	2036-02-04	4.75%
US$ Notes 10	US$	90	2016-04-25	2036-04-25	4.65%
US$ Notes 11	US$	210	2016-04-25	2046-04-25	4.85%
US$ Notes 12	US$	500	2016-06-14	2021-12-14	2.80%
US$ Notes 13	US$	750	2016-06-14	2026-06-14	3.70%
US$ Notes 14	US$	200	2016-09-07	2031-09-07	3.98%
US$ Notes 15	US$	250	2016-09-07	2046-09-07	4.49%
US$ Notes 16	US$	750	2017-02-28	2027-02-28	3.88%
US$ Notes 17	US$	500	2017-02-28	2022-02-28	3.13%

42 Debt instruments issued (continued)

Notes (continued):

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

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

	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$ Notes1	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%

42 Debt instruments issued (continued)

Notes (continued):

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

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

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

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

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

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

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

42 Debt instruments issued (continued)

Notes (continued):

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

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

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

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%

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

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

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%

42 Debt instruments issued (continued)

Notes (continued):

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

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

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

	As at 31 December 2016				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
CITIC Envirotech					
– Medium Term Notes	SG$	225	2015-04-29	2018-04-29	4.70%

(b) **Notes issued**

	As at 31 December	
	2017 HK$ million	2016 HK$ million
CITIC Corporation (note (i))	32,113	29,938
CITIC Bank (note (ii))	113,135	34,978
CITIC Offshore Helicopter Company Limited (note (iii))	377	–
CITIC Trust Co., Ltd. (note (iv))	1,377	–
	147,002	64,916

(i) Details of notes issued by CITIC Corporation

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

42 Debt instruments issued (continued)

Notes (continued):

(b) Notes issued (continued)

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

	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%

(ii) Details of notes issued by CITIC Bank

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

	As at 31 December 2016				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
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	2015-11-17	2020-11-17	3.61%

42 Debt instruments issued (continued)

Notes (continued):

(b) Notes issued (continued)

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

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

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

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

(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	
	2017 HK$ million	2016 HK$ million
Fixed rate notes maturing		
– In June 2020 (note (i))	3,996	4,071
– In September 2022 (note (ii))	–	2,322
– In May 2024 (note (iii))	2,319	2,328
Fixed rate bonds maturing		
– In May 2025 (note (iv))	13,757	12,856
– In June 2027 (note (v))	23,903	22,335
– In August 2024 (note (vi))	44,225	41,322
	88,200	85,234

42 Debt instruments issued (continued)

Notes (continued):

(c) Subordinated bonds issued (continued)

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

		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%
(iv)	Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(v)	Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(vi)	Subordinated Fixed Rate Bonds	RMB	37,000	2014-08-26	2024-08-26	6.13%

Note:

Subordinated notes with nominal value of USD300 million issued at a fixed rate of 3.875% per annum on 27 September 2012 by CBI were redeemed on 28 September 2017.

(d) Certificates of deposit issued

These certificates of deposit were issued by CBI with interest rate ranging from 0.70% to 3.62% per annum (31 December 2016: 0.46% to 3.62% per annum).

(e) Certificates of interbank deposit issued

As at 31 December 2017, CITIC Bank issued certain certificates of interbank deposit with a total value of RMB270,096 million (approximately HK$323,116 million) (31 December 2016: RMB269,923 million (approximately HK$301,755 million)). The yield ranges from 4.00% to 5.35% per annum (31 December 2016: 2.68% to 3.75% per annum). The original expiry terms are between 3 month to 1 year (31 December 2016: between 1 month to 2 years).

43 Provisions

	Environmental restoration expenditures HK$ million	Others HK$ million	Total HK$ million
At 1 January 2017	2,017	1,651	3,668
Exchange differences	157	144	301
Charge for the year	308	13	321
Reclassification	–	1,584	1,584
Payments made during the year	(12)	(388)	(400)
At 31 December 2017	2,470	3,004	5,474
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

44 Share capital, perpetual capital securities and reserves

(a) Share capital

As at 31 December 2017, the number of ordinary shares in issue of the Company was 29,090,262,630 (31 December 2016: 29,090,262,630).

(b) Share based payment

Share Option Plan

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.

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

(b) Share based payment (continued)

Share Option Plan (continued)

The CITIC Pacific Share Incentive Plan 2000 adopted by the Company on 31 May 2000 for a term of ten years expired on 30 May 2010. The Company adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 (the "Plan 2011") on 12 May 2011, 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 or officer, consultant or representative of any member of the Group who shall make payment of HK$1 to the Company on acceptance. The subscription price determined by the board shall not be less than the higher of (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited 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 total number of the Company's shares which may be issued upon exercise of all options to be granted under the Plan 2011 must not in aggregate exceed 10% of the Company's shares in issue as at the date of adopting the Plan 2011 (i.e. as at 31 December 2017, the total number of shares available for issue under the Plan 2011 is 364,944,416 shares).

No share options were granted under the Plan 2011 during the year ended 31 December 2017 (2016: 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 2017 and 2016 included the accrued distribution payments.

(d) Nature and purpose of reserves

(i) Capital reserve

Considerations paid to acquire subsidiaries under common control, for instance, in 2014, a total consideration of HK$286,585 million paid by the Company to acquire the shares of CITIC Corporation, are 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.

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

(d) Nature and purpose of reserves (continued)

(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 2017 (31 December 2016: Nil).

45 Movement of allowances for impairment losses

	For the year ended 31 December 2017							
	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	Business combination HK$ million (Note 51(a) and Note 51(b))	Disposal of subsidiaries HK$ million	Exchange differences and others HK$ million	At 31 December HK$ million
Deposits and placements with banks and non-bank financial institutions (Note 18 and 19)	49	–	(37)	–	–	–	(11)	1
Trade and other receivables (Note 22)	7,357	9,078	(1,579)	(4,711)	27	(858)	385	9,699
Amounts due from customers for contract work	905	–	(923)	(10)	–	–	28	–
Inventories (Note 23)	2,513	709	(693)	(164)	321	–	52	2,738
Loans and advances to customers and other parties (Note 25)	88,610	63,568	(5,401)	(40,696)	–	–	7,240	113,321
Available-for-sale financial assets (Note 26)	863	1,013	(118)	(183)	–	(2)	80	1,653
Held-to-maturity investments (Note 27)	2	–	(2)	–	–	–	–	–
Investment classified as receivables (Note 28)	2,134	1,865	(345)	–	–	–	410	4,064
Interests in associates (Note 30)	2,315	172	(6)	–	–	–	42	2,523
Interests in joint ventures (Note 31)	1,507	–	(54)	–	–	–	1	1,454
Fixed assets (Note 32)	36,936	10,698	(15)	(74)	33	(51)	79	47,606
Intangible assets (Note 33)	16,403	254	–	(30)	40	–	6	16,673
Other assets	4,432	837	(96)	(996)	–	(66)	368	4,479
	164,026	88,194	(9,269)	(46,864)	421	(977)	8,680	204,211

45 Movement of allowances for impairment losses (continued)

	For the year ended 31 December 2016 (Restated)						
	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	At 31 December 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)	2,435	1,035	(485)	(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
	137,999	81,912	(5,945)	(41,241)	(3,260)	(5,439)	164,026

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.

46 Contingent liabilities and commitments (continued)

(a) Credit commitments (continued)

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Contractual amount		
Loan commitments		
With an original maturity of within 1 year	**15,923**	9,292
With an original maturity of 1 year or above	**68,321**	74,332
	84,244	83,624
Guarantees	**256,028**	195,605
Letters of credit	**106,739**	96,798
Acceptances	**511,913**	598,680
Credit card commitments	**371,230**	241,299
Others	**6**	3
	1,330,160	1,216,009

(b) Credit commitments analysed by credit risk weighted amount

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Credit risk weighted amount on credit commitments	**420,470**	376,984

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 2017 and 2016, 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%.

46 Contingent liabilities and commitments (continued)

(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 treasury 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	
	2017 **HK$ million**	2016 HK$ million
Redemption commitment for treasury bonds	**13,748**	14,223

As at 31 December 2017, the original maturities of these bonds vary from one to five years (31 December 2016: 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.

(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	
	2017 **HK$ million**	2016 HK$ million
Related parties (note)	**17,384**	17,712
Third parties	**3,358**	2,940
	20,742	20,652

Note:

As at 31 December 2017, 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 RMB5,000 million(approximately HK$5,981 million) (31 December 2016: 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).

46 Contingent liabilities and commitments (continued)

(d) Guarantees provided (continued)

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	
	2017	2016
	HK$ million	HK$ million
Related parties	**–**	261
Third parties	**28**	11
	28	272

(e) Outstanding litigation and disputes

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

(i) Investigation into 2008 forex incident

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

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

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

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

46 Contingent liabilities and commitments (continued)

(e) Outstanding litigation and disputes (continued)

(i) Investigation into 2008 forex incident (continued)

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

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

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

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

(iii) CITIC Resources Litigation

(1) In August 2014, 山煤煤炭進出口有限公司 (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 (the Shanxi High People's Court) (the "Shanxi Court") against, amongst others, CITIC Australia Commodity Trading Pty Limited ("CACT"), an indirect wholly-owned subsidiary of the Company ("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 (the "Shanxi APO").

In January 2017, pursuant to a civil ruling of the Shanxi Court, Shanxi Claim A was transferred to the Public Security Bureau for determination in accordance with China's criminal procedures. As a result, Shanxi Claim A terminated and Shanxi Coal I/E has no further recourse or rights against CACT in respect of Shanxi Claim A.

In February 2017, the Shanxi Court ordered the lifting of the Shanxi APO.

46 Contingent liabilities and commitments (continued)

(e) Outstanding litigation and disputes (continued)

(iii) CITIC Resources Litigation (continued)

(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 an 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 provision was made in respect of Shanxi Claim B.

Pursuant to the final award of the ICC of 28 September 2017, the ICC has determined that it did not have jurisdiction over CACT and Shanxi Coal I/E for the purposes of arbitrating the Claim B.

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

(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	
	2017 **HK$ million**	2016 HK$ million (Restated)
Contracted for	**20,794**	18,005

(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	
	2017 **HK$ million**	2016 HK$ million
Within 1 year	**5,384**	4,309
Between 1 and 2 years	**5,012**	3,362
Between 2 and 3 years	**4,029**	2,817
Over 3 years	**12,812**	8,442
	27,237	18,930

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.

(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.

47 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(i) Maximum credit risk exposure

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

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Deposits with central banks, banks and non-bank financial institutions	**916,434**	918,515
Placements with banks and non-bank financial institutions	**205,346**	186,927
Financial assets at fair value through profit or loss	**78,034**	75,053
Derivative financial assets	**79,339**	53,281
Trade and other receivables	**132,971**	116,503
Financial assets held under resale agreements	**65,349**	193,615
Loans and advances to customers and other parties	**3,721,886**	3,137,850
Available-for-sale financial assets	**615,461**	579,342
Held-to-maturity investments	**261,654**	244,151
Investments classified as receivables	**644,789**	1,166,325
	6,721,263	6,671,562
Credit commitments and guarantees provided	**1,350,902**	1,236,661
Maximum credit risk exposure	**8,072,165**	7,908,223

47 Financial risk management and fair values (continued)

(a) Credit risk (continued)

(ii) Distribution by credit exposure is as follows:

	As at 31 December 2017				
	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					
Individually assessed					
Gross balance	54,997	1	–	165	888
Allowance for impairment losses	(38,529)	(1)	–	(60)	(363)
	16,468	–	–	105	525
Collectively assessed					
Gross balance	13,630	–	–	–	–
Allowance for impairment losses	(10,738)	–	–	–	–
	2,892	–	–	–	–
Overdue but not impaired (note (1))					
Gross balance	48,418	–	–	–	91
Within which:					
– Within 3 months	36,860	–	–	–	91
– Between 3 months and 1 year	11,381	–	–	–	–
– Over 1 year	177	–	–	–	–
Allowance for impairment losses	(11,601)	–	–	–	(2)
	36,817	–	–	–	89
Neither overdue nor impaired					
Gross balance	3,718,162	1,121,780	65,349	950,360	647,874
Allowance for impairment losses (note (2))	(52,453)	–	–	–	(3,699)
	3,665,709	1,121,780	65,349	950,360	644,175
Net balance	3,721,886	1,121,780	65,349	950,465	644,789

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 2016 (Restated)				
	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					
Individually assessed					
Gross balance	46,429	36	–	68	31
Allowance for impairment losses	(32,240)	(9)	–	(35)	(16)
	14,189	27	–	33	15
Collectively assessed					
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	3,117,448	1,105,455	193,615	896,110	1,168,280
Allowance for impairment losses (note (2))	(37,915)	(40)	–	(115)	(2,115)
	3,079,533	1,105,415	193,615	895,995	1,166,165
Net balance	3,137,850	1,105,442	193,615	896,028	1,166,325

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 2017, the loans and advances of the Group which were overdue but not impaired were HK$48,419 million (31 December 2016: HK$54,622 million). As at 31 December 2017, the secured portion of these loans and advances were HK$28,564 million (31 December 2016: HK$37,435 million), and the remaining loans and advances were unsecured.

The fair value of collateral held against these loans and advances amounted to HK$40,057 million as at 31 December 2017 (31 December 2016: HK$45,991 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:

	As at 31 December					
	2017			2016		
	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million	Gross balance HK$ million (Restated)	%	Loans and advances secured by collateral HK$ million (Restated)
Corporate loans						
– Real estate	403,707	11%	329,132	334,116	10%	278,240
– Manufacturing	371,930	10%	163,449	427,251	14%	223,549
– Rental and business services	266,486	7%	161,220	203,030	6%	130,565
– Wholesale and retail	231,865	6%	123,341	266,677	8%	163,971
– Water, environment and public utility management	215,353	6%	105,201	167,601	5%	87,097
– Transportation, storage and postal services	182,855	5%	94,651	181,078	6%	94,720
– Construction	99,219	3%	37,698	101,321	3%	44,362
– Production and supply of electric power, gas and water	84,639	2%	39,377	67,127	2%	28,157
– Public management and social organisations	22,653	1%	6,901	22,187	1%	4,949
– Others	352,964	9%	149,845	302,706	9%	125,048
	2,231,671	60%	1,210,815	2,073,094	64%	1,180,658
Personal loans	1,473,346	37%	1,028,237	1,069,417	33%	777,667
Discounted bills	130,190	3%	–	83,949	3%	–
	3,835,207	100%	2,239,052	3,226,460	100%	1,958,325

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:

	As at 31 December					
	2017			2016		
	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million	Gross balance HK$ million (Restated)	%	Loans and advances secured by collateral HK$ million (Restated)
Mainland China	3,629,798	94%	2,157,278	3,032,083	94%	1,881,712
Hong Kong and Macau	174,594	5%	60,434	175,682	5%	66,741
Overseas	30,815	1%	21,340	18,695	1%	9,872
	3,835,207	100%	2,239,052	3,226,460	100%	1,958,325

(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.

	As at 31 December			
	2017		2016	
	Gross balance HK$ million	% of total loans and advances	Gross balance HK$ million	% of total loans and advances
Rescheduled loans and advances	27,809	0.73%	19,266	0.60%
– rescheduled loans and advances overdue more than 3 months	23,757	0.62%	16,411	0.51%

(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 2017, 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 2016: Nil).

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 2017					
	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 HK$ million
Total financial assets	340,317	2,643,768	1,780,307	1,387,202	783,586	6,935,180
Total financial liabilities	(2,753,714)	(3,177,518)	(554,683)	(140,993)	(4,896)	(6,631,804)
Financial asset-liability gap	(2,413,397)	(533,750)	1,225,624	1,246,209	778,690	303,376

	As at 31 December 2016 (Restated)					
	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 HK$ million
Total financial assets	290,466	3,519,047	1,279,761	1,031,725	625,331	6,746,330
Total financial liabilities	(2,727,659)	(3,064,817)	(511,850)	(160,971)	(4,643)	(6,469,940)
Financial asset-liability gap	(2,437,193)	454,230	767,911	870,754	620,688	276,390

47 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

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

	As at 31 December 2017					
	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 HK$ million
Total financial assets	338,645	2,776,888	2,189,462	1,968,893	786,445	8,060,333
Total financial liabilities	(2,750,325)	(3,197,172)	(629,705)	(167,765)	(4,896)	(6,749,863)
Financial asset-liability gap	(2,411,680)	(420,284)	1,559,757	1,801,128	781,549	1,310,470

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 2017			
	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Loan commitments	20,459	29,262	34,523	84,244
Guarantees	147,717	106,360	1,951	256,028
Letters of credit	104,128	2,611	–	106,739
Acceptances	511,828	85	–	511,913
Credit card commitments	371,230	–	–	371,230
Others	–	6	–	6
Total	1,155,362	138,324	36,474	1,330,160

	As at 31 December 2016			
	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total 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

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

	As at 31 December 2016 (Restated)				
	Non-interest bearing HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Total financial assets	314,839	4,827,564	1,372,794	231,133	6,746,330
Total financial liabilities	(225,828)	(5,645,576)	(477,137)	(121,399)	(6,469,940)
Financial asset-liability gap	89,011	(818,012)	895,657	109,734	276,390

47 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(ii) Effective interest rate

	As at 31 December			
	2017		2016	
	Effective interest rate	HK$ million	Effective interest rate (Restated)	HK$ million (Restated)
Assets				
Cash and deposits	1.56%-2.21%	924,584	1.40%-1.52%	927,382
Placements with banks and non-bank financial institutions	3.07%	205,346	2.56%	186,927
Financial assets held under resale agreements	2.89%	65,349	2.30%	193,615
Loans and advances to customers and other parties	4.61%	3,721,886	4.82%	3,137,850
Investments classified as receivable	4.25%	644,789	4.01%	1,166,325
Investments (note (1))	3.28%	1,296,978	3.41%	1,067,959
Others		661,807		559,431
		7,520,739		7,239,489
Liabilities				
Borrowing from central banks	3.13%	284,818	3.02%	205,755
Deposits from banks and non-bank financial institutions	3.75%	954,638	2.81%	1,097,164
Placements from banks and non-bank financial institutions	2.85%	90,131	2.10%	93,596
Financial assets sold under repurchase agreements	2.91%	160,902	2.42%	134,534
Deposits from customers	1.59%	4,056,158	1.68%	4,031,519
Bank and other loans	0.33%-6.7%	142,442	0.33%-7.8%	113,125
Debt instruments issued	2.47%-6.95%	653,371	2.80%-6.90%	543,893
Others		384,638		323,230
		6,727,098		6,542,816

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.

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 2017, 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$12,916 million (31 December 2016: decrease or increase by HK$9,395 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.

47 Financial risk management and fair values (continued)

(d) Currency risk (continued)

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

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

	As at 31 December 2016 (Restated)				
	HK$	US$	RMB	Others	Total
Total financial assets	166,423	403,917	6,135,822	40,168	6,746,330
Total financial liabilities	(180,071)	(443,208)	(5,782,118)	(64,543)	(6,469,940)
Financial asset-liability gap	(13,648)	(39,291)	353,704	(24,375)	276,390

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 2017 would decrease or increase the Group's profit before taxation by HK$3,515 million (31 December 2016: decrease or increase by HK$3,023 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.

47 Financial risk management and fair values (continued)

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying amounts of financial instruments 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.

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.

47 Financial risk management and fair values (continued)

(e) Fair values (continued)

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

	As at 31 December 2017			
	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	17,111	74,229	10	91,350
Derivative financial assets	–	78,464	875	79,339
Available-for-sale financial assets	73,039	695,115	15,160	783,314
	90,150	847,808	16,045	954,003
Liabilities				
Derivative financial liabilities	–	(80,075)	–	(80,075)

	As at 31 December 2016			
	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	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)

For the year ended 31 December 2017, there were no significant transfers between instruments in different levels (2016: Nil) and no significant changes in valuation techniques for determining the fair values of the instruments (2016: Nil).

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 2017				
	Assets				Liabilities
	Financial assets at fair value through profit or loss HK$ million	Derivatives financial assets HK$ million	Available-for-sale financial assets HK$ million	Total HK$ million	Derivatives financial liabilities HK$ million
At 1 January 2017	32	2	18,057	18,091	(2)
Total (losses)/gains:	(17)	873	(117)	739	(2)
– in profit or loss	(17)	(2)	(816)	(835)	(2)
– in other comprehensive income	–	875	699	1,574	–
Net settlements	(5)	–	(2,780)	(2,785)	4
At 31 December 2017	10	875	15,160	16,045	–
Total losses for the year included in profit or loss for assets and liabilities held in Level 3 as at the balance sheet date	(17)	(2)	(816)	(835)	(2)

	For the year ended 31 December 2016				
	Assets				Liabilities
	Financial assets at fair value through profit or loss HK$ million	Derivatives financial assets HK$ million	Available-for-sale financial assets HK$ million	Total HK$ million	Derivatives financial liabilities 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

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 2017				
	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	261,654	254,349	1,090	253,179	80
Investments classified as receivables	644,789	638,429	–	111,217	527,212
	906,443	892,778	1,090	364,396	527,292
Financial liabilities					
Debt instruments issued					
– Corporate bonds issued	91,644	87,558	2,632	84,926	–
– Notes issued	147,002	145,099	377	144,722	–
– Subordinated bonds issued	88,200	91,213	6,617	84,596	–
– Certificates of deposit (not for trading purpose)	3,409	3,408	–	3,408	–
– Certificates of interbank deposit issued	323,116	317,105	–	317,105	–
	653,371	644,383	9,626	634,757	–

	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	–

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.

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 2017			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Sales of goods	1	89	203	293
Purchase of goods	–	211	2,521	2,732
Interest income (note (2))	–	210	247	457
Interest expenses	205	183	273	661
Fee and commission income	53	3	761	817
Fee and commission expenses	–	–	33	33
Income from other services	–	46	92	138
Expenses for other services	–	130	840	970
Interest income from deposits and receivables	–	21	2	23
Other operating expenses	2	21	217	240

48 Material related parties (continued)

(b) Related party transactions

(i) Transaction amounts with related parties (continued)

	For the year ended 31 December 2016 (Restated)			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Sales of goods	–	388	124	512
Purchase of goods	–	768	1,722	2,490
Interest income (note (2))	12	172	92	276
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	–	96	669	765
Interest income from deposits and receivables	–	69	50	119
Other operating expenses	–	69	26	95

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 (i.e. issuance of asset-backed securities in the form of private placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

48 Material related parties (continued)

(b) Related party transactions (continued)

(ii) Outstanding balances with related parties

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

48 Material related parties (continued)

(b) Related party transactions (continued)

(ii) Outstanding balances with related parties (continued)

	As at 31 December 2016 (Restated)			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Trade and other receivables	69	3,202	1,249	4,520
Loans and advances to customers and other parties (note (2))	–	12,781	4,058	16,839
Placements with banks and non-bank financial institutions	–	27	748	775
Cash and deposits	–	–	2,549	2,549
Financial assets at fair value through profit or loss	–	–	143	143
Derivative financial instruments and other assets	–	3	736	739
Available-for-sale financial assets	–	–	942	942
Trade and other payables	3,055	21,430	2,043	26,528
Deposits from customers	1,365	7,997	9,067	18,429
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
Off-balance sheet items				
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

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.

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 2017, the aggregate amount of the remuneration before tax paid to directors and executive officers of the Company amounted to HK$9.97 million (2016: HK$8.84 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.

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:

	As at 31 December 2017						
Carrying amount	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	–	–	16,614	166,310	182,924	–	182,924
Investment management products managed by securities companies	–	–	408	322,029	322,437	–	322,437
Trust investment plans	–	–	5,681	155,224	160,905	–	160,905
Asset-backed securities	–	40,954	20,190	–	61,144	–	61,144
Investment funds	2,393	–	152,195	364	154,952	–	154,952
Total	2,393	40,954	195,088	643,927	882,362	–	882,362

	As at 31 December 2016						
Carrying amount	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

49 Structured entities (continued)

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

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

Wealth management products and trust plans

As at 31 December 2017, the aggregate amount of assets held by the unconsolidated non-principal-guaranteed wealth management products and trust plans which are sponsored by the Group was HK$3,731,749 million (31 December 2016: HK$2,662,231 million).

As at 31 December 2017, the carrying amounts of management fee receivables being recognised in the balance sheet were HK$871 million (31 December 2016: HK$601 million).

As at 31 December 2017, the amount of placements and financial assets held under resale agreements from the Group with non-principal-guaranteed wealth management products sponsored by the Group was HK$84,325 million (31 December 2016: HK$69,312 million).

The aggregate amount of the non-principal-guaranteed wealth management products sponsored and issued by the Group after 1 January 2017 but matured before 31 December 2017 was HK$713,765 million (2016: HK$829,515 million).

During the year ended 31 December 2017, the maximum exposure of the placements and financial assets held under resale agreements from the Group with non-principal guaranteed wealth management products sponsored by the Group was HK$86,579 million (2016: HK$64,170 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 2017, the amount of fee and commission income recognised from the abovementioned structured entities sponsored by the Group was HK$11,620 million (2016: HK$12,711 million).

49 Structured entities (continued)

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

Securitisation transactions and loan transfers

For the year ended 31 December 2017, 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 2017 totalled HK$210,072 million are set forth below (2016: HK$133,175 million).

During the year ended 31 December 2017, the Group entered into securitisation transactions backed by financial assets transferred with book value before impairment of HK$152,254 million (2016: HK$54,952 million), of which HK$151,220 million (2016: HK$49,922 million) were qualified for full de-recognition. The balance of HK$1,035 million (2016: HK$5,030 million) was in respect of non-performing loans transferred.

The Group concluded that it had continuing involvement in these assets as at 31 December 2017 based on the related criteria set forth in Note 2(i) and Note 3. As at 31 December 2017, the Group continued to recognise assets of HK$920 million (31 December 2016: HK$771 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 2017, the Group also through other types of transactions transferred loans of book value before impairment of HK$57,817 million (2016: HK$78,223 million), of which HK$46,336 million represented non-performing loans (2016: HK$60,396 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)).

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.

The aggregate results of the discontinued operations were as follows:

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

51 Major business combinations

(a) Acquisition of a controlling interest in McDonald's Mainland China and Hong Kong businesses

On 31 July 2017, the Company, CITIC Capital China Partners III, L.P. ("CITIC Capital") and Carlyle Asia Partner IV, L.P. ("Carlyle") acquired from McDonald's China Holding Ltd. ("MCHL") and Golden Arches Investment Ltd. ("GAIL" together with MCHL, the "Sellers") a controlling interest in McDonald's Mainland China and Hong Kong businesses (the "Acquisition") through Grand Foods Investment Holdings Limited (the "Purchaser", an indirect non-wholly owned subsidiary of the Company). The Purchaser acquired the entire issued share capital of McDonald's China Management Company Limited ("Target Company") at a total consideration of US$1,832 million (approximately HK$14,313 million). The consideration for the Acquisition was 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 issued to GAIL.

Upon the completion of the Acquisition, the Target Company was 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 with a capital injection of US$309 million (approximately HK$2,411 million) and US$193 million (approximately HK$1,509 million) respectively), Carlyle and GAIL as to 52%, 28% and 20%, respectively. The goodwill of HK$945 million arising from the Acquisition is attributable to acquired customer base and economies of scale expected from combining the operations.

51 Major business combinations (continued)

(a) Acquisition of a controlling interest in McDonald's Mainland China and Hong Kong businesses (continued)

The following table summarises the consideration paid for the Acquisition of a controlling interest in McDonald's Mainland China and Hong Kong businesses, the fair values of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date.

Consideration:

	HK$ million
Cash	12,806
Equity instruments	1,507
Total consideration paid by the Purchaser	14,313
Of which: fund from capital injection by the Company to Fast Food Holdings Limited	2,411
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and deposits	775
Trade and other receivables	831
Inventories	209
Interests in joint ventures	2,281
Fixed assets	8,633
Intangible assets	2,971
Deferred tax assets	92
Other assets	502
Total identifiable assets acquired	16,294
Trade and other payables	(3,237)
Deferred tax liabilities	(1,140)
Other liabilities	(23)
Total identifiable liabilities assumed	(4,400)
Total identifiable net assets of Target Company	11,894
Bank loans raised by Grand Foods Holdings Limited to fund the Acquisition	(6,780)
Non-controlling interests	(3,648)
Goodwill	945
	2,411

Net cash paid for acquisition:

	HK$ million
Total consideration paid in cash	12,482
Cash and cash equivalents acquired	(775)
	11,707

51 Major business combinations (continued)

(a) Acquisition of a controlling interest in McDonald's Mainland China and Hong Kong businesses (continued)

Notes:

(i) Acquisition-related costs of approximately HK$162 million have been charged to other operating expenses in the consolidated income statement for the year ended 31 December 2017.

(ii) The fair value of acquired trade and other receivables is HK$831 million including prepayments and other receivables with a fair value of HK$831 million.

(iii) The fair value of new shares issued by Grand Foods Holdings Limited as part of the consideration for a controlling interest in McDonald's Mainland China and Hong Kong businesses was based on the fair value of net assets of Grand Foods Holdings Limited when the shares were issued.

(iv) Non-controlling interests in McDonald's Mainland China and Hong Kong businesses were recognised at proportionate share of the fair value of its net assets.

(v) The revenue and net profit attributable to ordinary shareholders of the Group during the period from 31 July 2017 to 31 December 2017 contributed by McDonald's Mainland China and Hong Kong businesses was HK$9,515 million and HK$137 million respectively. Had McDonald's Mainland China and Hong Kong businesses been consolidated from 1 January 2017, the consolidated income statement would show pro-forma revenue and net profit attributable to ordinary shareholders of the Group of approximately HK$463,589 million and HK$44,078 million respectively.

(b) Business combinations under common control - acquisition of Qingdao Special Iron and Steel Co., Ltd. ("Qingdao Special Steel")

On 15 May 2017, CITIC Group acquired 100% equity interest in Qingdao Special Steel from Qingdao Steel Holding Group Co., Ltd. On 24 October 2017, Jiangyin Xingcheng Special Steel Works Co., Ltd. ("Xingcheng Special Steel"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with CITIC Group through the public tender process on the China Beijing Equity Exchange, pursuant to which Xingcheng Special Steel (as the sole bidder) agreed to acquire 100% equity interest in Qingdao Special Steel held by CITIC Group at a consideration of RMB127 million (approximately HK$150 million). On 24 October 2017, the equity transfer was completed and Qingdao Special Steel became an indirect wholly-owned subsidiary of the Company with net asset of HK$109 million.

The acquisition represents a business combination under common control as Qingdao Special Steel and the Company were ultimately controlled by CITIC Group both before and after the acquisition, and that control is not transitory. The financial statements of Qingdao Special Steel are included in the Group's consolidated financial statements as if the combination had occurred from the date when the ultimate controlling shareholder first obtained control.

51 Major business combinations (continued)

(b) Business combinations under common control - acquisition of Qingdao Special Iron and Steel Co., Ltd. ("Qingdao Special Steel") (continued)

Recognised amounts of identifiable assets deemed acquired and liabilities deemed assumed on 15 May 2017 when the ultimate controlling shareholder first obtained control

Cash and deposits	8,188
Trade and other receivables	4,488
Inventories	2,713
Interests in joint ventures	144
Fixed assets	11,642
Total identifiable assets acquired	27,175
Trade and other payables	(11,380)
Bank and other loans	(15,643)
Total identifiable liabilities assumed	(27,023)
Non-controlling interests	(2)
Total identifiable net assets acquired	150

(c) Business combinations under common control – acquisition of Star Thrive Investment Limited ("Star Thrive")

On 29 September 2017, CITIC Metal Group Limited ("CITIC Metal"), an indirect wholly-owned subsidiary of the Company, and Star Thrive, an indirect wholly-owned subsidiary of CITIC Group (which is a special purpose vehicle holding 76.37% equity interest in Jinzhou Titanium Industry Co., Ltd.), entered into the New Share Subscription Agreement, pursuant to which CITIC Metal agreed to subscribe for 60% of the enlarged share capital of Star Thrive at a consideration of HK$1,326 million. On 29 September 2017, the transaction under the New Share Subscription Agreement was completed. The Group's share of the net asset of Star Thrive was HK$1,198 million.

The acquisition represents a business combination under common control as Star Thrive and the Company were ultimately controlled by CITIC Group both before and after the acquisition, and that control is not transitory. The financial statements of Star Thrive are included in the Group's consolidated financial statements as if the combination had occurred from the date when the ultimate controlling shareholder first obtained control. Therefore, the opening balances and the comparative figures of the consolidated financial statements are restated.

51 Major business combinations (continued)

(c) Business combinations under common control – acquisition of Star Thrive Investment Limited ("Star Thrive") (continued)

The following is a reconciliation of the effect arising from the acquisition of Star Thrive which is accounted for under common control combination on the consolidated financial statements.

	As at 31 December 2016			
	Balances as previously reported HK$ million	Merger of Star Thrive HK$ million	Elimination of inter-company balances HK$ million	Balances as restated HK$ million
Consolidated balance sheet				
Total assets	7,237,995	1,552	(58)	7,239,489
Total liability	6,542,144	730	(58)	6,542,816
Share capital	381,710	743	(743)	381,710
Perpetual capital securities	7,873	–	–	7,873
Other reserves	(56,990)	(284)	559	(56,715)
Retained earnings	158,040	157	(63)	158,134
Total ordinary shareholders' funds and perpetual capital securities	490,633	616	(247)	491,002
Non-controlling interests	205,218	206	247	205,671
Total equity	695,851	822	–	696,673

	For the year ended 31 December 2016			
	Balances as previously reported HK$ million	Merger of Star Thrive HK$ million	Elimination of inter-company transactions HK$ million	Balances as restated HK$ million
Consolidated income statement				
Total revenue	380,822	844	(4)	381,662
Profit for the year	62,639	57	–	62,696
Consolidated cash flow statement				
Net cash generated from/(used in) operating activities	280,465	265	(66)	280,664
Net cash (used in)/generated from investing activities	(211,586)	143	–	(211,443)
Net cash generated from/(used in) financing activities	94,155	(423)	64	93,796

52 Supplementary information to the consolidated cash flow statement

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

	As at 31 December	
	2017 HK$ million	2016 HK$ million (Restated)
Cash	**8,150**	8,867
Bank deposits on demand	**48,224**	39,519
Surplus deposit reserve funds	**106,815**	65,795
Investments in debt securities due within three months	**62,101**	57,318
Deposits with banks and non-bank financial institutions due within three months	**171,472**	252,074
Placements with banks and non-bank financial institutions due within three months	**94,601**	70,606
Cash and cash equivalents in the consolidated cash flow statement	**491,363**	494,179

(b) Disposal of subsidiaries

	For the year ended 31 December	
	2017 HK$ million	2016 HK$ million
Total assets	**5,554**	147,240
Total liabilities	**(6,843)**	(126,116)
Non-controlling interests	**(132)**	(908)
Net (liabilities)/assets disposed	**(1,421)**	20,216
Total consideration	**913**	37,270
Release of other comprehensive income relating to interests in disposed subsidiaries	**–**	515
Remeasurement at fair value of retained interest in former subsidiaries	**2,393**	–
Gains on disposal/deemed disposal of subsidiaries		
– Continuing operations	**4,727**	1,359
– Discontinued operations	**–**	16,210
	4,727	17,569
Net cash inflow/(outflow) is determined as follows:		
Cash proceeds received	**1,218**	773
Less: cash and cash equivalents disposed	**(354)**	(13,152)
– Continuing operations	**864**	754
– Discontinued operations	**–**	(13,133)
	864	(12,379)

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

(c) Reconciliation of financing liabilities

	For the year ended 31 December				
	Bank and other loans HK$ million	Debt instruments issued HK$ million	Lease liabilities HK$ million	Interest expense HK$ million	Total HK$ million
At 1 January 2017	113,125	543,893	469	44,214	701,701
Cash flows	13,434	79,672	(71)	(31,797)	61,238
Business combination/(disposal of subsidiaries)	12,321	239	–	102	12,662
Foreign exchange adjustments	3,709	28,214	24	3,920	35,867
Other non-cash movements	(147)	1,353	–	33,610	34,816
At 31 December 2017	142,442	653,371	422	50,049	846,284

53 Major transactions with non-controlling interests

Dilution of interests in a subsidiary without loss of control

In September 2017, CBI issued new shares to five investors, raising HK$9,053 million in total. Upon the issuance of new shares, equity interests indirectly owned by CITIC Bank in CBI reduced from 100% to 75%. The Group recognised an increase in non-controlling interests of HK$8,794 million and an increase in equity attributable to shareholders of the Company of HK$259 million.

The effect of changes in the ownership interest of CBI on the equity attributable to shareholders of the Company during the year is summarised as follows:

	For the year ended 31 December 2017 HK$ million
Increase in carrying amount of non-controlling interests	8,794
Consideration received from non-controlling interests	(9,053)
Gain on disposal within equity	(259)

54 Balance sheet and reserve movement of the Company

	As at 31 December	
	2017	2016
	HK$ million	HK$ million
Non-current assets		
Fixed assets	**11**	7
Interests in subsidiaries	**428,227**	431,098
Interests in joint ventures	**35**	3,886
Available-for-sale financial assets	**3,597**	3,444
Derivative financial instruments	**–**	44
	431,870	438,479
Current assets		
Derivative financial instruments	**62**	4
Amounts due from subsidiaries	**61,898**	47,839
Trade and other receivables	**137**	251
Cash and deposits	**5,874**	4,897
	67,971	52,991
Total assets	**499,841**	491,470
Current liabilities		
Bank and other loans	**78**	2,058
Amounts due to subsidiaries and other related parties	**11,769**	23,023
Trade and other payables	**1,224**	1,425
Derivative financial instruments	**93**	44
Income tax payable	**435**	134
Debt instruments issued	**8,996**	–
	22,595	26,684
Non-current liabilities		
Long term borrowings	**21,683**	11,357
Debt instruments issued	**55,517**	54,832
Derivative financial instruments	**900**	1,090
	78,100	67,279
Total liabilities	**100,695**	93,963
Equity		
Share capital	**381,710**	381,710
Perpetual capital securities	**7,873**	7,873
Reserves	**9,563**	7,924
Total ordinary shareholders' funds and perpetual capital securities	**399,146**	397,507
Total liabilities and equity	**499,841**	491,470

The balance sheet of the Company was approved and authorised for issue by the board of directors on 28 March 2018.

Director: **Chang Zhenming** *Director:* **Wang Jiong**

54 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 2017	381,710	7,873	630	(939)	(138)	8,371	397,507
Cash flow hedges:							
– Fair value loss during the year	–	–	–	(190)	–	–	(190)
– Transfer to net finance charges	–	–	–	310	–	–	310
	–	–	–	120	–	–	120
Profit attributable to shareholders of the Company	–	673	–	–	–	11,257	11,930
Dividends paid to ordinary shareholders of the Company	–	–	–	–	–	(9,891)	(9,891)
Distributions to holders of perpetual capital securities	–	(673)	–	–	–	–	(673)
Available-for-sale financial assets: net movement in the fair value reserve	–	–	–	–	153	–	153
At 31 December 2017	381,710	7,873	630	(819)	15	9,737	399,146

	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

55 Post balance sheet events

(a) On 24 November 2017, the Supreme Court of Western Australia issued a judgement in the Royalty Component B proceeding (CIV 1808 of 2013) (the "Judgement") brought by Mineralogy (Note 3(l)). The CITIC parties concerned have filed an appeal notice in respect of the Judgement with the Court of Appeal of the Supreme Court of Western Australia on 29 January 2018.

56 Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

57 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 2017 and which have not been early adopted in these consolidated financial statements.

HKFRS 15	Revenue from contracts with customers (1)
HKFRS 9	Financial instruments (1)
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions (1)
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instrument with HKFRS 4 Insurance Contracts (1)
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards (1)
HKAS 28 (Amendments)	Investment in Associates and Joint Ventures (1)
HKAS 40 (Amendments)	Transfers of investment property (1)
HK(IFRIC) 22	Foreign Currency Transaction and Advance Consideration (1)
HKFRS 16	Leases (2)
HK(IFRIC) 23	Uncertainty over Income Tax Treatments (2)
HKAS 28 and HKFRS 10 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture (3)

(1) Effective for the annual periods beginning on or after 1 January 2018.
(2) Effective for the annual periods beginning on or after 1 January 2019.
(3) 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.

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

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 fair value through other comprehensive income ("FVOCI"), contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

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 impact of the adoption of HKFRS 9 on the consolidated financial statements of the Group is an overall reduction to the total ordinary shareholders' equity of the Company as at 1 January 2018 of approximately HK$4,711 million, attributable to the adoption of ECL partially offset by classification and measurement changes.

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 made an assessment on the impact of this new standard, and concluded that it did not have a significant impact on the consolidated financial statements of the Group as at 1 January 2018.

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.

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

HKFRS 16, Leases (continued)

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$27,237 million (Note 46(g)). The Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities 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.

58 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	49,881	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	1,847,038,804	56.35%	0%	56.35%
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	3,544,163,580	60.08%	0%	60.08%
M China Management Limited 金拱門中國管理有限公司	Hong Kong	Service	N/A	32.00%	0%	100%
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%

58 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 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%
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%

58 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 Heye Investment Co., Ltd. 中信和業投資有限公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Asset Operation Co.,Ltd. 中信資產運營有限公司	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 中信出版集团股份有限公司	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%

58 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	16.50%	0%	16.50%
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. 中信保誠人壽保險有限公司	Mainland China	Insurance and reinsurance	N/A	50%	0%	50%
上海瑞博置業有限公司	Mainland China	Real estate	N/A	50%	0%	50%
山東新巨龍能源有限責任公司	Mainland China	Resources and energy	N/A	30%	0%	30%

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 166 to 339, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- 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 2017, 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.

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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.

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
- Disclosure of the possible impact of HKFRS 9 implementation of CITIC Bank
- Impairment of the Sino Iron Project

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of loans and advances to customers and other parties and investments classified as receivables of CITIC Bank	
Loans and advances to customers and other parties	***Loans and advances to customers and other parties***
Refer to Note 2(i), Note 3 and Note 25 to the consolidated financial statements. As at 31 December 2017, loans and advances to customers and other parties of CITIC Bank amounted to RMB3,196.9 billion (approximately HK$3,824.5 billion), and the corresponding allowance for impairment losses was RMB90.9 billion (approximately HK$108.7 billion). 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. 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. 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.	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). 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. 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. 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. 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.

Key Audit Matter

Impairment of loans and advances to customers and other parties and investments classified as receivables of CITIC Bank (Continued)

Investments classified as receivables

Refer to Note 2(i), Note 3 and Note 28 to the consolidated financial statements.

As at 31 December 2017, investments classified as receivables ("Investments") of CITIC Bank amounted to RMB534.1 billion (approximately HK$638.9 billion), and the corresponding allowance for impairment losses was RMB2.9 billion (approximately HK$3.5 billion).

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.

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.

How our audit addressed the Key Audit Matter

Investments classified as receivables

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.

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.

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.

For Investments with credit-type underlying assets, that were not identified as impaired from individual assessments, we evaluated the appropriateness of the Investments' allowance for impairment losses based on the credit risk characteristics of the underlying assets, and by reference to the level of CITIC Bank's collective impairment allowance for its corporate loans and advances to customers with similar credit risk characteristics.

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.

Key Audit Matter	How our audit addressed the 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 2017, 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.	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.

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 2017, 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Disclosure of the possible impact of HKFRS 9 implementation of CITIC Bank	
Refer to Note 57 to the consolidated financial statements. The Group adopted HKFRS 9 – Financial Instruments ("HKFRS 9") on 1 January 2018. HKFRS 9 involves three major changes: classification and measurement, impairment and hedge accounting. In addition, according to HKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, for those HKFRSs which are issued but not yet effective, entities should disclose the possible impact where it is known or can be reasonably estimated. Therefore, the Group disclosed the possible impact, whether it is known or can be reasonably estimated, of HKFRS 9 implementation in the notes to the financial statements for the year 2017. Adopting HKFRS 9 poses significant impact on the Group's subsidiary, CITIC Bank. Estimation of the impact on equity attributable to ordinary equity holders for HKFRS 9 implementation is a highly complex process, which involves significant management's judgement. Hence, we focused on this area as a key audit matter.	We obtained management's judgement and logic on classification under HKFRS 9 and its result, checked the consistency of the classification against the relevant requirements of HKFRS 9, and assessed the accuracy of the classification; We obtained management's valuation method and results of parameters selection for financial products measured at fair value, and assessed the reasonableness of the valuation method and parameters selected with the involvement of our valuation specialists; For Expected Credit Losses("ECL") under HKFRS 9 estimated by management, we performed the following procedures: • Obtained an understanding of methodology for ECL model, development processes and its relevant controls, through review of documentation and discussion with management and credit modelling specialists. With the involvement of our modelling specialists, we assessed the reasonableness of assumptions and judgement made by management on model adoption and parameters selection; • Examined the key data inputs to the ECL model on a sample basis to assess their accuracy and completeness. We obtained an understanding of the key processes related to information disclosure, and inspected the management's approval documents on the information disclosure related to change in accounting policies.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of the Sino Iron Project	
Refer to Note 3 and Note 8 to the consolidated financial statements. In light of the changes in the key assumptions, an impairment assessment has been undertaken on the Sino Iron Project ("the Project") as at 31 December 2017. 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$921 million (approximately HK$7,184 million) has been recognised in the consolidated income statement. In the impairment assessment, the most significant areas of judgement applied by management relate to: • 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. As the impairment assessment involves significant assumptions and judgements, we regard this as a key audit matter.	In evaluating management's valuation of the Project we undertook the following procedures: • 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; • Performed sensitivity analysis on the key assumptions. 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.

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.

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 HKSAs 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 HKSAs, 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.

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 Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 March 2018