Contents of Financial Statements and Notes

Consolidated Income Statement

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Interest income		279,148	256,108
Interest expenses		(152,895)	(139,426)
Net interest income	5(a)	126,253	116,682
Fee and commission income		66,670	64,797
Fee and commission expenses		(6,641)	(5,617)
Net fee and commission income	5(b)	60,029	59,180
Sales of goods and services	5(c)	330,288	260,481
Other revenue	5(d)	16,715	14,193
		347,003	274,674
Total revenue		533,285	450,536
Cost of sales and services	6, 12	(270,863)	(222,869)
Other net income	7	7,713	14,596
Impairment losses	10	N/A	(78,925)
Expected credit losses	8	(69,059)	N/A
Other impairment losses	9	(6,511)	N/A
Other operating expenses	12	(102,685)	(83,981)
Net valuation gain on investment properties	36	954	58
Share of profits of associates, net of tax		7,914	7,564
Share of profits of joint ventures, net of tax		2,786	5,889
Profit before net finance charges and taxation		103,534	92,868
Finance income		2,729	1,412
Finance costs		(12,294)	(11,497)
Net finance charges	11	(9,565)	(10,085)
Profit before taxation	12	93,969	82,783
Income tax	13	(18,944)	(17,687)
Profit for the year		75,025	65,096
Attributable to:			
– Ordinary shareholders of the Company		50,239	43,902
– Holders of perpetual capital securities		600	673
– Non-controlling interests		24,186	20,521
Profit for the year		75,025	65,096
Earnings per share for profit attributable to ordinary shareholders of the Company during the year:			
Basic and diluted earnings per share (HK$)	17	1.73	1.51

The notes on pages 178 to 364 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Profit for the year		75,025	65,096
Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)	18		
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets: net movement in the fair value reserve		N/A	(9,892)
Fair value changes on financial assets at fair value through other comprehensive income		11,885	N/A
Loss allowance on financial assets at fair value through other comprehensive income		166	N/A
Cash flow hedge: net movement in the hedging reserve		234	968
Share of other comprehensive (loss)/income of associates and joint ventures		(1,938)	1,373
Exchange differences on translation of financial statements and others		(34,735)	44,961
Items that will not be reclassified subsequently to profit or loss:			
Reclassification of owner-occupied property as investment property: revaluation gain		164	47
Fair value changes on investments in equity instruments designated at fair value through other comprehensive income		(844)	N/A
Other comprehensive (loss)/income for the year, net of tax		(25,068)	37,457
Total comprehensive income for the year		49,957	102,553
Attributable to:			
– Ordinary shareholders of the Company		32,081	70,453
– Holders of perpetual capital securities		600	673
– Non-controlling interests		17,276	31,427
Total comprehensive income for the year		49,957	102,553

The notes on pages 178 to 364 form part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 HK$ million	2017 HK$ million
Assets			
Cash and deposits	20	832,968	924,584
Placements with banks and non-bank financial institutions	21	200,030	205,346
Financial assets at fair value through profit or loss	22	N/A	91,350
Derivative financial instruments	23	37,294	79,339
Trade and other receivables	24	111,057	149,204
Amounts due from customers for contract work		N/A	1,820
Contract assets	25	11,068	N/A
Inventories	26	58,087	58,552
Financial assets held under resale agreements	27	12,955	65,349
Loans and advances to customers and other parties	28	4,024,401	3,721,886
Investments in financial assets	29		
– Financial assets at amortised cost		899,348	N/A
– Financial assets at fair value through profit or loss		395,259	N/A
– Debt investments at fair value through other comprehensive income		582,899	N/A
– Equity investments at fair value through other comprehensive income		6,921	N/A
Available-for-sale financial assets	30	N/A	807,912
Held-to-maturity investments	31	N/A	261,654
Investments classified as receivables	32	N/A	644,789
Interests in associates	34	116,631	98,644
Interests in joint ventures	35	38,620	37,418
Fixed assets	36	189,647	196,047
Investment properties	36	32,579	33,073
Intangible assets	37	14,387	23,721
Goodwill	38	22,885	23,989
Deferred tax assets	39	50,011	48,585
Other assets		23,666	47,477
Total assets		7,660,713	7,520,739

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 HK$ million	2017 HK$ million
Liabilities			
Borrowing from central banks		327,629	284,818
Deposits from banks and non-bank financial institutions	40	888,966	954,638
Placements from banks and non-bank financial institutions	41	129,163	90,131
Financial liabilities at fair value through profit or loss		1,468	–
Derivative financial instruments	23	37,676	80,075
Trade and other payables	42	171,093	226,110
Amounts due to customers for contract work		N/A	3,334
Contract liabilities	25	18,535	N/A
Financial assets sold under repurchase agreements	43	138,589	160,902
Deposits from customers	44	4,159,924	4,056,158
Employee benefits payables		22,705	20,429
Income tax payable	39	11,551	13,446
Bank and other loans	45	156,678	142,442
Debt instruments issued	46	745,031	653,371
Provisions	47	9,713	5,474
Deferred tax liabilities	39	8,756	9,438
Other liabilities		22,576	26,332
Total liabilities		6,850,053	6,727,098
Equity	48		
Share capital		381,710	381,710
Perpetual capital securities		–	7,873
Reserves		176,835	161,368
Total ordinary shareholders' funds and perpetual capital securities		558,545	550,951
Non-controlling interests		252,115	242,690
Total equity		810,660	793,641
Total liabilities and equity		7,660,713	7,520,739

Approved and authorised for issue by the board of directors on 29 March 2019.

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

The notes on pages 178 to 364 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Note	Share capital HK$ million (Note 48(a))	Perpetual capital securities HK$ million (Note 48(c))	Capital reserve HK$ million (Note 48(d)(i))	Hedging reserve HK$ million (Note 48(d)(ii))	Investment related reserves HK$ million (Note 48(d)(iii))	General reserve HK$ million (Note 48(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 48(d)(v))	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 31 December 2017		381,710	7,873	(62,523)	1,917	(7,603)	45,088	191,554	(7,065)	550,951	242,690	793,641
Changes in accounting policies	2(f)	–	–	–	–	3,220	14	(8,495)	–	(5,261)	(2,708)	(7,969)
Balance at 1 January 2018		381,710	7,873	(62,523)	1,917	(4,383)	45,102	183,059	(7,065)	545,690	239,982	785,672
Profit for the year		–	600	–	–	–	–	50,239	–	50,839	24,186	75,025
Other comprehensive income/(loss) for the year	18	–	–	–	336	5,288	–	–	(23,782)	(18,158)	(6,910)	(25,068)
Total comprehensive income/(loss) for the year		–	600	–	336	5,288	–	50,239	(23,782)	32,681	17,276	49,957
Redemption of perpetual capital securities	48(c)	–	(7,800)	–	–	–	–	–	–	(7,800)	–	(7,800)
Capital injection by non-controlling interests		–	–	–	–	–	–	–	–	–	642	642
Issue of other equity instruments by subsidiaries	55(d)	–	–	–	–	–	–	–	–	–	3,957	3,957
Transfer of profits to general reserve		–	–	–	–	–	252	(252)	–	–	–	–
Dividends paid to ordinary shareholders of the Company	16	–	–	–	–	–	–	(11,637)	–	(11,637)	–	(11,637)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(8,773)	(8,773)
Distribution to holders of perpetual capital securities		–	(673)	–	–	–	–	–	–	(673)	–	(673)
Redemption of other equity instruments by subsidiaries	55(d)	–	–	–	–	–	–	–	–	–	(2,689)	(2,689)
Disposal of subsidiaries	55(b)	–	–	–	–	–	–	–	–	–	(760)	(760)
Transactions with non-controlling interests	56	–	–	316	–	–	–	–	–	316	2,661	2,977
Others		–	–	(32)	–	–	–	–	–	(32)	(181)	(213)
Other changes in equity		–	(8,473)	284	–	–	252	(11,889)	–	(19,826)	(5,143)	(24,969)
Balance at 31 December 2018		381,710	–	(62,239)	2,253	905	45,354	221,409	(30,847)	558,545	252,115	810,660

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share capital HK$ million (Note 48(a))	Perpetual capital securities HK$ million (Note 48(c))	Capital reserve HK$ million (Note 48(d)(i))	Hedging reserve HK$ million (Note 48(d)(ii))	Investment related reserves HK$ million (Note 48(d)(iii))	General reserve HK$ million (Note 48(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 48(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	2(a)	–	–	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	18	–	–	–	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	16	–	–	–	–	–	–	(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)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	3,793	3,793
Disposal of subsidiaries	55(b)	–	–	–	–	–	–	–	–	–	(132)	(132)
Transactions with non-controlling interests		–	–	269	–	–	–	–	–	269	8,727	8,996
Capital injection in business combination under common control	2(a)	–	–	(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

The notes on pages 178 to 364 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Cash flows from operating activities			
Profit before taxation		93,969	82,783
Adjustments for:			
– Depreciation and amortisation	12(b)	15,091	14,171
– Impairment losses	10	N/A	78,925
– Expected credit losses	8	69,059	N/A
– Other impairment losses	9	6,511	N/A
– Net valuation gain on investment properties	36	(954)	(58)
– Net valuation gain on investments		7,301	(3,746)
– Share of profits of associates and joint ventures, net of tax		(10,700)	(13,453)
– Interest expenses on debts instruments issued	5(a)	26,667	22,113
– Finance income	11	(2,729)	(1,412)
– Finance costs	11	12,294	11,497
– Net gain on available-for-sale financial assets		N/A	(5,127)
– Net gain on investments in financial assets		(12,729)	N/A
– Net gain on disposal of subsidiaries, associates and joint ventures		(3,212)	(9,011)
		200,568	176,682
Changes in working capital			
Decrease in deposits with central banks, banks and non-bank financial institutions		82,995	8,201
Decrease in placements with banks and non-bank financial institutions		50,873	12,561
Decrease in financial assets at fair value through profit or loss		N/A	18,149
Increase in trade and other receivables		(8,477)	(11,368)
Decrease in amounts due from customers for contract work		N/A	129
Increase in contract assets		(7,542)	N/A
Increase in inventories		(2,398)	(9,775)
Decrease in financial assets held under resale agreements		51,232	136,684
Increase in loans and advances to customers and other parties		(535,417)	(422,202)
Decrease in investments classified as receivables		N/A	581,091
Decrease in investments in financial assets		14,854	N/A
Decrease/(increase) in other assets		19,073	(38,751)
Decrease in deposits from banks and non-bank financial institutions		(23,664)	(210,828)
Increase/(decrease) in placements from banks and non-bank financial institutions		39,950	(7,788)
Increase in financial liabilities at fair value through profit or loss		1,134	–
Increase in trade and other payables		7,220	21,709
Increase in amounts due to customers for contract work		N/A	442
Increase in contract liabilities		4,470	N/A
(Decrease)/increase in financial assets sold under repurchase agreements		(15,523)	16,326
Increase/(decrease) in deposits from customers		246,834	(231,665)
Increase in borrowing from central banks		52,248	62,290
(Decrease)/increase in other liabilities		(8,996)	22,269
Increase in employee benefits payables		2,276	2,137
(Decrease)/increase in provisions		(732)	1,806
Cash generated from operating activities		170,978	128,099
Income tax paid		(19,079)	(20,966)
Net cash generated from operating activities		151,899	107,133

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Cash flows from investing activities			
Proceeds from disposal and redemption of financial investments		1,691,875	1,214,792
Proceeds from disposal of fixed assets, intangible assets and other assets		2,901	1,281
Proceeds from disposal of associates and joint ventures		3,679	1,991
Net cash received from disposal of subsidiaries	55(b)	2,734	864
Dividends received from equity investments, associates and joint ventures		4,989	4,277
Payments for purchase of financial investments		(1,845,989)	(1,374,211)
Payments for additions of fixed assets, intangible assets and other assets		(16,421)	(21,723)
Net cash payment for acquisition of subsidiaries		(7,266)	(6,084)
Net cash payment for acquisition of associates and joint ventures		(14,193)	(7,788)
Net cash used in investing activities		(177,691)	(186,601)
Cash flows from financing activities			
Capital injection received from non-controlling interests		606	420
Transaction with non-controlling interests	56	2,977	9,020
Proceeds from new bank and other loans	55(c)	121,703	104,354
Repayment of bank and other loans and debt instruments issued	55(c)	(1,088,334)	(1,024,877)
Proceeds from new debt instruments issued	55(c)	1,108,072	1,013,629
Issue of other equity instruments by subsidiaries	55(d)	3,957	1,330
Interest paid on bank and other loans and debt instruments issued	55(c)	(38,103)	(31,797)
Dividends paid to non-controlling interests		(9,065)	(8,165)
Dividends paid to ordinary shareholders of the Company	16	(11,637)	(9,891)
Redemption of other equity instruments by subsidiaries	55(d)	(2,689)	–
Redemption of perpetual capital securities		(7,800)	–
Distribution paid to holders of perpetual capital securities		(673)	(673)
Net cash generated from financing activities		79,014	53,350
Net increase/(decrease) in cash and cash equivalents		53,222	(26,118)
Cash and cash equivalents at 1 January		491,363	494,179
Effect of exchange changes		(21,777)	23,302
Cash and cash equivalents at 31 December	55(a)	522,808	491,363

The notes on pages 178 to 364 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1 General information

CITIC Limited (the "Company") was incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The 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 2018, the equity interests held by CITIC Group in the Company through its overseas wholly-owned subsidiaries was 58.13% (31 December 2017: 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.

On 29 September and 24 October 2017, the Group acquired control of Star Thrive Investment Limited ("Star Thrive") and Qingdao Special Iron and Steel Co., Ltd. ("Qingdao Special Steel") respectively through business combination under common control. Qingdao Special Steel was acquired by CITIC Group from Qingdao Steel Holding Group Co., Ltd. on 15 May 2017. The financial statements of Star Thrive and Qingdao Special Steel are included in the Group's comparative financial statements as at 31 December 2017 and for the year then ended as if the combination had occurred from the date when the ultimate controlling party first obtained control. The comparative financial statements were prepared and restated using the carrying amount of the assets and liabilities of Star Thrive and Qingdao Special Steel respectively.

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, except for the adoption of HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15").

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) HKFRS 9, Financial Instruments

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

Disclosure relating to the impact of the adoption of HKFRS 9 on the Group are described in Note 2(f). Further details of the specific HKFRS 9 accounting policies applied in the current period are described in more detail in Note 2(k).

(ii) Amendments to HKFRS 4, Insurance Contracts

The amendment to HKFRS 4 addresses the concerns of insurance companies about the different effective dates of HKFRS 9 Financial instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from HKFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional.

(iii) HKFRS 15, Revenue from contracts with customers

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 – so the notion of control replaces the existing notion of risks and rewards.

Disclosure relating to the impact of the adoption of HKFRS 15 on the Group are described in Note 2(f). Further details of the specific HKFRS 15 accounting policies applied in the current period are described in more detail in Note 2(x).

(iv) Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions

The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled.

(v) Annual improvements 2014-2016 cycle

The following improvements were finalised in December 2016:

- HKFRS 1 – deleted short-term exemptions covering transition provisions of HKFRS 7, HKAS 19 and HKFRS 10 which are no longer relevant.

- HKAS 28 – clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(vi) Amendments to HKAS 40, Transfers of Investment Property

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.

(vii) Amendments to Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

(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(j)). 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(n));
- financial assets and liabilities at fair value through profit or loss (see Note 2(k));
- financial assets at fair value through other comprehensive income (see Note 2(k)); and
- fair value hedged items (see Note 2(l)(i)).

2 Significant accounting policies (Continued)

(d) Use of estimates and judgement

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

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

(e) Changes in significant accounting policies and accounting estimates

HKFRS 9 Financial Instruments

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies

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

	As at 31 December 2017 HK$ million	Impact of first-time adoption of HKFRS 9 HK$ million (Note 2(f)(ii)(iii))	Impact of first-time adoption of HKFRS 15 HK$ million	As at 1 January 2018 HK$ million
Cash and deposits	924,584	(72)	–	924,512
Placements with banks and non-bank financial institutions	205,346	(196)	–	205,150
Financial assets at FVPL	91,350	(91,350)	–	–
Derivative financial instruments	79,339	–	–	79,339
Trade and other receivables	149,204	(8,563)	(2,089)	138,552
Amounts due from customers for contract work	1,820	–	(1,820)	–
Fixed assets	196,047	–	(2,932)	193,115
Contract assets	–	–	6,458	6,458
Financial assets held under resale agreements	65,349	(44)	–	65,305
Loans and advances to customers and other parties	3,721,886	(8,374)	–	3,713,512
Investments in financial assets				
– At amortised cost	–	774,199	–	774,199
– At FVPL	–	531,754	–	531,754
– Debt investments at FVOCI	–	507,420	–	507,420
– Equity investments at FVOCI	–	5,031	–	5,031
Available-for-sale financial assets	807,912	(807,912)	–	–
Held-to-maturity investments	261,654	(261,654)	–	–
Investments classified as receivables	644,789	(644,789)	–	–
Interests in associates	98,644	14	(497)	98,161
Deferred tax assets	48,585	555	5	49,145
Other assets	47,477	(188)	–	47,289
Total assets	7,520,739	(4,169)	(875)	7,515,695

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies (Continued)

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

	As at 31 December 2017 HK$ million	Impact of first-time adoption of HKFRS 9 HK$ million (Note 2(f)(ii)(iii))	Impact of first-time adoption of HKFRS 15 HK$ million	As at 1 January 2018 HK$ million
Trade and other payables	226,110	–	(11,182)	214,928
Amounts due to customers for contract work	3,334	–	(3,334)	–
Contract liabilities	–	–	14,065	14,065
Income tax payable	13,446	(1,752)	(8)	11,686
Provisions	5,474	5,452	–	10,926
Other liabilities	26,332	(481)	165	26,016
Total liabilities	6,727,098	3,219	(294)	6,730,023
Reserves	161,368	(4,711)	(550)	156,107
Non-controlling interests	242,690	(2,677)	(31)	239,982
Total equity	793,641	(7,388)	(581)	785,672
Total liabilities and equity	7,520,739	(4,169)	(875)	7,515,695

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies (Continued)

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

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

	As at 31 December 2017 HKAS 39 carrying amount HK$ million	Reclassification HK$ million	Remeasurement HK$ million	As at 1 January 2018 HKFRS 9 carrying amount HK$ million
Cash and deposits				
– At amortised cost	924,584	–	(72)	924,512
Placements with banks and non-bank financial institutions				
– At amortised cost	205,346	–	(196)	205,150
Derivative financial instruments				
– At FVPL	79,339	–	–	79,339
Financial assets held under resale agreements				
– At amortised cost	65,349	–	(44)	65,305
Trade and other receivables (note)				
– At amortised cost	149,204	(7,336)	(1,227)	140,641
Loans and advances to customers and other parties				
– At amortised cost	3,721,886	(7,068)	(8,368)	3,706,450
– At FVOCI	–	7,068	(6)	7,062
	3,721,886	–	(8,374)	3,713,512
Financial assets at FVPL				
– At FVPL	75,560	(75,560)	–	–
– Designated as measured at FVPL	15,790	(15,790)	–	–
Available-for-sale financial assets				
– At FVOCI	807,912	(807,912)	–	–
Held-to-maturity investments				
– At amortised cost	261,654	(261,654)	–	–
Investments classified as receivables				
– At amortised cost	644,789	(644,789)	–	–
Investments in financial assets				
– At amortised cost	–	768,175	6,024	774,199
– At FVPL	–	524,283	7,471	531,754
– Debt investments at FVOCI	–	507,884	(464)	507,420
– Equity investments at FVOCI	–	5,363	(332)	5,031
	1,805,705	–	12,699	1,818,404

Note:

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

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies (Continued)

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

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

	As at 31 December 2017 Loss allowances under HKAS 39/ Provision under HKAS 37 HK$ million	Reclassification HK$ million	Remeasurement HK$ million	As at 1 January 2018 Loss allowances under HKFRS 9 HK$ million
Cash and deposits	–	–	72	72
Placements with banks and non-bank financial institutions	1	–	196	197
Financial assets held under resale agreements	–	–	44	44
Trade and other receivables	9,699	–	1,227	10,926
Loans and advances to customers and other parties				
– At amortised cost	113,321	–	8,368	121,689
– At FVOCI (note)	–	–	8	8
Available-for-sale financial assets	1,653	(1,653)	–	–
Investments classified as receivables				
– At amortised cost	4,064	(4,064)	–	–
Investments in financial assets				
– At amortised cost	–	4,174	431	4,605
– At FVPL	–	900	(900)	–
– Debt investments at FVOCI (note)	–	403	733	1,136
– Equity investments at FVOCI	–	240	(240)	–
	128,738	–	9,939	138,677
Credit commitments and guarantees provided	837	481	4,971	6,289
	129,575	481	14,910	144,966

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies (Continued)

(iv) Financial assets that have been reclassified to the amortised cost category

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to HKFRS 9.

	31 December 2018 HK$ million
Reclassified into amortised cost	
From available-for-sale (HKAS 39) reclassified to financial assets at amortised cost (HKFRS 9)	
Fair values as at 31 December 2018	108,328
Fair value gain that would have been recognised during the year if the financial assets had not been reclassified	4,329

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies (Continued)

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

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

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

(g) Subsidiaries and non-controlling interests

(i) Business combinations involving entities under common control

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(g) Subsidiaries and non-controlling interests (Continued)

(ii) Business combinations not involving entities under common control

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

(iii) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries which includes 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 are considered including the substantive rights held by the Group and other parties.

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.

2 Significant accounting policies (Continued)

(g) Subsidiaries and non-controlling interests (Continued)

(iii) Consolidated financial statements (Continued)

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.

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(k).

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(g) Subsidiaries and non-controlling interests (Continued)

(iii) Consolidated financial statements (Continued)

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(k)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(h)).

(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(u)).

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

(h) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. The Group uses the equity method on the basis of an adjustment to the financial statements of associate or joint venture in accordance with the Group's accounting policies, unless an associate or joint venture does not apply HKFRS 9 temporarily by applying the temporary exemption of HKFRS 9 until annual periods beginning 1 January 2021. 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(u)). 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.

2 Significant accounting policies (Continued)

(h) Associates and joint ventures (Continued)

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.

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(k)).

In the Company's balance sheet, investments in associates and joint ventures are stated at cost less impairment losses (see Note 2(u)).

(i) 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.

Impairment losses on goodwill can not be reversed in the future.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(j) 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. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are 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 at the transaction dates or the rates approximate to. 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.

(k) Financial Instruments

Financial Instruments under HKFRS 9

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets

(1) Classification and Measurement

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

– Financial assets at amortised cost;

– Financial assets at fair value through other comprehensive income ("FVOCI");

– Financial assets at fair value through profit or loss ("FVPL").

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

Debt instruments

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

– Amortised cost:

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

– FVOCI:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(1) Classification and Measurement (Continued)

Debt instruments (Continued)

– FVPL:

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

Equity instruments

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

(2) Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial assets at amortised cost, debt instrument assets carried at FVOCI, trade and other receivables, lease receivable, contract assets, loan commitments and financial guarantee contracts for the issuer which are not measured at fair value through profit or loss.

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

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

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

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(2) Impairment (Continued)

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

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

(3) Derecognition

The Group derecognises a financial asset if one of the following conditions is met:

– The contractual rights to receive the cash flows from the financial asset expire;

– The financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of such financial asset;

– The financial asset has been transferred, the Group has not retained any control over the financial asset, even if the Group neither transfers nor retains substantially all the risks and rewards of ownerships of the financial asset.

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

As part of its operations, the Group securities 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 qualifies 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 does 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 partially qualifies 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(3) Derecognition (Continued)

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.

(4) Modification of investment in financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

– If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.

– Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

– Significant extension of the loan term when the borrower is not in financial difficulty.

– Significant change in the interest rate.

– Change in the currency the loan is denominated in.

– Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a ‘new’ asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(4) Modification of investment in financial assets (Continued)

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(ii) Financial liabilities

The financial liabilities are classified into those measured at amortised cost and those at fair value through profit or loss at initial recognition. Financial liabilities at FVPL is applied to derivatives, financial liabilities held for trading and financial liabilities designated as such at initial recognition.

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

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

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(iv) 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.

(v) Derivatives

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives are treated as separate derivatives when:

- Their economic characteristics and risks are not closely related to those of the host contract;
- A separate instrument with the same terms would meet the definition of a derivative; and
- The hybrid contract is not measured at fair value through profit or loss.

These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of profit or loss unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

The method of recognizing the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged.

Financial Instruments under HKAS 39 applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively as 1 January 2018, but has elected not to restate comparative information. As a result, the comparative information continues to be accounted for in accordance with the Group's previous accounting policy provided as described below.

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(vi) 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.

(vii) 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 are accounted for as trading instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(vii) 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(k)(viii)). 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)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(vii) 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(k)(viii)).

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.

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 (k)(viii)).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(viii) Impairment

The carrying amounts of the Group's financial assets other than those measured at fair value through profit or 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)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(viii) Impairment (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 realizable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(viii) Impairment (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)

(k) Financial Instruments (Continued)

Financial Instruments under HKAS 39 applied until 31 December 2017 (Continued)

(viii) Impairment (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 amortization) 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.

(ix) 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(l) Hedging

At the inception of the hedging, the Group documents the economic relationship between hedging instruments and hedged items as well as risk management goals and strategies of various hedging transactions. When a hedge no longer meets the criteria for hedge accounting or the Group's risk management goals, the Group terminates the use of hedge accounting prospectively. Situations for the Group to terminate the use of hedge accounting include hedging instrument expires, or is sold, terminated and settled.

(i) Fair value hedge

A fair value hedge refers to a hedge of the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item. Such changes in fair value are attributable to a particular risk and could affect profit or loss or other comprehensive income. Among them, the circumstances affecting other comprehensive income are limited to the hedge of the exposure to changes in the fair value of equity instruments designated at fair value through other comprehensive income not held for trading.

For a fair value hedge, the gain or loss on the hedging instrument is recognised in profit or loss (or OCI, if hedging an equity instrument at FVTOCI) and the hedging gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised in profit or loss. However, if the hedged item is an equity instrument at FVTOCI, those amounts remain in OCI.

(ii) Cash flow hedge

A cash flow hedge refers to a hedge of the exposure to changes in cash flow. Such changes in cash flow are attributable to a particular risk associated with all, or a component of, a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income as cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised in profit or loss.

If a hedged forecast transaction subsequently results in the recognition of a non-financial item or becomes a firm commitment for which fair value hedge accounting is applied, the amount that has been accumulated in the cash flow hedge reserve is removed and included directly in the initial cost or other carrying amount of the asset or the liability. In other cases the amount that has been accumulated in the cash flow hedge reserve is reclassified to profit or loss in the same period(s) as the hedged cash flows affect profit or loss.

If the cash flow hedge reserve recognised in other comprehensive income is a loss, and all or part of the loss is not expected to be reversed in the future. The portion that is not expected to be reversed will be transferred from other comprehensive income and recognised in profit or loss.

2 Significant accounting policies (Continued)

(l) Hedging (Continued)

(ii) Cash flow hedge (Continued)

When an entity discontinues the use of hedge accounting for a cash flow hedge, if the hedged future cash flows are still expected to occur, the amount that has been accumulated in the cash flow hedge reserve remains there until the period that the hedged item has the impact in profit or loss; otherwise, that amount is immediately reclassified to profit or loss.

(iii) Hedge of a net investment in a foreign operation

A hedge of net investment in a foreign operation refers to hedge of the foreign exchange exposure arising from net investment in a foreign operation. The "net investment in a foreign operation" refers to an enterprise's equity proportion in the net assets in a foreign operation.

Hedge of a net investment in a foreign operation is accounted for similarly to cash flow hedges. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income; and the ineffective portion is recognised in profit or loss. The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge is reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

(iv) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group continuously evaluate whether the hedging relationship is effective from the hedge date and after.

The hedge relationship meets hedging effectiveness requirements if the hedging meets the following conditions:

- There is an economic relationship between the hedged item and the hedging instrument;

- The effect of credit risk does not dominate the value changes that result from that economic relationship; and

- The hedge ratio of the hedging relationship is equal to the ratio between the actual number of hedged items and the actual number of hedging instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(m) 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.

(n) Investment properties

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

Subsequent expenditures related to investment properties are recognised in the cost of investment properties provided it is probable that the economic benefits will flow to the Group and the costs can be measured reliably; otherwise subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

Investment properties transfer to property, plant and equipment or intangible assets at the commencement of owner-occupation. The carrying amount of property, plant and equipment and intangible assets are based on the fair value of investment properties on the day of conversion. The difference between the fair value and the previous carrying amount is recognised in profit or loss for the current period. When owner-occupied properties transfer to investment properties that will be carried at fair value, if the fair value at the date of conversion is less than the previous carrying amount, the difference is recognised in profit or loss for the current period; If the fair value at the date of conversion is greater than the previous carrying amount, the difference is recognised directly in equity, unless there was an impairment loss recognised for the same property in prior years and a portion of the increase is recognised in profit or loss to the extent of that impairment loss.

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)

(o) Property, plant and equipment

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

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 made on construction-in-progress until it is ready for its intended use. Deprecation policies are set out below.

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

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

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.

(p) Land use rights

Land use rights are stated at cost less accumulated amortization 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(u).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(q) Intangible assets (other than goodwill)

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

Amortization 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 amortization are reviewed annually.

An intangible asset with an indefinite useful life shall not be amortised. 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.

(r) 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 realizable 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 realizable 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 realizable 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)

(r) 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(cc)). 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.

(s) 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(o) 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(u). Revenue arising from operating leases is recognised in income on a straight-line basis over the lease term.

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(n)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(t) 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 realization 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 measured at the lower of cost and net realizable value, the amount of any write-down of inventories to net realizable value shall be recognised as an expense in the period the write-down occurs.

(u) Impairment of 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.

Calculation of recoverable amount

The recoverable amount of an asset is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its 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).

2 Significant accounting policies (Continued)

(u) Impairment of non-financial assets (Continued)

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.

(v) 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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of

- the amount determined in accordance with the expected credit loss model under HKFRS 9 with Note 3(a); and

- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates and joint ventures are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(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 measured at the higher of the amount initially recognised, less accumulated amount of income recognised in accordance with the Group's principles of revenue recognition where appropriate, and the amount that would be determined in accordance with Note 2(w)(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.

2 Significant accounting policies (Continued)

(x) Revenue recognition

Revenue under HKFRS 15

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

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

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

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

(i) Interest income

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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

Revenue under HKFRS 15 (Continued)

(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

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

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

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

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

(iv) Services rendered to customers

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

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

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

Revenue under HKAS 11 and HKAS 18 applied until 31 December 2017

The Group has applied HKFRS 15 retrospectively as 1 January 2018, but has elected not to restate comparative information. As a result, the comparative information continues to be accounted for in accordance with the Group's previous accounting policy provided as described below.

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:

(v) 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 amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

(vi) Fee and commission income

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

Revenue under HKAS 11 and HKAS 18 applied until 31 December 2017 (Continued)

(vii) 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.

(viii) 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.

(ix) 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.

(y) 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.

2 Significant accounting policies (Continued)

(y) Income tax (Continued)

Deferred tax assets are recognised to the extent that their future utilization 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.

(z) 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.

(aa) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(aa) Related parties (Continued)

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

(bb) 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.

2 Significant accounting policies (Continued)

(bb) Segment reporting (Continued)

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.

(cc) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(dd) 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, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement comprising the total of: (1) the post-tax profit or loss of the discontinued operation and; (2) 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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) Measurement of ECL

Measurement of ECL for financial assets at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 51(a).

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

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of ECL;

– Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and

– Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in Note 51(a).

(b) 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 realizable value. The Group estimates the net realizable 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)

(c) Impairment of non-financial assets

As described in Note 2(u), 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.

(d) 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.

(e) 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.

(f) 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 utilize the deferred tax assets. The outcome of their actual utilization may be different.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

(g) 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.

(h) 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, securitization, 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)

(i) 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.

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

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

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

As at the date of issuance of the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

(j) 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 2018.

(k) Mineralogy Pty Ltd ("Mineralogy") disputes

Each of Sino Iron and Korean Steel Pty Ltd ("Korean Steel"), subsidiary companies of the Company, has entered into a Mining Right and Site Lease Agreement ("MRSLA") with Mineralogy. Among other things, those agreements confer on Sino Iron and Korean Steel the right to develop and operate the Sino Iron Project and to take and process one billion tonnes each of magnetite ore for that purpose.

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 declarations by consent, including that the Company had not repudiated the Option Agreement in the manner initially asserted by Mineralogy and Mr. Palmer.

Notwithstanding the making of these declarations, Mineralogy and Mr. Palmer have not taken the steps necessary to complete the option. On 31 March 2016, the CITIC Parties commenced a new proceeding in the Supreme Court of Western Australia in relation to the Option Agreement ("Proceeding CIV 1514/2016"). Cape Preston Resource Holdings Pty Ltd was later added as a plaintiff. The plaintiffs seek an order for specific performance of the Option Agreement by Mineralogy and Mr. Palmer and an order that Mineralogy and Mr. Palmer complete the first option by taking the steps required by the Option Agreement to complete the transfer of a further company having the right to mine one billion tonnes of magnetite ore.

3 Critical accounting estimates and judgements (Continued)

(k) Mineralogy Pty Ltd ("Mineralogy") disputes (Continued)

Option Agreement Dispute (Continued)

In its amended defence and counterclaim, Mineralogy makes allegations of breach, repudiation, frustration and termination of the Option Agreement on various grounds, among other allegations. Mr. Palmer filed his own defence, which repeats and relies on the matters pleaded by Mineralogy in its defence.

Mineralogy's counterclaim seeks damages of US$205,000,000 (which it says is the purchase consideration for the further company) and damages equating to the royalties that would have been payable by the further company to Mineralogy on the amount of magnetite ore required to produce six million tonnes of iron ore concentrate.

Pleadings have closed but no trial date has been set for Proceeding CIV 1514/2016.

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" (expressed in US dollars per dry metric tonne unit) for Brazilian pellets and Mount Newman fines. In Proceeding CIV 1808/2013 (originally commenced in the NSW Courts but moved to WA), Mineralogy pursued a claim against Sino Iron and Korean Steel for payment of sums in respect of unpaid Royalty Component B on products produced up to 31 March 2017 together with a claim against the Company pursuant to a guarantee given in the Fortescue Coordination Deed ("FCD").

The trial in Proceeding CIV 1808/2013 ran for 10 sitting days from 14 June 2017.Justice Kenneth Martin delivered his reasons for decision on 24 November 2017, finding in favour of Mineralogy. His Honour's reasons also addressed certain technical issues as to the availability of the relief sought, leading Mineralogy to commence a further proceeding 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 made orders that, among other things:

– Proceeding CIV 1808/2013 and Proceeding CIV 3024/2017 be consolidated and that all claims be determined in the as consolidated proceeding ("Consolidation Orders"); and

– that judgment (the "Final Orders") 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 FCD.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

(k) Mineralogy Pty Ltd ("Mineralogy") disputes (Continued)

Royalty Component B Dispute (Continued)

On 12 January 2018, Sino Iron paid to Mineralogy the judgment sums plus interest ordered by Justice Kenneth Martin on behalf of itself and Korean Steel. Since then, Sino Iron has also made payments of Royalty Component B for quarters subsequent to March 2017, in conformity with the judgment.

The CITIC Parties appealed the Consolidation Orders ("Proceeding CACV 5 and 6/2018") and Final Orders ("Proceeding CACV 9/2018"). These appeals were heard on 4 and 5 December 2018 by the Court of Appeal of the Supreme Court of Western Australia. Judgment has been reserved.

FCD Indemnity Disputes

Mineralogy and Mr. Palmer have commenced proceedings to pursue claims pursuant to an indemnity given by the Company under the FCD to Mineralogy and Mr. Palmer against any loss suffered by it in relation to the 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, Mr. Palmer commenced a proceeding against the Company in the Supreme Court of Western Australia ("Proceeding CIV 2072/2017") claiming damages in the sum of AUD2,324,000,000 (now reduced by an amended statement of claim to AUD1,806,438,000). This amount is alleged to represent the reduction in the value of the assets of the joint venture business carried on by the Queensland Nickel group of companies controlled by Mr. Palmer. The joint venture business was a nickel and cobalt refinery located at Yabulu in North Queensland.

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.

After commencing this proceeding, Mr. Palmer joined Mineralogy as a second plaintiff and Sino Iron and Korean Steel as second and third defendants.

No trial date has been set for Proceeding CIV 2072/2017.

3 Critical accounting estimates and judgements (Continued)

(k) 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 AUD2,675,400,000. The statement of claim pleads that Mineralogy had agreed to provide funding from December 2009 and all future working capital in or around 2013 to its wholly owned subsidiary, Palmer Petroleum Pty Ltd (now named Aspenglow Pty Ltd) ("Palmer Petroleum"). As Sino Iron and Korean Steel 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 from within the exploration licence. Mineralogy claims that it suffered a loss equivalent to the diminution in value of its shareholding in Palmer Petroleum.

On 24 April 2018, the CITIC Parties filed and served their defence in the proceeding, which is in similar terms to the defence in the Queensland Nickel FCD Indemnity Claim. Among other things, the CITIC Parties contend that there was no breach of the project agreements and advance construction, causation and mitigation arguments.

No trial date has been set for Proceeding CIV 1267/2018.

Tenure claim

Mineralogy has granted each of Sino Iron and Korean Steel the contractual right to mine magnetite ore within mining tenements held by Mineralogy. Mining operations began in 2008, with trial production commencing in November 2012 and commercial production commencing from 1 July 2016.

The continued operation of the Sino Iron Project requires it to expand beyond the footprint it currently occupies. The need for expansion is primarily driven by the need to accommodate waste rock and tailings, which are necessary by-products of the mining process. The mining tenements upon which the Sino Iron Project is currently conducted, and those into which the CITIC Parties wish to expand in order to continue operation, are all held by Mineralogy. Without an expanded footprint, it will be necessary to suspend operations at the Sino Iron Project.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

(k) Mineralogy Pty Ltd ("Mineralogy") disputes (Continued)

Tenure claim (Continued)

The CITIC Parties have sued Mineralogy and Mr. Palmer in the Federal Court of Australia ("Proceeding WAD 471/2018") in relation to the failure and refusal of Mineralogy to:

– submit Mine Continuation Proposals for the Sino Iron Project to the State under the State Agreement;

– grant further necessary tenure for the Sino Iron Project;

– take steps to secure the re-purposing of general purpose leases for the Sino Iron Project; and

– submit a Programme of Works for the Sino Iron Project to the State.

The CITIC Parties bring claims for breach of contract, of unconscionable conduct under the Australian Consumer Law, and in estoppel. Mr. Palmer is sued as an accessory to the unconscionable conduct claim. The CITIC Parties seek orders requiring Mineralogy to take the four steps listed above, and to pay the CITIC Parties damages for its failure and refusal to do so. Damages are also sought from Mr. Palmer. The State is joined to the proceeding as a necessary party, because it is a party to the State Agreement, but no relief is sought against it.

Mineralogy has made a cross-vesting application (seeking orders that Proceeding WAD 471/2018 be transferred to the Supreme Court of Western Australia). That application will be heard on 15 April 2019.

Pleadings have not yet concluded and no trial date has been set for Proceeding WAD 471/2018.

Minimum Production Royalty Disputes

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 any of the reasons set out in clause 6.3 (a) of the MRSLAs. 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 iron ore concentrate ("Minimum Production Royalty").

Mineralogy has made four previous attempts to bring a claim for payment of the Minimum Production Royalty under clause 6.3 (b) of the MRSLAs. Each of those claims was either discontinued by Mineralogy or struck out. On 11 December 2018, Mineralogy and Mr. Palmer commenced a new proceeding against the CITIC Parties and Sino Iron Holdings Pty Ltd ("SIH") in the Supreme Court of Western Australia ("Proceeding CIV 3129/2018"), in which the claim for the Minimum Production Royalty was again revived.

3 Critical accounting estimates and judgements (Continued)

(k) Mineralogy Pty Ltd ("Mineralogy") disputes (Continued)

Minimum Production Royalty Disputes (Continued)

In their statement of claim in Proceeding CIV 3129/2018, Mineralogy and Mr. Palmer plead that each of Sino Iron and Korean Steel failed to produce at least six million tonnes of product by 21 March 2013 (and were not prevented from doing so for any of the reasons set out in clause 6.3 (a) of the MRSLAs), and accordingly became liable to pay the Minimum Production Royalty by 21 April 2013. Mineralogy seeks, among other relief, an order that each of Sino Iron and Korean Steel pay Mineralogy AUD6,865,985, plus US$87,104,633, plus default interest, and that the Company pay AUD13,731,970, plus US$174,209,266, plus interest and/or is liable to indemnify Mineralogy in respect of any amount payable by Sino Iron and Korean Steel (pursuant to the guarantee and the indemnity under the FCD).

In the event that Mineralogy is estopped or precluded from seeking the above relief in Proceeding CIV 3129/2018, Mr. Palmer seeks payment by the Company of US$187,941,236 pursuant to the indemnity under FCD.

On 23 January 2019, the CITIC Parties and SIH filed and served an application to stay or permanently dismiss Proceeding CIV 3129/2018, or strike out the statement of claim, on grounds including that it is an abuse of process. No date has been fixed for the hearing of that application.

Site Remediation Fund Dispute

On 22 October 2018, Mineralogy commenced a proceeding against the CITIC Parties in the Supreme Court of Western Australia ("Proceeding CIV 2840/2018") concerning the Site Remediation Fund.

Under clause 20.5 of the MRSLAs, Mineralogy may require Sino Iron and Korean Steel to provide reasonable security for the performance obligations relating to the protection of the environment and rehabilitation following Mine Closure, to be provided by way of an annual contribution into the Site Remediation Fund, which must be maintained by Mineralogy in a separate interest-bearing trust account, designated as a trust account.

Under clause 20.6 (e) of the MRSLAs, for each Operating Year, Mineralogy will "determine an annual charge on account of future Site Remediation Costs … having regard to … Mineralogy's best prevailing estimate of the amount of future Site Remediation Costs … and the number of years remaining until Mine Closure".

In Proceeding CIV 2840/2018, Mineralogy claims that the CITIC Parties are required to contribute AUD529,378,207 into the Site Remediation Fund. The CITIC Parties dispute that they are required to make this contribution.

The CITIC Parties have filed a defence and counterclaim in Proceeding CIV 2840/2018 seeking, among other things, orders appointing a new trustee in place of Mineralogy and a declaration that the annual charge to be made by Sino Iron and Korean Steel in the operating year commencing on 1 July 2018 is AUD6,000,000 or such other amount determined by the Court.

No trial date has been set for Proceeding CIV 2840/2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4 Taxation

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the year ended 31 December 2018 is 16.5% (2017: 16.5%).

Except for the preferential tax treatments, the income tax rate applicable to the Group's other subsidiaries in Mainland China for the year ended 31 December 2018 is 25% (2017: 25%).

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

5 Revenue

As a multi-industry conglomerate, the Group is principally 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 and services rendered to customers (Note 5(c)).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5 Revenue (Continued)

(a) Net interest income

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Interest income arising from (note):		
Deposits with central banks, banks and non-bank financial institutions	**11,819**	12,589
Placements with banks and non-bank financial institutions	**9,696**	7,173
Financial assets held under resale agreements	**1,328**	1,391
Investments in financial assets		
– Financial assets at amortised cost	**39,301**	N/A
– Debt investments at FVOCI	**19,573**	N/A
Investments classified as receivables	**N/A**	41,484
Loans and advances to customers and other parties	**197,232**	163,317
Investments in debt securities	**N/A**	30,034
Others	**199**	120
	279,148	256,108
Interest expenses arising from:		
Borrowing from central banks	**(10,585)**	(7,088)
Deposits from banks and non-bank financial institutions	**(31,232)**	(42,534)
Placements from banks and non-bank financial institutions	**(3,915)**	(3,478)
Financial assets sold under repurchase agreements	**(1,923)**	(3,103)
Deposits from customers	**(78,242)**	(60,936)
Debt instruments issued	**(26,667)**	(22,113)
Others	**(331)**	(174)
	(152,895)	(139,426)
Net interest income	**126,253**	116,682

Note:

Interest income includes interest income accrued on credit-impaired financial assets of HK$444 million for the year ended 31 December 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5 Revenue (Continued)

(b) Net fee and commission income

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Guarantee and advisory fees	**6,627**	7,326
Bank card fees	**38,658**	35,107
Settlement and clearing fees	**1,502**	1,400
Agency fees and commission	**5,730**	5,094
Trustee commission and fees	**13,623**	15,362
Others	**530**	508
	66,670	64,797
Fee and commission expenses	**(6,641)**	(5,617)
Net fee and commission income	**60,029**	59,180

(c) Sales of goods and services

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Sales of goods	**281,911**	217,333
Services rendered to customers		
– Revenue from construction contracts	**19,906**	16,766
– Revenue from other services	**28,471**	26,382
	330,288	260,481

(d) Other revenue

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Net trading gain (note (i))	**7,708**	7,580
Net gain on investments in financial assets under financial services segment	**5,575**	3,580
Net gain from securitisation of financial assets	**3,766**	3,023
Others	**(334)**	10
	16,715	14,193

5 Revenue (Continued)

(d) Other revenue (Continued)

(i) Net trading gain

	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Trading profit:		
– debt securities and certificates of deposits	4,702	3,187
– foreign currencies	2,354	1,932
– derivatives	652	2,461
	7,708	7,580

6 Costs of sales and services

	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Costs of goods sold	236,327	191,752
Costs of services rendered		
– Costs of construction contracts	17,367	13,715
– Costs of other services	17,169	17,402
	270,863	222,869

7 Other net income

	For the year ended 31 December 2018 HK$ million	2017 HK$ million
Net gain on disposal/deemed disposal of subsidiaries, associates and joint ventures	3,212	9,005
Net (loss)/gain on investments in financial assets under non-financial services segment	(162)	3,523
Net foreign exchange gain/(loss)	1,016	(1,458)
Others	3,647	3,526
	7,713	14,596

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

8 Expected credit losses

	For the year ended 31 December 2018 HK$ million
Expected credit losses charged on/(reversed from):	
– deposits and placements with banks and non-bank financial institutions	12
– financial assets held under resale agreements	(39)
– trade and other receivables (excluding prepayments)	4,067
– loans and advances to customers and other parties	56,447
– investments in financial assets	
– financial assets at amortised cost	1,309
– debt investments at FVOCI	89
– impairment provision of credit commitments and guarantees provided	(53)
– others	7,227
	69,059

9 Other impairment losses

	For the year ended 31 December 2018 HK$ million
Other impairment losses charged on:	
– inventories	3,998
– interests in associates	3
– fixed assets (note)	1,299
– intangible assets (note)	65
– trade and other receivables-prepayments	19
– goodwill	730
– others	397
	6,511

9 Other 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 Project 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 2018.

In the model a discount rate of 10.8% 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 2019 to 2021 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 updated at 31 December 2018 did not result in further impairment charge to be recognised. While the impairment testing carried out at 31 December 2017 resulted in a total impairment charge of US$921 million (approximately HK$7,184 million) being recognised in the consolidated income statement, reflecting changes in the key assumptions mentioned above. The impairment charge was allocated as follows (Note 10):

- Property, plant & equipment US$891 million (approximately HK$6,950 million)
- Intangible assets US$30 million (approximately HK$234 million)

Also included in property, plant & equipment was a write-off of US$61 million (approximately HK$476 million) for the year ended 31 December 2017 (Note 10).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

10 Impairment losses

	For the year ended 31 December 2017 HK$ million
Impairment losses (reversed from)/charged on:	
– deposits and placements with banks and non-bank financial institutions	(37)
– trade and other receivables	7,499
– amounts due from customers for contract work	(923)
– inventories	16
– loans and advances to customers and other parties	58,167
– available-for-sale financial assets	895
– held-to-maturity investments	(2)
– investments classified as receivables	1,520
– interests in associates	166
– interests in joint ventures	(54)
– fixed assets (Note 9)	10,683
– intangible assets (Note 9)	254
– others	741
	78,925

11 Net finance charges

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Finance costs		
– Interest on bank and other loans	6,446	5,125
– Interest on debt instruments issued	5,714	6,316
	12,160	11,441
Less: interest expense capitalised*	(175)	(361)
	11,985	11,080
Other finance charges	309	417
	12,294	11,497
Finance income	(2,729)	(1,412)
	9,565	10,085

* Capitalisation rates applied to funds borrowed are 2.60% – 5.70% per annum for the year ended 31 December 2018 (2017: capitalisation rate of 1.29% – 5.70%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

12 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	
	2018	2017
	HK$ million	HK$ million
Salaries and bonuses	**48,193**	40,572
Contributions to defined contribution retirement schemes	**4,982**	4,322
Others	**9,188**	7,622
	62,363	52,516

Note:

Annual staff costs of McDonald's Mainland China and Hong Kong business and Qingdao Special Steel were entirely included in profit or loss for the year ended 31 December 2018, nevertheless, their staff costs in profit or loss for the year ended 31 December 2017 were only from the dates their operation results were included in the Group's consolidated financial statements.

(b) Other items

	For the year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Amortisation	**2,514**	2,407
Depreciation	**12,577**	11,764
Operating lease charges	**8,135**	6,453
Tax and surcharges	**2,491**	2,368
Property management fees	**1,308**	1,421
Non-operating expenses	**886**	949
Professional fees (other than auditors' remuneration)	**1,191**	981
Auditors' remuneration		
– Audit services	**198**	162
– Non-audit services	**51**	52
	29,351	26,557

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13 Income tax expense

(a) Income tax expense in the income statement

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Current tax – Mainland China		
Provision for enterprise income tax	23,238	23,475
Land appreciation tax	243	48
	23,481	23,523
Current tax – Hong Kong		
Provision for Hong Kong profits tax	1,993	2,075
Current tax – Overseas		
Provision for the year	174	367
	25,648	25,965
Deferred tax		
Origination and reversal of temporary differences	(6,704)	(8,278)
	18,944	17,687

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	
	2018 HK$ million	2017 HK$ million
Profit before taxation	93,969	82,783
Less: Share of profits of		
– associates	(7,914)	(7,564)
– joint ventures	(2,786)	(5,889)
	83,269	69,330
Notional tax on profit before taxation calculated at statutory tax rate of 16.5%	13,739	11,439
Effect of different tax rates in other jurisdictions	6,826	5,608
Tax effect of unused tax losses not recognised	387	3,140
Tax effect of non-deductible expenses	4,239	2,358
Tax effect of non-taxable income	(6,532)	(5,056)
Others	285	198
Actual tax expense	18,944	17,687

14 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 2018 are set out as follows:

	For the year ended 31 December 2018									
	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]	–	0.39	0.29	–	0.03	0.15	0.07	–	–	0.93
Wang Jiong [i]	–	0.39	0.29	–	0.03	0.13	0.07	–	–	0.91
Li Qingping [i]	–	0.35	0.25	–	0.02	0.15	0.06	–	–	0.83
Pu Jian [i, ii]	–	0.35	0.25	–	0.02	0.15	0.06	–	–	0.83
Non-executive Directors:										
Song Kangle	–	–	–	–	–	–	–	–	–	–
Yan Shuqin	–	–	–	–	–	–	–	–	–	–
Liu Zhuyu	–	–	–	–	–	–	–	–	–	–
Peng Yanxiang [ii]	–	–	–	–	–	–	–	–	–	–
Liu Zhongyuan	–	–	–	–	–	–	–	–	–	–
Yang Xiaoping	0.38	–	–	–	–	–	–	0.15	–	0.53
Wu Youguang [ii]	0.30	–	–	–	–	–	–	–	–	0.30
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 [ii]	0.38	–	–	–	–	–	–	0.05	–	0.43
Paul Chow Man Yiu	0.38	–	–	–	–	–	–	0.05	–	0.43
Shohei Harada [ii]	0.27	–	–	–	–	–	–	–	–	0.27
Name of Former Directors										
Liu Yeqiao [ii]	–	–	–	–	–	–	–	–	–	–
Noriharu Fujita [ii]	0.11	–	–	–	–	–	–	–	–	0.11
	2.96	1.48	1.08	–	0.10	0.58	0.26	1.13	–	7.59

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

Notes:

(i) The emoluments for the year ended 31 December 2018 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 and subsequent to the year ended 31 December 2018:

(1) In March 2019, Mr Gregory Lynn Curl was appointed as independent non-executive director of the Company, and Ms. Lee Boo Jin resigned as independent non-executive director of the Company.

(2) In February 2019, Mr. Pu Jian resigned as executive director of the Company.

(3) Mr. Wu Youguang was appointed as non-executive director of the Company in March 2018 and subsequently resigned in January 2019.

(4) In April 2018, Mr. Shohei Harada was appointed as independent non-executive director of the Company, and Mr. Noriharu Fujita resigned as independent non-executive director of the Company.

(5) In May 2018, Mr. Peng Yanxiang was appointed as non-executive director of the Company, and Mr. Liu Yeqiao resigned as non-executive director of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14 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 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	Salary	Discretionary bonuses	Housing allowance	Estimated money value of other benefits	Social securities in China mainland	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as committee member		Total
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Name of Current Directors										
Executive Directors:										
Chang Zhenming [i]	–	0.36	0.83	–	0.02	0.13	0.09	–	–	1.43
Wang Jiong [i]	–	0.36	0.83	–	0.02	0.12	0.08	–	–	1.41
Li Qingping [i]	–	0.32	0.74	–	0.02	0.13	0.08	–	–	1.29
Pu Jian [i]	–	0.32	0.74	–	0.02	0.13	0.08	–	–	1.29
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	1.36	3.14	–	0.08	0.51	0.33	1.13	–	9.21

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For the year ended 31 December 2018

14 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 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 2017:

(1) In June 2017, Mr. Yang Jinming resigned as non-executive director of the Company.

(2) In August 2017, Mr. Liu Zhuyu was appointed as non-executive director of the Company.

(b) Other benefits and interests

For the year ended 31 December 2018, 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 (2017: None). No consideration was provided to or receivable by third parties for making available directors' services (2017: None). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: 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 2018 (2017: None).

15 Individuals with highest emoluments

For the year ended 31 December 2018, none of the five highest paid individuals are directors (2017: none) whose emoluments are disclosed in Note 14. The aggregate of the emoluments in respect of these five individuals (2017: five) are as follows:

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Salaries and other emoluments	**22.73**	30.40
Discretionary bonuses	**51.46**	30.92
Equity settled share based payment expenses	**–**	2.34
Retirement scheme contributions	**1.04**	1.49
	75.23	65.15

The emoluments of the five individuals (2017: five) with the highest emoluments are within the following bands:

	For the year ended 31 December	
	2018 Number of individuals	2017 Number of individuals
HK$11,000,001 to HK$12,000,000	**–**	1
HK$12,000,001 to HK$13,000,000	**2**	2
HK$13,000,001 to HK$14,000,000	**1**	1
HK$14,000,001 to HK$15,000,000	**2**	1
	5	5

Notes to the Consolidated Financial Statements

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16 Dividends

	For the year ended 31 December	
	2018	2017
	HK$ million	HK$ million
2017 Final dividend paid: HK$0.25 (2016 Final: HK$0.23) per share	**7,273**	6,691
2018 Interim dividend paid: HK$0.15 (2017 Interim: HK$0.11) per share	**4,364**	3,200
2018 Final dividend proposed: HK$0.26 (2017 Final: HK$0.25) per share	**7,563**	7,273

17 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$50,239 million for the year ended 31 December 2018 (2017: HK$43,902 million) calculated as follows:

	For the year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Profit attributable to ordinary shareholders of the Company	**50,239**	43,902
Weighted average number of ordinary shares (in million)	**29,090**	29,090

Diluted earnings per share for the year ended 31 December 2018 and 2017 are same with basic earnings per share. As at 31 December 2018, there are no share options or other equity securities of the Company in issue which if exercised would have a dilutive effect on the issued ordinary share capital as at 31 December 2018 (31 December 2017: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

18 Other comprehensive (loss)/income

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

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Items that may be reclassified subsequently to profit or loss:		
Fair value losses of available-for-sale financial assets	**N/A**	(12,857)
Less: Net amounts previously recognised in other comprehensive income transferred to profit or loss in the current year	**N/A**	(350)
Tax effect	**N/A**	3,315
	N/A	(9,892)
Fair value gains on financial assets at FVOCI	**15,745**	N/A
Less: Net amounts previously recognised in other comprehensive loss transferred to profit or loss in the current year	**177**	N/A
Loss allowance on financial assets at FVOCI	**205**	N/A
Tax effect	**(4,076)**	N/A
	12,051	N/A
Gains arising from cash flow hedge	**102**	1,276
Less: Net amounts previously recognised in other comprehensive loss/(income) transferred to profit or loss in the current year	**102**	(45)
Tax effect	**30**	(263)
	234	968
Share of other comprehensive (loss)/income of associates and joint ventures	**(1,938)**	1,373
Exchange differences on translation of financial statements and others	**(34,735)**	44,961
Items that will not be reclassified subsequently to profit or loss:		
Reclassification of owner-occupied property as investment property: revaluation gain	**196**	63
Less: Tax effect	**(32)**	(16)
	164	47
Fair value changes on investments in equity instruments designated at FVOCI	**(786)**	N/A
Less: Tax effect	**(58)**	N/A
	(844)	N/A
	(25,068)	37,457

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19 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.

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For the year ended 31 December 2018

19 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 2018 and 2017 is set out below:

	For the year ended 31 December 2018								
	Financial services HK$ million	Resources and energy HK$ million	Manufacturing HK$ million	Engineering contracting HK$ million	Real estate HK$ million	Others HK$ million	Operation management HK$ million	Elimination HK$ million	Total HK$ million
Revenue from external customers	202,949	78,722	121,939	19,700	8,968	100,920	87	–	533,285
Inter-segment revenue	(452)	5,009	485	61	3,065	1,308	234	(9,710)	–
Reportable segment revenue	202,497	83,731	122,424	19,761	12,033	102,228	321	(9,710)	533,285
Disaggregation of revenue:									
– Net interest income	125,752	–	–	–	–	–	202	299	126,253
– Net fee and commission income	60,041	–	–	–	–	–	26	(38)	60,029
– Sales of goods	–	82,274	120,224	17	7,998	79,732	–	(8,334)	281,911
– Services rendered to customers-construction contracts	–	–	111	16,888	–	2,974	–	(67)	19,906
– Services rendered to customers-others	–	1,457	2,089	2,856	4,035	19,522	39	(1,527)	28,471
– Other revenue	16,704	–	–	–	–	–	54	(43)	16,715
Share of profits/(losses) of associates, net of tax	3,189	1,749	128	119	4,076	(1,491)	144	–	7,914
Share of profits of joint ventures, net of tax	337	1,338	3	–	364	744	–	–	2,786
Finance income (Note 11)	–	360	465	510	709	256	1,548	(1,119)	2,729
Finance costs (Note 11)	–	(2,085)	(1,285)	(103)	(736)	(1,588)	(7,532)	1,035	(12,294)
Depreciation and amortisation (Note 12(b))	(3,503)	(2,931)	(4,232)	(188)	(265)	(3,900)	(72)	–	(15,091)
Expected credit losses (Note 8)	(68,501)	19	63	(405)	52	(287)	–	–	(69,059)
Other impairment losses (Note 9)	(411)	(1,184)	(532)	–	(3,809)	(575)	–	–	(6,511)
Profit/(loss) before taxation	73,926	3,783	8,085	2,225	8,104	5,675	(6,719)	(1,110)	93,969
Income tax	(12,231)	(811)	(1,399)	(168)	(2,167)	(1,578)	(845)	255	(18,944)
Profit/(loss) for the year	61,695	2,972	6,686	2,057	5,937	4,097	(7,564)	(855)	75,025
Attributable to:									
– Ordinary shareholders of the Company	41,704	2,102	6,008	2,053	5,353	2,049	(8,175)	(855)	50,239
– Non-controlling interests and holders of perpetual capital securities	19,991	870	678	4	584	2,048	611	–	24,786

	As at 31 December 2018								
	Financial services HK$ million	Resources and energy HK$ million	Manufacturing HK$ million	Engineering contracting HK$ million	Real estate HK$ million	Others HK$ million	Operation management HK$ million	Elimination HK$ million	Total HK$ million
Reportable segment assets	7,067,565	131,842	134,882	55,432	154,631	151,071	171,453	(206,163)	7,660,713
Including:									
Interests in associates	41,925	19,227	996	867	38,366	14,237	1,013	–	116,631
Interests in joint ventures	8,442	6,409	139	–	17,548	6,082	–	–	38,620
Reportable segment liabilities	6,476,405	175,525	80,894	43,306	92,267	80,208	201,570	(300,122)	6,850,053
Including:									
Bank and other loans (note)	5,898	40,885	31,923	2,657	9,402	34,825	67,778	(37,778)	155,590
Debt instruments issued (note)	628,169	–	144	–	–	3,849	106,561	–	738,723

Note:

The amount is the principal excluding interest accrued.

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19 Segment reporting (Continued)

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

	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
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 11)	–	285	408	215	534	151	948	(1,129)	1,412
Finance costs (Note 11)	–	(2,033)	(1,311)	(113)	(512)	(1,758)	(6,799)	1,029	(11,497)
Depreciation and amortisation (Note 12(b))	(3,262)	(3,225)	(4,153)	(152)	(233)	(3,090)	(56)	–	(14,171)
Impairment losses (Note 10)	(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	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
– Non-controlling interests and holders of perpetual capital securities	18,073	416	206	(2)	281	1,590	622	8	21,194

	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

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19 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	
	2018 HK$ million	2017 HK$ million	**2018 HK$ million**	2017 HK$ million
Mainland China	**426,667**	347,203	**7,011,809**	6,902,597
Hong Kong, Macau and Taiwan	**59,298**	58,134	**534,766**	505,686
Overseas	**47,320**	45,199	**114,138**	112,456
	533,285	450,536	**7,660,713**	7,520,739

20 Cash and deposits

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Cash	**7,155**	8,150
Bank deposits	**76,214**	56,367
Balances with central banks (note (i)):		
– Statutory deposit reserve funds (note (ii))	**459,369**	555,449
– Surplus deposit reserve funds (note (iii))	**146,568**	106,815
– Fiscal deposits (note (iv))	**3,214**	4,884
– Foreign exchange reserves (note (v))	**1,470**	6,515
Deposits with banks and non-bank financial institutions	**138,639**	186,404
	832,629	924,584
Accrued interest (note (vi))	**424**	N/A
	833,053	924,584
Less: allowance for impairment losses on deposits with banks and non-bank financial institutions (Note 49)	**(85)**	–
	832,968	924,584

Notes to the Consolidated Financial Statements

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20 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 funds with the People's Bank of China and overseas central banks where they have operations. The statutory deposit reserves funds are not available for use in their daily business.

As at 31 December 2018, the statutory deposit reserve funds placed by CITIC Bank with the People's Bank of China was calculated at 12% (31 December 2017: 15%) of eligible RMB deposits for domestic branches of CITIC Bank and at 12% (31 December 2017: 15%) of eligible RMB deposits from overseas financial institutions respectively. In addition, CITIC Bank is required to deposit an amount equivalent to 5% (31 December 2017: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve funds as at 31 December 2018.

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

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

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

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

(v) The foreign exchange reserve is maintained with the People's Bank of China in accordance with the related notice issued by the People's Bank of China on 31 August 2015. The reserve is payable on a monthly basis at 20% (31 December 2017: 20%) of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the Notice. In accordance with the relevant notice issued by the People's Bank of China on 8 September 2017, the Group adjusted the foreign exchange risk reserve ratio required to domestic financial institutions for forward foreign exchange business to 0% from 11 September 2017. The Group's remaining foreign exchange risk reserves will be gradually released after the expiration of the long-term sale of foreign exchange on behalf of clients.

(vi) The interest on financial instruments accrued based on the effective interest rate method has been included in the net balance of the corresponding financial instrument. The Group elected not to restate comparative figures.

(vii) In addition to the statutory deposit reserve funds, fiscal deposits and foreign exchange reserves, HK$2,266 million (31 December 2017: HK$1,601 million) included in cash and deposits as at 31 December 2018 were restricted in use, mainly including guaranteed deposits.

21 Placements with banks and non-bank financial institutions

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Banks	70,876	63,410
Non-bank financial institutions	128,345	141,937
	199,221	205,347
Accrued interest	997	N/A
	200,218	205,347
Less: allowance for impairment losses (Note 49)	(188)	(1)
	200,030	205,346
Analysed by remaining maturity:		
– Within 1 month	132,834	139,349
– Between 1 month and 1 year	66,387	65,998
	199,221	205,347
Accrued interest	997	N/A
	200,218	205,347
Less: allowance for impairment losses (Note 49)	(188)	(1)
	200,030	205,346

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22 Financial assets at fair value through profit or loss

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

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 HK$ million
Listed in Hong Kong	799
Listed outside Hong Kong	44,010
Unlisted	1,522
	46,331

Notes to the Consolidated Financial Statements

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

(b) Certificates of interbank deposit

	As at 31 December 2017 HK$ million
Listed outside Hong Kong	23,209

(c) Investment funds

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

(d) Trading equity investments

	As at 31 December 2017 HK$ million
Listed in Hong Kong	89
Listed outside Hong Kong	84
Unlisted	3
	176

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

	As at 31 December 2017 HK$ million
Listed in Hong Kong	7,058
Listed outside Hong Kong	788
Unlisted	7,944
	15,790

Note:

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

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23 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					
	2018			2017		
	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 2(l)(i)):						
– Interest rate derivatives	9,570	116	9	11,722	147	22
– Currency derivatives	446	–	22	–	–	–
Cash flow hedge (note 2(l)(ii)):						
– Interest rate derivatives	15,214	6	1,370	15,498	9	1,872
– Currency derivatives	386	7	–	366	3	–
– Other derivatives	2,086	546	59	2,950	1,025	72
Non-hedging instruments						
– Interest rate derivatives	2,097,185	6,859	6,812	1,953,696	2,907	2,767
– Currency derivatives	2,965,101	28,449	28,061	4,005,534	74,209	74,821
– Precious metals derivatives	66,930	1,195	1,335	61,712	1,039	308
– Other derivatives	1,272	116	8	15,987	–	213
	5,158,190	37,294	37,676	6,067,465	79,339	80,075

23 Derivative financial instruments (Continued)

(a) Nominal amount analysed by remaining maturity

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Within 3 months	2,195,091	2,236,638
Between 3 months and 1 year	2,327,455	3,310,476
Between 1 year and 5 years	623,939	506,712
Over 5 years	11,705	13,639
	5,158,190	6,067,465

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 2018, the credit risk weighted amount for counterparty was HK$23,006 million (31 December 2017: HK$84,001 million).

24 Trade and other receivables

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Trade and bills receivables (note(a))	46,494	42,092
Interest receivables (note (b))	N/A	44,444
Prepayments, deposits and other receivables (note (c))	70,113	72,367
	116,607	158,903
Less: allowance for impairment losses (Note 49)	(5,550)	(9,699)
	111,057	149,204

As at 31 December 2018, the amount of the Group's prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year is HK$7,102 million (31 December 2017: HK$9,356 million). The remaining trade and other receivables are expected to be recovered or recognised as expense within one year.

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24 Trade and other receivables (Continued)

(a) Trade and bills receivables

(i) Overdue analysis

As at 31 December 2018, the Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bill receivables. As at the balance sheet date, the analysis of trade and bills receivables of the Group based on the days overdue is as follows:

	As at 31 December 2018		
	Expected credit loss rate (note)	Gross carrying amount HK$ million	Loss allowance provision HK$ million
Current	1%	34,609	(386)
Up to 3 months overdue	2%	1,807	(37)
3 months to 1 year overdue	7%	2,230	(151)
Over 1 year overdue	36%	7,848	(2,849)
		46,494	(3,423)

Note:

Each business unit has its own defined credit policy that is specific to the respective business environment and market practice. The ECL rate here is the average rate of loss allowance provision divided by gross carrying amount.

(ii) Ageing analysis

As at 31 December 2018 and 2017, 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	
	2018 HK$ million	2017 HK$ million
Within 1 year	38,401	36,173
Over 1 year	8,093	5,919
	46,494	42,092
Less: allowance for impairment losses (Note 49)	(3,423)	(2,986)
	43,071	39,106

The movements in the allowance for impairment losses on trade and other receivables during the years ended 31 December 2018 and 2017 are disclosed in Note 49.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24 Trade and other receivables (Continued)

(b) Interest receivables

	As at 31 December 2017 HK$ million
Interest receivables	44,444
Less: allowance for impairment losses (Note 49)	(4,772)
	39,672

Note:

The interest on financial instruments accrued based on the effective interest rate method has been included in the net balance of the corresponding financial instrument. The Group elected not to restate comparative figures.

(c) Prepayments, deposits and other receivables

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Prepayments, deposits and other receivables	70,113	72,367
Less: allowance for impairment losses (Note 49)	(2,127)	(1,941)
	67,986	70,426

25 Contract assets and contract liabilities

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December 2018 HK$ million
Contract assets	11,074
Less: Allowance for impairment losses (note(a))	(6)
Total contract assets	11,068
Advances from contracts with customers	16,211
Amounts due to customers for contract work	2,324
Total contract liabilities	18,535

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25 Contract assets and contract liabilities (Continued)

(a) Assessment of allowance for impairment losses of contract

	As at 31 December 2018		
	Expected credit loss rate (note)	Gross carrying amount HK$ million	Loss allowance provision HK$ million
Impairment allowance	0.05%	11,074	6

Note:

The ECL rate here is the average rate of loss allowance provision divided by gross carrying amount.

(b) Assets recognised from costs to fulfil a contract

In addition to the contract balances disclosed above, the Group did not have balances related to costs to fulfil a contract to be recognised as other assets as at 31 December 2018.

(c) Revenue recognised during the year that related to carried-forward contract liabilities

	For the year ended 31 December 2018 HK$ million
Revenue from contracts with customers	7,104

As at 31 December 2018, transaction price allocated to unsatisfied contracts of the Group amounted at HK$73,179 million, of which HK$19,886 million is expected to be recognised as revenue in the next year and the remaining HK$53,293 million is expected to be recognised after more than one year.

26 Inventories

	As at 31 December	
	2018	2017
	HK$ million	HK$ million
Raw materials	**6,997**	6,629
Work-in-progress	**6,319**	5,749
Finished goods	**19,939**	18,643
Properties:		
– Properties under development	**17,740**	18,635
– Properties held-for-sale	**2,807**	5,423
– Others	**1,189**	1,402
Others	**3,096**	2,071
	58,087	58,552

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	
	2018	2017
	HK$ million	HK$ million
Carrying amount of inventories sold	**236,327**	191,752
Write-down of inventories (Note 49)	**4,854**	709
Reversal of write-down of inventories (Note 49)	**(856)**	(693)
	240,325	191,768

As at 31 December 2018, the Group's inventories included an amount of HK$19,299 million expected to be recovered after more than one year (31 December 2017: HK$20,417 million).

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For the year ended 31 December 2018

27 Financial assets held under resale agreements

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Analysed by counterparties:		
– Banks	4,977	33,995
– Non-bank financial institutions	7,975	31,354
	12,952	65,349
Accrued interest	8	N/A
	12,960	65,349
Less: allowance for impairment losses (Note 49)	(5)	–
	12,955	65,349
Analysed by types of collateral:		
– Securities	12,952	65,349
	12,952	65,349
Accrued interest	8	N/A
	12,960	65,349
Less: allowance for impairment losses (Note 49)	(5)	–
	12,955	65,349

Analysed by remaining maturity:

As at 31 December 2018, the Group's financial assets held under resale agreements will expire within one month (31 December 2017: within one month).

28 Loans and advances to customers and other parties

(a) Loans and advances

	As at 31 December 2018 HK$ million	2017 HK$ million
Loans and advances to customers and other parties at amortised cost		
Corporate loans:		
– Loans	2,106,071	2,177,528
– Discounted bills	169,204	130,190
– Finance lease receivables	54,574	54,143
	2,329,849	2,361,861
Personal loans:		
– Residential mortgages	734,315	604,498
– Business loans	222,252	198,604
– Credit cards	505,013	399,228
– Personal consumption	232,656	271,016
	1,694,236	1,473,346
	4,024,085	3,835,207
Accrued interest	10,016	N/A
	4,034,101	3,835,207
Less: allowance for impairment losses (Note 49)	(119,857)	(113,321)
Carrying amount of loans and advances to customers and other parties at amortised cost	3,914,244	3,721,886
Loans and advances to customers and other parties at FVOCI		
Corporate loans:		
– Loans	156	N/A
– Discounted bills	110,001	N/A
Carrying amount of loans and advances to customers and other parties at FVOCI	110,157	N/A
	4,024,401	3,721,886
Allowance for impairment losses on loans and advances to customers and other parties at FVOCI (Note 49)	(151)	N/A

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

28 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	
	2018 HK$ million	2017 HK$ million
Unsecured loans	925,754	850,404
Guaranteed loans	563,310	615,561
Secured loans		
– Loans secured by collateral	1,895,985	1,807,140
– Pledged loans	469,988	431,912
	3,855,037	3,705,017
Discounted bills	279,205	130,190
	4,134,242	3,835,207
Accrued interest	10,016	N/A
Gross loans and advances	4,144,258	3,835,207

(c) Assessment method of allowance for impairment losses

	As at 31 December 2018				
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 (note (i)) HK$ million	Total HK$ million	Gross loans and advances at stage 3 as a percentage of gross total loans and advances
Loans and advances at amortised cost	3,840,531	108,412	75,142	4,024,085	1.81%
Accrued interest	9,008	987	21	10,016	
Less: allowance for impairment losses	(40,174)	(26,464)	(53,219)	(119,857)	
Carrying amount of loans and advances at amortised cost	3,809,365	82,935	21,944	3,914,244	
Carrying amount of loans and advances at FVOCI	110,157	–	–	110,157	
Total carrying amount of loans and advances	3,919,522	82,935	21,944	4,024,401	
Allowance for impairment losses of loans and advances at FVOCI	(151)	–	–	(151)	

28 Loans and advances to customers and other parties (Continued)

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

	As at 31 December 2017				
		Impaired loans and advances (note (ii))			
	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	

Notes:

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

	As at 31 December 2018 HK$ million
Secured portion	43,453
Unsecured portion	31,689
Total	75,142
Allowance for impairment losses	(53,219)
	21,923

As at 31 December 2018, the fair value of pledge and collateral held against these loans and advances amounted to HK$41,669 million.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

28 Loans and advances to customers and other parties (Continued)

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

Notes: (Continued)

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

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

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

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

(d) Overdue loans by overdue period

	As at 31 December 2018				
	Overdue within 3 months HK$ million	Overdue between 3 months and 1 year HK$ million	Overdue between 1 year and 3 years HK$ million	Overdue over 3 years HK$ million	Total HK$ million
Unsecured loans	11,209	10,959	2,256	562	24,986
Guaranteed loans	10,595	9,464	7,577	715	28,351
Secured loans					
– Loans secured by collateral	18,749	15,224	13,784	3,107	50,864
– Pledged loans	2,805	2,234	1,999	131	7,169
	43,358	37,881	25,616	4,515	111,370

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

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

29 Investments in financial assets

(a) Analysed by types

	As at 31 December 2018 HK$ million
Financial assets at amortised cost	
Debt securities	438,361
Investment management products managed by securities companies (note (i))	262,905
Trust investment plans (note (i))	178,161
Certificates of deposit and certificates of interbank deposit	13,018
Wealth management products	1,198
Investments in creditor's rights on assets	583
Others	445
	894,671
Accrued interest	9,644
	904,315
Less: allowance for impairment losses (Note 49)	(4,967)
	899,348
Financial assets at FVPL	
Debt securities	86,115
Including: Designated at FVPL	60
Investment management products managed by securities companies (note (i))	3,413
Trust investment plans (note (i))	36,911
Certificates of deposit and certificates of interbank deposit	19,074
Wealth management products	1,946
Investment funds	233,132
Equity investment	14,572
Others	96
	395,259
Debt investments at FVOCI (note (ii))	
Debt securities	560,392
Certificates of deposit and certificates of interbank deposit	14,431
Others	380
	575,203
Accrued interest	7,696
	582,899
Equity investments at FVOCI (note (ii))	
Equity investment	6,504
Investment funds	417
	6,921
	1,884,427

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

29 Investments in financial assets (Continued)

(a) Analysed by types (Continued)

Notes:

(i) As at 31 December 2018, certain of the Group's investments with an aggregate amount of HK$113,096 million (31 December 2017: HK$116,069 million) were managed by certain subsidiaries and related parties of the Group.

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

(ii) Financial assets measured at FVOCI.

	As at 31 December 2018		
	Equity instruments HK$ million	Debt instruments HK$ million	Total HK$ million
Cost/amortised cost	7,778	568,893	576,671
Accumulative fair value change in OCI	(857)	6,310	5,453
Fair value	6,921	575,203	582,124
Allowance for impairment losses (Note 49)	N/A	(1,185)	(1,185)

(b) Analysed by location of counterparties

	As at 31 December 2018 HK$ million
Issued by:	
– Government	560,789
– Policy banks	139,707
– Banks and non-bank financial institutions	993,732
– Corporates	170,371
– Public entities	2,488
	1,867,087
Accrued interest	17,340
	1,884,427
– Listed in Hong Kong	53,747
– Listed outside Hong Kong	1,250,302
– Unlisted	563,038
	1,867,087
Accrued interest	17,340
	1,884,427

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

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For the year ended 31 December 2018

29 Investments in financial assets (Continued)

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

	As at 31 December 2018			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Gross carrying amount of debt investments in financial assets at FVOCI	574,833	118	252	575,203
Accrued interest	7,695	1	–	7,696
Carrying amount of debt investments in financial assets at FVOCI	582,528	119	252	582,899
Gross carrying amount of investments in financial assets at amortised cost	886,393	5,431	2,847	894,671
Accrued interest	9,635	9	–	9,644
Less: allowance for impairment losses	(3,140)	(325)	(1,502)	(4,967)
Carrying amount of investments in financial assets at amortised cost	892,888	5,115	1,345	899,348
Total carrying amount of investments in financial assets influenced by credit risk	1,475,416	5,234	1,597	1,482,247
Allowance for impairment losses on debt investments in financial assets at FVOCI	(830)	(2)	(353)	(1,185)

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30 Available-for-sale financial assets

	As at 31 December 2017 HK$ million
Debt securities (note (a))	566,535
Certificates of deposit and certificates of interbank deposit (note (b))	48,986
Wealth management products issued by financial institutions (note (c))	24,951
Equity investments (note (d))	16,515
Investment funds (note (e))	152,578
	809,565
Less: allowance for impairment losses (Note 49)	(1,653)
	807,912
Issued by:	
– Government	309,846
– Policy banks	88,056
– Banks and non-bank financial institutions	281,541
– Corporates	128,469
	807,912
Analysed by remaining maturity:	
– Within 3 months	64,411
– Between 3 months and 1 year	81,845
– Over 1 year	495,895
– No fixed terms	165,761
	807,912

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

30 Available-for-sale financial assets (Continued)

(a) Debt securities

	As at 31 December 2017 HK$ million
Debt securities	566,535
Less: allowance for impairment losses	(60)
	566,475
Representing:	
– Listed in Hong Kong	31,995
– Listed outside Hong Kong	514,133
– Unlisted	20,347
	566,475

(b) Certificates of deposit and certificates of interbank deposit

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

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30 Available-for-sale financial assets (Continued)

(c) Wealth management products issued by financial institutions

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

(d) Equity investments

	As at 31 December 2017 HK$ million
Equity investments	16,515
Less: allowance for impairment losses	(384)
	16,131
Representing:	
– Listed in Hong Kong	6,408
– Listed outside Hong Kong	1,443
– Unlisted	8,280
	16,131

30 Available-for-sale financial assets (Continued)

(e) Investment funds

	As at 31 December 2017 HK$ million
Investment funds	152,578
Less: allowance for impairment losses	(33)
	152,545
Representing:	
– Listed in Hong Kong	159
– Listed outside Hong Kong	142,271
– Unlisted	10,115
	152,545

Note:

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

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31 Held-to-maturity investments

	As at 31 December 2017 HK$ million
Debt securities	261,574
Others	80
	261,654
Less: allowance for impairment losses (Note 49)	–
	261,654
Representing:	
– Listed in Hong Kong	2,517
– Listed outside Hong Kong	251,205
– Unlisted	7,932
	261,654
Issued by:	
– Government	65,922
– Policy banks	64,895
– Banks and non-bank financial institutions	107,026
– Public entities	3
– Corporates	23,808
	261,654
Analysed by remaining maturity:	
– Within 3 months	17,958
– Between 3 months and 1 year	35,091
– Over 1 year	208,605
	261,654
Fair value	254,349
Of which: listed debt securities	248,911

Note:

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

32 Investments classified as receivables

	As at 31 December 2017 HK$ million
Trust investment plans	159,267
Investment management products managed by securities companies	322,246
Wealth management products issued by financial institutions	166,310
Others	1,030
	648,853
Less: allowance for impairment losses (Note 49)	(4,064)
	644,789

As at 31 December 2017, certain of the Group's investments with an aggregate amount of HK$116,069 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.

33 Subsidiaries

The particulars of the principal subsidiaries are set out in Note 61.

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:

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33 Subsidiaries (Continued)

	As at 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 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%	40.64%	39.92%	40.50%	40.50%
Total assets	6,923,892	6,792,228	22,437	23,580	17,965	18,581	13,680	14,133
Mainly including:								
Cash and deposits	727,986	828,618	4,287	4,250	1,049	1,636	1,921	1,406
Placements with banks and non-bank financial institutions	201,049	205,846	–	–	–	–	–	–
Financial assets at fair value through profit or loss	N/A	78,841	N/A	–	N/A	–	N/A	3
Derivative financial assets	36,511	78,299	–	–	–	–	534	900
Financial assets held under resale agreements	12,315	65,349	–	–	–	–	–	–
Loans and advances to customers and other parties	4,012,383	3,715,692	–	–	–	–	–	–
Investments in financial assets	1,826,253	N/A	1,284	N/A	–	N/A	2	N/A
Available-for-sale financial assets	N/A	755,691	N/A	1,833	N/A	–	N/A	1
Held-to-maturity investments	N/A	259,102	N/A	–	N/A	–	N/A	–
Investments classified as receivables	N/A	635,378	N/A	–	N/A	–	N/A	–
Fixed assets	24,406	24,226	5,851	4,465	2,767	2,387	3,115	3,852
Total liabilities	(6,406,789)	(6,298,834)	(14,044)	(14,835)	(9,070)	(10,150)	(7,626)	(8,186)
Mainly including:								
Borrowing from central banks	(326,901)	(284,241)	–	–	–	–	–	–
Deposits from banks and non-bank financial institutions	(892,792)	(954,656)	–	–	–	–	–	–
Placements from banks and non-bank financial institutions	(131,658)	(92,827)	–	–	–	–	–	–
Trade and other payables	–	–	(2,600)	(2,764)	(849)	(895)	(158)	(167)
Derivative financial liabilities	(36,117)	(77,684)	–	–	–	–	(24)	(10)
Financial assets sold under repurchase agreements	(137,315)	(160,902)	–	–	–	–	–	–
Deposits from customers	(4,165,271)	(4,076,559)	–	–	–	–	–	–
Bank and other loans	–	–	(7,739)	(5,945)	(3,369)	(4,342)	(4,532)	(6,988)
Net assets	517,103	493,394	8,393	8,745	8,895	8,431	6,054	5,947
Equity attributable to								
– Ordinary shareholders of subsidiaries	458,464	436,271	8,170	8,551	8,855	8,396	6,141	6,064
– Non-controlling interests in subsidiaries	58,639	57,123	223	194	40	35	(87)	(117)
Carrying amount of non-controlling interests	214,654	205,586	2,897	2,993	3,639	3,387	2,400	2,339

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33 Subsidiaries (Continued)

	As at 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Revenue	196,235	181,259	6,156	5,327	9,464	7,451	4,427	3,603
Profit for the year	53,716	49,431	179	76	968	896	950	485
Total comprehensive income for the year	68,469	37,162	140	79	966	968	485	1,386
Profit attributable to non-controlling interests	19,990	18,069	94	45	403	367	412	176
Dividends paid to non-controlling interests	7,067	6,000	25	5	255	199	80	48
Net cash generated from operating activities	121,123	62,337	857	652	1,816	1,854	962	736
Net cash (used in)/generated from investing activities	(171,147)	(154,126)	349	(456)	(370)	(832)	764	416
Net cash generated from/(used in) financing activities	87,652	45,473	(910)	(664)	(1,800)	(926)	(1,171)	(920)

34 Interests in associates

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Carrying value	119,127	101,167
Less: allowance for impairment losses (Note 49)	(2,496)	(2,523)
	116,631	98,644

Notes:

(i) The particulars of the principal associates are set out in Note 61.

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34 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.	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Listed in:	**Hong Kong**		**Hong Kong, Shanghai**		**Unlisted**	
Gross amount of the associates						
Total assets	758,537	684,833	745,415	748,376	87,001	91,548
Total liabilities	(431,734)	(371,861)	(566,425)	(565,171)	(52,844)	(58,806)
Net assets	326,803	312,972	178,990	183,205	34,157	32,742
Equity attributable to:						
– Associates' shareholders	316,678	305,123	174,778	179,205	34,157	32,742
– Non-controlling interests in associates	10,125	7,849	4,212	4,000	–	–
	326,803	312,972	178,990	183,205	34,157	32,742

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34 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.	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Revenue	171,461	166,045	60,447	65,664	20,298	22,909
Profit for the year	40,470	37,565	11,692	13,808	1,507	3,648
Other comprehensive (loss)/ income for the year	(13,879)	11,641	(1,141)	(254)	–	–
Total comprehensive income for the year	26,591	49,206	10,551	13,554	1,507	3,648
Dividends received from associates	931	844	913	837	–	–
Reconciled to the Group's interests in associates						
Gross amounts of net assets of associates attributable to the associates' shareholders	316,678	305,123	174,778	179,205	34,157	32,742
Group's effective interest	10.00%	10.00%	16.50%	16.50%	15.00%	15.00%
Group's share of net assets of associates	31,668	30,512	28,838	29,569	5,124	4,911
Goodwill and others	1,417	1,433	1,309	1,319	–	–
Carrying amounts in the consolidated balance sheet	33,085	31,945	30,147	30,888	5,124	4,911

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For the year ended 31 December 2018

34 Interests in associates (Continued)

Aggregate information of associates that are not individually material:

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	48,275	30,900
Aggregate amount of the Group's share of those immaterial associates:		
Profit for the year	1,991	1,199
Other comprehensive (loss)/income for the year	(406)	912
Total comprehensive profit for the year	1,585	2,111

35 Interests in joint ventures

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Carrying value	40,068	38,872
Less: allowance for impairment losses (Note 49)	(1,448)	(1,454)
	38,620	37,418

The particulars of the principal joint ventures are set out in Note 61.

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	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Gross amount of the joint ventures						
Total assets	85,186	76,929	15,970	17,577	20,345	15,054
Total liabilities	(77,758)	(71,093)	(8,486)	(8,401)	(15,907)	(9,525)
Net assets	7,428	5,836	7,484	9,176	4,438	5,529
Equity attributable to:						
– Joint ventures' shareholders	6,840	5,836	7,484	9,176	4,438	5,529
– Non-controlling interests in joint ventures	588	–	–	–	–	–
	7,428	5,836	7,484	9,176	4,438	5,529

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35 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	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Revenue	20,743	16,271	1,200	18,060	8,381	9,257
Profit for the year	1,307	1,212	638	5,678	2,773	3,346
Other comprehensive income for the year	13	31	–	–	–	–
Total comprehensive income for the year	1,320	1,243	638	5,678	2,773	3,346
Dividends received from joint ventures	–	–	943	–	1,005	–
Reconciled to the Group's interests in joint ventures						
Gross amounts of net assets of joint ventures attributable to joint ventures' shareholders	6,840	5,836	7,484	9,176	4,438	5,529
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	3,420	2,918	3,742	4,588	1,331	1,659
Goodwill and others	1,339	1,345	243	250	1,122	1,155
Carrying amount in the consolidated balance sheet	4,759	4,263	3,985	4,838	2,453	2,814

Aggregate information of joint ventures that are not individually material:

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	27,423	25,503
Aggregate amount of the Group's share of those joint ventures		
Profit for the year	1,045	1,294
Other comprehensive loss for the year	(6)	(1)
Total comprehensive income for the year	1,039	1,293

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36 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 31 December 2017	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	33,073
Changes in accounting policies (Note 2(f))	–	–	(2,932)	–	–	–	(2,932)	–	(2,932)	–
At 1 January 2018	78,380	170,425	17,166	17,644	13,362	15,657	312,634	21,733	334,367	33,073
Exchange adjustments	(3,022)	(4,175)	(787)	(705)	(319)	(693)	(9,701)	(864)	(10,565)	(813)
Business combination (Note 54)	2,063	708	1	4	4	60	2,840	811	3,651	–
Disposal of subsidiaries	(476)	(474)	–	(14)	(22)	(5)	(991)	(2,182)	(3,173)	–
Additions	5,183	2,440	8,545	2,184	695	1,591	20,638	536	21,174	550
Disposals	(1,738)	(3,283)	(335)	(2,454)	(567)	(1,083)	(9,460)	(397)	(9,857)	(1,610)
Transfers	1,517	3,200	(5,188)	148	48	275	–	–	–	425
Change in fair value of investment properties	–	–	–	–	–	–	–	–	–	954
At 31 December 2018	81,907	168,841	19,402	16,807	13,201	15,802	315,960	19,637	335,597	32,579
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2018	(21,675)	(90,773)	(1,294)	(11,965)	(5,865)	(7,381)	(138,953)	(2,299)	(141,252)	–
Exchange adjustments	864	2,310	30	492	145	286	4,127	138	4,265	–
Business combination (Note 54)	(44)	(5)	–	(2)	(1)	(1)	(53)	(8)	(61)	–
Disposal of subsidiaries	76	219	–	7	16	4	322	7	329	–
Charge for the year	(2,545)	(6,753)	–	(1,843)	(782)	(995)	(12,918)	(431)	(13,349)	–
Disposals	617	2,195	75	1,589	357	575	5,408	9	5,417	–
Impairment losses (Note 49)	(617)	(110)	–	(1)	(352)	(219)	(1,299)	–	(1,299)	–
At 31 December 2018	(23,324)	(92,917)	(1,189)	(11,723)	(6,482)	(7,731)	(143,366)	(2,584)	(145,950)	–
Net book value:										
At 31 December 2018	58,583	75,924	18,213	5,084	6,719	8,071	172,594	17,053	189,647	32,579
Represented by:										
Cost	81,907	168,841	19,402	16,807	13,201	15,802	315,960	19,637	335,597	–
Valuation	–	–	–	–	–	–	–	–	–	32,579
	81,907	168,841	19,402	16,807	13,201	15,802	315,960	19,637	335,597	32,579

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36 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 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	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	(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)	–
Disposals	115	1,042	–	231	215	641	2,244	–	2,244	–
Impairment losses (Note 49)	(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

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For the year ended 31 December 2018

36 Fixed assets (Continued)

As at 31 December 2018, the Group was in the process of applying the ownership certificates in respect of certain premises and land use rights of HK$3,841 million (31 December 2017: HK$6,616 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	
	2018 HK$ million	2017 HK$ Million
In Mainland China		
– leases of over fifty years	2,132	4,217
– leases of between ten to fifty years	78,096	78,879
– leases of less than ten years	1,167	1,055
	81,395	84,151
In Hong Kong		
– leases of over fifty years	814	698
– leases of between ten to fifty years	19,701	17,870
	20,515	18,568
Properties held overseas		
– freehold	2,297	1,505
– leases of more than fifty years	12	12
– leases of between ten to fifty years	3,946	4,868
– leases of less than ten years	50	108
	6,305	6,493
Total	108,215	109,212

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36 Fixed assets (Continued)

(b) Fair value measurement of investment properties

(i) Property valuation

Investment properties were revalued as at 31 December 2018 and 2017 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 2018
Mainland China and Hong Kong	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	China Enterprise Appraisals Consultation Co., Ltd.
	Shanghai Dongzhou Real Estate Appraisal Co., Ltd.
	Prudential Surveyors (Hong Kong) Limited
	Zhong Ming (Beijing) Asset Appraisal International Co., Ltd.
	Centaline Surveyors Limited
	Beijing Dexiang Assets Appraisal Co., Ltd.
	PAN-CHINA Assets Appraisal Co., Ltd.
	Knight Frank Petty Limited
	YINXIN Appraisal Co., Ltd.
Overseas	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	Network Real Estate Appraisal Co., Ltd.

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For the year ended 31 December 2018

36 Fixed assets (Continued)

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

(i) Property valuation (Continued)

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 (Hong Kong) 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.

(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.

36 Fixed assets (Continued)

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

(ii) Fair value hierarchy (Continued)

	Level 3 For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Recurring fair value measurement		
Investment properties – Mainland China		
At 1 January	17,851	16,940
Exchange adjustments	(777)	1,168
Additions	28	74
Disposals	(1,109)	(4)
Transfers	1,651	231
Change in fair value of investment properties	423	(558)
At 31 December	18,067	17,851
Investment properties – Hong Kong		
At 1 January	14,779	14,228
Exchange adjustments	1	(5)
Additions	519	6
Disposals	(501)	–
Transfers	(1,226)	(21)
Change in fair value of investment properties	496	571
At 31 December	14,068	14,779
Investment properties – Overseas		
At 1 January	443	371
Exchange adjustments	(37)	29
Additions	3	7
Disposals	–	(9)
Change in fair value of investment properties	35	45
At 31 December	444	443

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36 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 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: 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.

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37 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 2018	11,358	19,323	3,022	12,424	46,127
Exchange adjustments	(120)	(4)	(5)	(487)	(616)
Additions	–	7	–	3,160	3,167
Disposals of subsidiaries	(11,238)	–	–	–	(11,238)
Disposals	–	(10)	(2)	(281)	(293)
At 31 December 2018	–	19,316	3,015	14,816	37,147
Accumulated amortisation and impairment losses:					
At 1 January 2018	(1,189)	(16,971)	(117)	(4,129)	(22,406)
Exchange adjustments	13	4	3	165	185
Charge for the year	(71)	(53)	(150)	(1,574)	(1,848)
Disposals of subsidiaries	1,247	–	–	–	1,247
Disposals	–	10	2	115	127
Impairment losses (Note 49)	–	(13)	–	(52)	(65)
At 31 December 2018	–	(17,023)	(262)	(5,475)	(22,760)
Net book value:					
At 31 December 2018	–	2,293	2,753	9,341	14,387

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37 Intangible assets (Continued)

	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	–	–	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	–	–	(54)	(13)	(67)
Charge for the year	(204)	(69)	(63)	(863)	(1,199)
Disposals	–	–	–	154	154
Impairment losses (Note 49)	–	(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

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

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38 Goodwill

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Cost:		
At 1 January	**24,373**	22,305
Additions	**32**	1,535
Disposals	**(130)**	(186)
Exchange differences	**(304)**	719
At 31 December	**23,971**	24,373
Accumulated impairment losses:		
At 1 January	**(384)**	(434)
Additions (Note 49)	**(730)**	–
Disposals	**3**	52
Exchange differences	**25**	(2)
At 31 December	**(1,086)**	(384)
Net book value:		
At 31 December	**22,885**	23,989

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Resources and energy	**649**	1,336
Financial services	**1,509**	1,526
Manufacturing	**846**	1,165
Real estate	**160**	356
Others	**19,721**	19,606
	22,885	23,989

Based on management’s impairment assessment, impairment loss of HK$730 million was recognised for the year ended 31 December 2018 (2017: Nil).

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39 Income tax in the balance sheet

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Income tax payable	11,551	13,446

(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 2018 and 2017, 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 2017 (Restated)	13,289	1,828	15,310	351	4,648	1,019	36,445
(Charged)/credited to profit or loss	(1,276)	925	5,256	199	1,909	488	7,501
Credited/(charged) to other comprehensive income	–	3	–	3,282	–	(57)	3,228
Business combination	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
Changes in accounting policies (Note 2(f)(i))	–	–	3,373	(2,813)	–	–	560
At 1 January 2018	12,037	2,891	25,170	1,153	6,711	1,760	49,722
Credited/(charged) to profit or loss	1,436	512	4,401	407	(212)	(55)	6,489
(Charged)/credited to other comprehensive income	–	(4)	22	(970)	–	7	(945)
Exchange adjustments and others	(27)	(154)	(1,305)	(24)	(53)	(110)	(1,673)
At 31 December 2018	13,446	3,245	28,288	566	6,446	1,602	53,593

39 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 2018 and 2017, 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 2017	(704)	(951)	(3,415)	(3,255)	(8,325)
(Charged)/credited to profit or loss	(229)	77	(117)	1,046	777
(Charged)/credited to other comprehensive income	(81)	–	(52)	59	(74)
Business combination	–	(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)
Credited/(charged) to profit or loss	314	(179)	(86)	166	215
Charged to other comprehensive income	(3,134)	–	(32)	(10)	(3,176)
Exchange adjustments and others	282	60	182	114	638
At 31 December 2018	(3,604)	(2,175)	(3,768)	(2,791)	(12,338)

(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	
	2018 HK$ million	2017 HK$ million
Deductible temporary differences	**2,103**	3,044
Tax losses	**25,362**	27,548
	27,465	30,592

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 2018, tax losses amounting to HK$7,874 million (31 December 2017: HK$10,036 million) that can be carried forward against future taxable income are expiring within 5 years.

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39 Income tax in the balance sheet (Continued)

(d) Deferred tax liabilities not recognised

As at 31 December 2018 and 31 December 2017, 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.

40 Deposits from banks and non-bank financial institutions

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Banks	242,717	223,640
Non-bank financial institutions	641,512	730,998
	884,229	954,638
Accrued interest	4,737	N/A
	888,966	954,638
Analysed by remaining maturity:		
– On demand	364,731	287,850
– Within 3 months	261,820	461,257
– Between 3 months and 1 year	257,483	205,525
– Over 1 year	195	6
	884,229	954,638
Accrued interest	4,737	N/A
	888,966	954,638

41 Placements from banks and non-bank financial institutions

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Banks	74,975	59,107
Non-bank financial institutions	53,913	31,024
	128,888	90,131
Accrued interest	275	N/A
	129,163	90,131
Analysed by remaining maturity:		
– Within 3 months	93,487	44,486
– Between 3 months and 1 year	35,362	45,606
– Over 1 year	39	39
	128,888	90,131
Accrued interest	275	N/A
	129,163	90,131

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

42 Trade and other payables

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Trade and bills payables	75,084	68,733
Advances from customers	214	10,848
Interest payables (note)	N/A	50,049
Other taxes payables	5,089	5,993
Settlement accounts	12,566	7,976
Dividend payables	493	785
Other payables	77,647	81,726
	171,093	226,110

Note:

The interest on financial instruments accrued based on the effective interest rate method has been included in the net balance of the corresponding financial instrument. The Group elected not to restate comparative figures.

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	
	2018 HK$ million	2017 HK$ million
Within 1 year	53,426	48,751
Between 1 and 2 years	5,102	8,505
Between 2 and 3 years	7,319	4,672
Over 3 years	9,237	6,805
	75,084	68,733

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

43 Financial assets sold under repurchase agreements

	As at 31 December	
	2018	2017
	HK$ million	HK$ million
By counterparties:		
The People's Bank of China	**106,312**	107,742
Banks	**31,096**	53,160
Non-bank financial institutions	**1,141**	–
	138,549	160,902
Accrued interest	**40**	N/A
	138,589	160,902
By types of collateral:		
Debt securities	**98,689**	98,198
Discounted bills	**39,860**	62,704
	138,549	160,902
Accrued interest	**40**	N/A
	138,589	160,902

The Group did not derecognise financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2018, legal title of these collateral pledged has not been transferred to counterparties.

44 Deposits from customers

(a) Types of deposits from customers

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Demand deposits		
– Corporate customers	**1,725,834**	1,947,517
– Personal customers	**300,114**	281,084
	2,025,948	2,228,601
Time and call deposits		
– Corporate customers	**1,577,529**	1,463,098
– Personal customers	**513,066**	357,069
	2,090,595	1,820,167
Outward remittance and remittance payables	**5,504**	7,390
Accrued interest	**37,877**	N/A
	4,159,924	4,056,158

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Bank acceptances	**186,106**	233,647
Letters of credit	**7,115**	11,112
Guarantees	**24,831**	29,837
Others	**125,116**	130,193
	343,168	404,789

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

45 Bank and other loans

(a) Types of loans

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Bank loans		
Unsecured loans	**101,708**	78,106
Loan pledged with assets (note (d))	**24,144**	37,408
Guaranteed loans	**308**	5,955
	126,160	121,469
Other loans		
Unsecured loans	**25,709**	17,765
Loan pledged with assets (note (d))	**3,721**	3,077
Guaranteed loans	**–**	131
	29,430	20,973
	155,590	142,442
Accrued interest	**1,088**	N/A
	156,678	142,442

(b) Maturity of loans

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Bank and other loans are repayable:		
– Within 1 year or on demand	**37,937**	31,062
– Between 1 and 2 years	**35,222**	14,318
– Between 2 and 5 years	**44,709**	39,200
– Over 5 years	**37,722**	57,862
	155,590	142,442
Accrued interest	**1,088**	N/A
	156,678	142,442

45 Bank and other loans (Continued)

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

	As at 31 December	
	2018 **HK$ million**	2017 HK$ million
RMB	**41,031**	43,914
US$	**56,545**	54,368
HK$	**40,019**	25,956
Other currencies	**17,995**	18,204
	155,590	142,442
Accrued interest	**1,088**	N/A
	156,678	142,442

(d) As at 31 December 2018, the Group's bank and other loans of HK$27,865 million (31 December 2017 HK$40,485 million) are pledged with cash and deposits, inventories, trade and other receivables, fixed assets, intangible assets and the equity of subsidiary with an aggregate carrying amount of HK$79,818 million (31 December 2017: HK$90,245 million).

(e) All of the Group's banking facilities are subject to the fulfilment of covenants relating to balance sheet ratios or ownership of a minimum shareholding in certain entities of the Group, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 51(b). As at 31 December 2018, none of the covenants relating to drawn down facilities have been breached (31 December 2017: Nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Corporate bonds issued (note (a))	85,196	91,644
Notes issued (note (b))	119,367	147,002
Subordinated bonds issued (note (c))	141,485	88,200
Certificates of deposit issued (note (d))	3,141	3,409
Certificates of interbank deposit issued (note (e))	389,534	323,116
	738,723	653,371
Accrued interest	6,308	N/A
	745,031	653,371
Analysed by remaining maturity:		
– Within 1 year or on demand	400,682	370,069
– Between 1 and 2 years	114,852	7,073
– Between 2 and 5 years	58,997	156,004
– Over 5 years	164,192	120,225
	738,723	653,371
Accrued interest	6,308	N/A
	745,031	653,371

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 2018 (2017: Nil).

Notes:

(a) Corporate bonds issued

	As at 31 December	
	2018 HK$ million	2017 HK$ million
The Company (note (i))	63,335	64,513
CITIC Corporation Limited ("CITIC Corporation") (note (ii))	17,086	19,102
CITIC Telecom International (note (iii))	3,490	3,487
CITIC Heavy Industries (note (iv))	144	2,632
CITIC Pacific Limited's ("CITIC Pacific") subsidiaries (note (v))	1,141	598
CITIC Environment Investment Group Co., Limited's ("CITIC Environment") subsidiaries (note (vi))	–	1,312
	85,196	91,644

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(i) Details of corporate bonds issued by the Company

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(ii) Details of corporate bonds issued by CITIC Corporation

	As at 31 December 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
03 CITIC bond-2	RMB	6,000	2003-12-10	2023-12-09	5.10%
05 CITIC bond-2	RMB	4,000	2005-12-07	2025-12-06	4.60%
17 CITIC corporate bonds-1	RMB	2,000	2017-09-04	2022-09-04	4.60%
18 CITIC SCP001	RMB	3,000	2018-08-16	2019-05-13	3.59%

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

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

	As at 31 December 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Guaranteed bonds	US$	450	2013-03-05	2025-03-05	6.10%

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 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 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Corporate bonds	RMB	126	2013-01-25	2020-01-25	5.20%

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 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 – Medium Term Notes	SG$	225	2015-04-29	2018-04-29	4.70%

(b) Notes issued

	As at 31 December	
	2018 HK$ million	2017 HK$ million
CITIC Corporation (note (i))	24,998	32,113
CITIC Bank (note (ii))	91,641	113,135
CITIC Offshore Helicopter Company Limited (note (iii))	360	377
CITIC Trust Co., Ltd. (note (iv))	2,368	1,377
	119,367	147,002

(i) Details of notes issued by CITIC Corporation

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(b) Notes issued (Continued)

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

	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%

(ii) Details of notes issued by CITIC Bank

	As at 31 December 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
17 Financial bonds	RMB	50,000	2017-04-17	2020-04-17	4.20%
Financial bonds	RMB	8,000	2015-11-17	2020-11-17	3.61%
Financial bonds	RMB	7,000	2015-05-21	2020-05-25	3.98%
Financial bonds	US$	700	2017-12-14	2020-12-14	3.24%
Financial bonds	US$	550	2017-12-14	2022-12-15	3.34%
Financial bonds	RMB	3,000	2017-05-24	2020-05-24	4.40%
Financial bonds	US$	300	2017-12-14	2020-12-14	2.88%
Financial bonds	US$	250	2017-12-14	2020-12-15	3.13%

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

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For the year ended 31 December 2018

46 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 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
2017 Asset-backed medium-term notes	RMB	315	2017-05-04	2020-03-31	5.18%

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

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

	As at 31 December 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Guaranteed notes	US$	300	2018-03-15	2021-03-15	4.75%
Participation Notes	US$	5	2018-01-22	2023-01-22	Non fixed interest rate
Participation Notes (HDPro)	US$	6	2017-12-29	2019-12-29	Non fixed interest rate

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

Notes to the Consolidated Financial Statements

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46 Debt instruments issued (Continued)

Notes (Continued):

(c) Subordinated bonds issued

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Fixed rate notes maturing		
-In June 2020 (note (i))	3,955	3,996
-In May 2024 (note (ii))	2,345	2,319
Fixed rate bonds maturing		
-In May 2025 (note (iii))	13,125	13,757
-In June 2027 (note (iv))	22,806	23,903
-In August 2024 (note (v))	42,196	44,225
-In September 2028 (note (vi))	34,238	–
-In October 2028 (note (vii))	22,820	–
	141,485	88,200

		As at 31 December 2018				
		Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
(i)	Subordinated Notes	US$	500	2010-06-24	2020-06-24	6.88%
(ii)	Subordinated Notes	US$	300	2013-11-07	2024-05-07	6.00%
(iii)	Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(iv)	Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(v)	Subordinated Fixed Rate Bonds	RMB	37,000	2014-08-26	2024-08-26	6.13%
(vi)	Subordinated Fixed Rate Bonds	RMB	30,000	2018-09-13	2028-09-13	4.96%
(vii)	Subordinated Fixed Rate Bonds	RMB	20,000	2018-10-22	2028-10-22	4.80%

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(d) Certificates of deposit issued

These certificates of deposit were issued by CBI with interest rate ranging from 2.05% to 2.26% per annum (31 December 2017: 0.70% to 3.62% per annum).

(e) Certificates of interbank deposit issued

As at 31 December 2018, CITIC Bank issued certain certificates of interbank deposit with a total value of RMB341,310 million (approximately HK$389,534 million) (31 December 2017: RMB270,096 million (approximately HK$323,116 million)). The yield ranges from 2.80% to 4.86% per annum (31 December 2017: 4.00% to 5.35% per annum). The original expiry terms are between 1 month to 1 year (31 December 2017: between 3 months to 1 year).

47 Provisions

	Environmental restoration expenditures HK$ million	Impairment loss of credit commitments and guarantees provided HK$ million	Others HK$ million	Total HK$ million
At 1 January 2017	2,017	783	868	3,668
Exchange differences	157	54	90	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	837	2,167	5,474
Changes in accounting policy (Note 2(f)(i))	–	5,452	–	5,452
At 1 January 2018	2,470	6,289	2,167	10,926
Exchange differences	(240)	(245)	(20)	(505)
(Credit)/charge for the year	(805)	(53)	606	(252)
Payments made during the year	(6)	–	(450)	(456)
At 31 December 2018	1,419	5,991	2,303	9,713

Notes to the Consolidated Financial Statements

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48 Share capital, perpetual capital securities and reserves

(a) Share capital

As at 31 December 2018, the number of ordinary shares in issue of the Company was 29,090,262,630 (31 December 2017: 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.

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 2018, the total number of shares available for issue under the Plan 2011 is 364,944,416 shares).

No share options were granted under the Plan 2011 during the year ended 31 December 2018 (2017: Nil).

48 Share capital, perpetual capital securities and reserves (Continued)

(c) Perpetual capital securities

In May 2013, the Company issued perpetual subordinated capital securities (the "perpetual capital securities") with a nominal amount of US$1,000 million (approximately HK$7,800 million). These securities are perpetual and the distribution payments can be deferred at the discretion of the Company. Therefore, the perpetual capital securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. On 21 November 2018, the perpetual capital securities of US$1,000 million were redeemed by the Company. The amounts as at 31 December 2017 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.

(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(l)(ii).

(iii) Investment related reserves

The investment related reserves comprise the cumulative net change in the fair value of investments in financial assets at FVOCI 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(k)(i) and Note 2(h) respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

48 Share capital, perpetual capital securities and reserves (Continued)

(d) Nature and purpose of reserves (Continued)

(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(j).

(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 2018 (31 December 2017: Nil).

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For the year ended 31 December 2018

49 Movement of allowances for impairment losses

	For the year ended 31 December 2018					
	At 1 January HK$ million (Note 2(f)(iii))	Charge/ (reversal) for the year HK$ million	Write-off HK$ million	Disposal of subsidiaries HK$ million	Exchange differences and others HK$ million	At 31 December HK$ million
Allowances for expected credit losses						
Deposits and placements with banks and non-bank financial institutions (Note 20 and 21)	269	12	–	–	(8)	273
Financial assets held under resale agreements (Note 27)	44	(39)	–	–	–	5
Trade and other receivables (excluding prepayments) (Note 24)	10,850	4,067	(4,449)	(2)	(5,004)	5,462
Contract assets (Note 25)	–	–	–	–	6	6
Loans and advances to customers and other parties (Note 28)	121,697	56,447	(55,565)	–	(2,571)	120,008
Investments in financial assets (Note 29)						
– Financial assets at amortised cost	4,605	1,309	(816)	–	(131)	4,967
– Debt investments at FVOCI	1,136	89	–	–	(40)	1,185
Credit commitments and guarantees provided (Note 47)	6,289	(53)	–	–	(245)	5,991
Others	–	7,227	–	–	5,191	12,418
	144,890	69,059	(60,830)	(2)	(2,802)	150,315
Allowances for other impairment losses						
Inventories (Note 26)	2,738	3,998	(916)	–	(220)	5,600
Interests in associates (Note 34)	2,523	3	(1)	–	(29)	2,496
Interests in joint ventures (Note 35)	1,454	–	(6)	–	–	1,448
Fixed assets (Note 36)	47,606	1,299	(429)	(15)	(446)	48,015
Intangible assets (Note 37)	16,673	65	(16)	–	(1)	16,721
Trade and other receivables-prepayments (Note 24)	76	19	(3)	–	(4)	88
Goodwill (Note 38)	384	730	(3)	–	(25)	1,086
Other assets	4,095	397	(2,638)	(176)	(126)	1,552
	75,549	6,511	(4,012)	(191)	(851)	77,006
	220,439	75,570	(64,842)	(193)	(3,653)	227,321

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

49 Movement of allowances for impairment losses (Continued)

	For the year ended 31 December 2017						
	At 1 January HK$ million	Charge/ (reversal) for the year HK$ million	Write-off HK$ million	Business combination 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 20 and 21)	49	(37)	–	–	–	(11)	1
Trade and other receivables (Note 24)	7,357	7,499	(4,711)	27	(858)	385	9,699
Amounts due from customers for contract work	905	(923)	(10)	–	–	28	–
Inventories (Note 26)	2,513	16	(164)	321	–	52	2,738
Loans and advances to customers and other parties (Note 28)	88,610	58,167	(40,696)	–	–	7,240	113,321
Available-for-sale financial assets (Note 30)	863	895	(183)	–	(2)	80	1,653
Held-to-maturity investments (Note 31)	2	(2)	–	–	–	–	–
Investment classified as receivables (Note 32)	2,134	1,520	–	–	–	410	4,064
Interests in associates (Note 34)	2,315	166	–	–	–	42	2,523
Interests in joint ventures (Note 35)	1,507	(54)	–	–	–	1	1,454
Fixed assets (Note 36)	36,936	10,683	(74)	33	(51)	79	47,606
Intangible assets (Note 37)	16,403	254	(30)	40	–	6	16,673
Other assets	4,432	741	(996)	–	(66)	368	4,479
	164,026	78,925	(46,864)	421	(977)	8,680	204,211

50 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

50 Contingent liabilities and commitments (Continued)

(a) Credit commitments (Continued)

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Contractual amount		
Loan commitments		
With an original maturity of within 1 year	**5,160**	15,923
With an original maturity of 1 year or above	**40,387**	68,321
	45,547	84,244
Credit card commitments	**495,994**	371,230
Guarantees	**181,219**	256,028
Letters of credit	**106,053**	106,739
Acceptances	**450,022**	511,919
	1,278,835	1,330,160

(b) Credit commitments analysed by credit risk weighted amount

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Credit risk weighted amount on credit commitments	**422,882**	420,470

Notes:

(i) The above credit risk weighted amount is solely in connection with the credit commitments held by CITIC Bank under the financial services segment of the Group.

(ii) The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the China Banking and Insurance Regulatory Commission and depends on the status of counterparties and the maturity characteristics. The risk weighting used is ranging from 0% to 150%.

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For the year ended 31 December 2018

50 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	
	2018	2017
	HK$ million	HK$ million
Redemption commitment for treasury bonds	**12,669**	13,748

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

(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	
	2018	2017
	HK$ million	HK$ million
Related parties (note)	**11,811**	17,384
Third parties	**3,169**	3,358
	14,980	20,742

50 Contingent liabilities and commitments (Continued)

(d) Guarantees provided (Continued)

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

	As at 31 December	
	2018	2017
	HK$ million	HK$ million
Related parties (note)	**5,706**	5,981
Third parties	**50**	28
	5,756	6,009

Note:

As at 31 December 2018, 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$5,706 million) (31 December 2017: RMB5,000 million(approximately HK$5,981 million)). The guarantees are being transferred to China Overseas which has provided counter guarantees to the Group.

The relationship and transaction with related parties are disclosed in Note 52.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

50 Contingent liabilities and commitments (Continued)

(e) Outstanding litigation and disputes (Continued)

(i) Investigation into 2008 forex incident (Continued)

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

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

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(k).

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

50 Contingent liabilities and commitments (Continued)

(f) Capital commitments

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Contracted for	**28,970**	20,794

(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	
	2018 HK$ million	2017 HK$ million
Within 1 year	**6,709**	5,384
Between 1 and 2 years	**5,631**	5,012
Between 2 and 3 years	**4,769**	4,029
Over 3 years	**11,498**	12,812
	28,607	27,237

51 Financial risk management and fair values

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk

Credit risk management

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

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

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

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

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets whether there is significant financial component or not, and lease receivable. For other financial assets that are included in the measurement of ECL, the Group evaluates whether the credit risks of related financial assets have increased significantly since initial recognition. The "three-stage" impairment model is used to measure their loss allowances respectively to recognise ECL and their movements:

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

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

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

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

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

(1) Significant increase in credit risk

On each balance sheet date, the Group evaluates whether the credit risk of the relevant financial instruments has increased significantly since initial recognition. When one or more on quantitative or qualitative threshold, or upper limit are triggered, the credit risk of financial instruments would be considered as increased significantly.

By setting quantitative and qualitative threshold, and upper limit, the Group determines whether the credit risk of financial instruments has increased significantly since initial recognition. The judgment mainly includes (1) default probability of borrower/debtor changes; (2) significant adverse changes in business, financial or operating conditions of borrowers and in economic conditions; (3) significant increase in other credit risk. For the borrowers who are 30 days (exclusive) to 90 days (inclusive) past due on their contractual payments (including principal and interest), the Group considers that their credit risk has increased significantly and classifies them to stage 2.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(2) Definition of credit-impaired assets

When credit impairment occurred, the Group defines that the financial asset is in default. In general, a financial asset that is overdue for more than 90 days is considered to be in default.

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

– The issuer or borrower/debtor is in significant financial difficulties;

– The borrower/debtor is in breach of financial covenant(s) such as default or overdue in repayment of interests or principle etc;

– The creditor gives the debtor concession that would not be offered otherwise, considering economic or contractual factors relating to the debtor's financial difficulties;

– It is becoming probably that the borrower/debtor will enter bankruptcy or other debt restructuring;

– An active market for that financial asset has disappeared because of financial difficulties from issuer or borrower/debtor;

– Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The Group's default definition has been consistently applied to the modeling of default probability, default risk exposure and default loss rate in the Group's expected credit loss calculation process.

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(3) Inputs for measurement of ECL

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

- The PD represents the likelihood of a borrower/debtor defaulting on its financial obligations, either over the next 12 months or over the remaining lifetime of the obligation.

- Loss given default ("LGD") represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim, and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default and is calculated on a 12-month or lifetime basis.

- Exposure at default ("EAD") is based on the amounts that the Group expects to be owned at the time of default, over the next 12 months or over the remaining lifetime of the obligation.

The Group regularly monitors and reviews the assumptions related to the calculation of expected credit losses, including the probability of default and the change in the value of collateral over time.

During the reporting period, there were no significant changes in the estimated technology or key assumptions.

(4) Forward-looking information

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(4) Forward-looking information (Continued)

Macroeconomic scenario and weighting information

The Group has built a macro forecast model, and performed historical analysis and identified the key economic variables impacting credit risk and ECL for each portfolio, such as domestic Gross Domestic Product ("GDP"), electricity production and registered urban unemployment rate, etc.

(i) Maximum credit risk exposure

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Deposits with central banks, banks and non-bank financial institutions	**825,813**	916,434
Placements with banks and non-bank financial institutions	**200,030**	205,346
Trade and other receivables	**91,272**	132,971
Financial assets held under resale agreements	**12,955**	65,349
Loans and advances to customers and other parties	**4,024,401**	3,721,886
Investments in financial assets		
– At amortised cost	**899,348**	N/A
– Debt investments at FVOCI	**582,899**	N/A
Available-for-sale financial assets	**N/A**	615,461
Held-to-maturity investments	**N/A**	261,654
Investments classified as receivables	**N/A**	644,789
Contract assets	**11,068**	N/A
Other financial assets	**2,591**	N/A
	6,650,377	6,563,890
Credit commitments and guarantees provided	**1,293,815**	1,350,902
Maximum credit risk exposure	**7,944,192**	7,914,792

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure (Continued)

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Derivative financial instruments	37,294	79,339
Financial assets at FVPL	N/A	78,034
Investments in financial assets		
– Financial assets at FVPL	370,684	N/A
Maximum credit risk exposure	407,978	157,373

(ii) Expected credit losses

The following table explains the changes in the gross carrying amount for loans and advances to customers and other parties for the year ended 31 December 2018:

	For the year ended 31 December 2018			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2018	3,641,322	112,079	81,800	3,835,201
Movements:				
Transfer from stage 1	(99,760)	–	–	(99,760)
Transfer to stage 2	–	13,157	–	13,157
Transfer to stage 3	–	–	86,603	86,603
Net increase/(decrease) during the year (note (i))	594,215	(11,606)	(34,052)	548,557
Write offs	–	–	(55,565)	(55,565)
Others (note (ii))	(176,081)	(4,231)	(3,623)	(183,935)
Balance at 31 December 2018	3,959,696	109,399	75,163	4,144,258

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

The following table explains the changes in the gross carrying amount for investments in financial assets for the year ended 31 December 2018:

	For the year ended 31 December 2018			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2018	1,283,578	655	1,991	1,286,224
Movements:				
Transfer from stage 1	(10,590)	–	–	(10,590)
Transfer to stage 2	–	5,198	–	5,198
Transfer to stage 3	–	–	5,392	5,392
Net increase/(decrease) during the year (note (i))	269,967	(90)	(3,335)	266,542
Write offs	–	–	(816)	(816)
Others (note (ii))	(64,399)	(204)	(133)	(64,736)
Balance at 31 December 2018	1,478,556	5,559	3,099	1,487,214

Notes:

(i) Net increase/(decrease) mainly includes changes in carrying amount due to new POCI financial assets or de-recognition excepting for write-off.

(ii) Others includes changes in interest accrual and exchange adjustment.

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

Movements of the loss allowances for loans and advances to customers and other parties for the year is as follows:

	For the year ended 31 December 2018			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2018	40,370	30,043	51,284	121,697
Movements (note (i)):				
Transfer from stage 1	(2,215)	–	–	(2,215)
Transfer to stage 2	–	609	–	609
Transfer to stage 3	–	–	57,579	57,579
Net increase/(decrease) during the year (note (ii))	5,601	(1,984)	(1,592)	2,025
Write offs	–	–	(55,565)	(55,565)
Parameters change for the year (note (iii))	(1,823)	(999)	1,271	(1,551)
Others (note (iv))	(1,608)	(1,205)	242	(2,571)
Balance at 31 December 2018	40,325	26,464	53,219	120,008

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For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

Movements of the loss allowances for investments in financial assets for the year is as follows:

	For the year ended 31 December 2018			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2018	4,839	83	819	5,741
Movements (note (i)):				
Transfer from stage 1	(294)	–	–	(294)
Transfer to stage 2	–	182	–	182
Transfer to stage 3	–	–	2,181	2,181
Net increase/(decrease) during the year (note (ii))	439	62	(141)	360
Write offs	–	–	(816)	(816)
Parameters change for the year (note (iii))	(846)	13	(198)	(1,031)
Others (note (iv))	(168)	(13)	10	(171)
Balance at 31 December 2018	3,970	327	1,855	6,152

Notes:

(i) Movements mainly includes the impacts to ECL due to changes in stages.

(ii) Net increase/(decrease) mainly includes changes in allowance of impairment due to new POCI financial assets or de-recognition excepting for write-off.

(iii) Parameters change mainly includes the impacts to ECL due to unwind of discount, regular update on modeling parameters resulting from changes in PD and LGD except for changes in stages.

(iv) Others includes recoveries of amounts previously written off, changes in interest accrual and exchange adjustment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

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

	As at 31 December					
	2018			2017		
	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million
Corporate loans						
– Real estate	359,746	8%	312,585	403,707	11%	329,132
– Manufacturing	339,909	8%	158,870	371,930	10%	163,449
– Rental and business services	322,893	7%	202,275	266,486	7%	161,220
– Wholesale and retail	173,866	4%	102,732	231,865	6%	123,341
– Water, environment and public utility management	238,441	6%	121,983	215,353	6%	105,201
– Transportation, storage and postal services	173,919	4%	88,656	182,855	5%	94,651
– Construction	91,025	2%	37,263	99,219	3%	37,698
– Production and supply of electric power, gas and water	83,244	2%	46,415	84,639	2%	39,377
– Public management and social organizations	15,255	1%	3,105	22,653	1%	6,901
– Others	362,503	9%	150,564	352,964	9%	149,845
	2,160,801	51%	1,224,448	2,231,671	60%	1,210,815
Personal loans	1,694,236	41%	1,141,525	1,473,346	37%	1,028,237
Discounted bills	279,205	7%	–	130,190	3%	–
	4,134,242	99%	2,365,973	3,835,207	100%	2,239,052
Accrued interest	10,016	1%	–	N/A	N/A	N/A
	4,144,258	100%	2,365,973	3,835,207	100%	2,239,052

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 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					
	2018			2017		
	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million
Mainland China	3,926,180	94%	2,286,150	3,629,798	94%	2,157,278
Hong Kong and Macau	200,088	4%	75,465	174,594	5%	60,434
Overseas	7,974	1%	4,358	30,815	1%	21,340
	4,134,242	99%	2,365,973	3,835,207	100%	2,239,052
Accrued interest	10,016	1%	–	N/A	N/A	N/A
	4,144,258	100%	2,365,973	3,835,207	100%	2,239,052

(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/debtor, or of the inability of the borrower/debtor 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			
	2018		2017	
	Gross balance HK$ million	% of total loans and advances	Gross balance HK$ million	% of total loans and advances
Rescheduled loans and advances	24,638	0.59%	27,809	0.73%
– Rescheduled loans and advances overdue more than 3 months	21,397	0.52%	23,757	0.62%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(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 2018, 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 2017: Nil).

(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 2018					
	Repayable on demand HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Indefinite maturity date HK$ million	Total HK$ million
Total financial assets	352,189	2,644,591	1,889,958	1,449,158	750,042	7,085,938
Total financial liabilities	(2,624,897)	(3,233,564)	(693,042)	(196,238)	(3,173)	(6,750,914)
Financial asset-liability gap	(2,272,708)	(588,973)	1,196,916	1,252,920	746,869	335,024

	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	Indefinite 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

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For the year ended 31 December 2018

51 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 2018					
	Repayable on demand HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Indefinite maturity date HK$ million	Total HK$ million
Total financial assets	374,287	3,318,026	2,338,544	2,213,941	778,584	9,023,382
Total financial liabilities	(2,917,781)	(4,150,202)	(925,797)	(199,436)	(3,222)	(8,196,438)
Financial asset-liability gap	(2,543,494)	(832,176)	1,412,747	2,014,505	775,362	826,944

	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	Indefinite 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

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For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

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

	As at 31 December 2018			
	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Loan commitments	8,027	17,641	19,879	45,547
Guarantees	95,728	78,012	7,479	181,219
Letters of credit	103,440	2,613	–	106,053
Acceptances	450,022	–	–	450,022
Credit card commitments	488,109	7,885	–	495,994
Total	1,145,326	106,151	27,358	1,278,835

	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	91	–	511,919
Credit card commitments	371,230	–	–	371,230
Total	1,155,362	138,324	36,474	1,330,160

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For the year ended 31 December 2018

51 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 2018				
	Non-interest bearing HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Total financial assets	467,634	4,373,016	1,955,528	289,760	7,085,938
Total financial liabilities	(225,850)	(5,707,635)	(635,184)	(182,245)	(6,750,914)
Financial asset-liability gap	241,784	(1,334,619)	1,320,344	107,515	335,024

	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

51 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Effective interest rate

	As at 31 December			
	2018		2017	
	Effective interest rate	HK$ million	Effective interest rate	HK$ million
Assets				
Cash and deposits	1.54%-2.22%	832,968	1.56%-2.21%	924,584
Placements with banks and non-bank financial institutions	3.38%	200,030	3.07%	205,346
Financial assets held under resale agreements	2.59%	12,955	2.89%	65,349
Loans and advances to customers and other parties	4.86%	4,024,401	4.61%	3,721,886
Investments in financial assets	3.80%-4.71%	1,884,427	N/A	N/A
Investments classified as receivable	N/A	N/A	4.25%	644,789
Interests in associates and joint ventures	–	155,251	–	136,062
Investments (note (i))	N/A	N/A	3.28%	1,160,916
Others		550,681		661,807
		7,660,713		7,520,739
Liabilities				
Borrowing from central banks	3.29%	327,629	3.13%	284,818
Deposits from banks and non-bank financial institutions	3.54%	888,966	3.75%	954,638
Placements from banks and non-bank financial institutions	3.49%	129,163	2.85%	90,131
Financial assets sold under repurchase agreements	2.84%	138,589	2.91%	160,902
Deposits from customers	1.88%	4,159,924	1.59%	4,056,158
Bank and other loans	0.47%-6.35%	156,678	0.33%-6.7%	142,442
Debt instruments issued	2.81%-6.95%	745,031	2.47%-6.95%	653,371
Others		304,073		384,638
		6,850,053		6,727,098

Note:

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

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For the year ended 31 December 2018

51 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 2018, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, the Group's profit before taxation would decrease or increase by HK$12,844 million (31 December 2017: decrease or increase by HK$12,916 million).

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

(d) Currency risk

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

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

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

51 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 2018				
	HK$	US$	RMB	Others	Total
Total financial assets	189,748	356,652	6,490,967	48,571	7,085,938
Total financial liabilities	(216,286)	(438,935)	(6,046,351)	(49,342)	(6,750,914)
Financial asset-liability gap	(26,538)	(82,283)	444,616	(771)	335,024

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

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's 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 2018 would decrease or increase the Group's profit before taxation by HK$3,464 million (31 December 2017: decrease or increase by HK$3,515 million).

This sensitivity analysis is based on a static foreign exchange exposure profile of financial assets and financial liabilities and certain simplified assumptions. The analysis is based on the following assumptions: (1) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against HK$; (2) the exchange rates against HK$ for all foreign currencies 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.

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51 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.

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51 Financial risk management and fair values (Continued)

(e) Fair values (Continued)

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

	As at 31 December 2018			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Assets				
Loans and advances to customers and other parties at FVOCI	–	110,157	–	110,157
Derivative financial assets	–	36,764	530	37,294
Investments in financial assets	107,495	795,201	82,383	985,079
	107,495	942,122	82,913	1,132,530
Liabilities				
Financial liabilities at FVPL	(1,098)	–	(370)	(1,468)
Derivative financial liabilities	(111)	(37,564)	(1)	(37,676)
	(1,209)	(37,564)	(371)	(39,144)

	As at 31 December 2017			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Assets				
Financial assets at FVPL	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)

For the year ended 31 December 2018, there were no significant transfers between instruments in different levels (2017: Nil) and no significant changes in valuation techniques for determining the fair values of the instruments (2017: Nil).

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51 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 2018					
	Assets			Liabilities		
	Derivatives financial assets HK$ million	Investments in financial assets HK$ million	Total HK$ million	Financial liabilities at fair value through profit or loss HK$ million	Derivatives financial liabilities HK$ million	Total HK$ million
At 1 January 2018	875	75,123	75,998	–	–	–
Total (losses)/gains:	(349)	496	147	14	(1)	13
– in profit or loss	–	(92)	(92)	14	(1)	13
– in other comprehensive income	(349)	588	239	–	–	–
Net settlements	4	6,764	6,768	(384)	–	(384)
At 31 December 2018	530	82,383	82,913	(370)	(1)	(371)
Total losses for the year included in profit or loss for assets and liabilities held in Level 3 as at the balance sheet date	–	(92)	(92)	14	(1)	13

	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)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 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 2018				
	Carrying amount HK$ million	Fair value HK$ million	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million
Financial assets					
Investments in financial assets					
– Financial assets at amortised cost	899,348	899,863	2,482	573,061	324,320
Financial liabilities					
Debt instruments issued					
– Corporate bonds issued	86,728	86,749	156	86,593	–
– Notes issued	121,450	119,776	360	117,015	2,401
– Subordinated bonds issued	144,109	143,849	6,439	137,410	–
– Certificates of deposit (not for trading purpose)	3,210	3,141	–	3,141	–
– Certificates of interbank deposit issued	389,534	382,875	–	382,875	–
	745,031	736,390	6,955	727,034	2,401

	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	–

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51 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.

Investments in financial assets and financial liabilities

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

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

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

52 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 2018			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Sales of goods	–	242	299	541
Purchase of goods	–	669	3,396	4,065
Interest income (note (2))	–	312	376	688
Interest expenses	77	458	338	873
Fee and commission income	–	8	759	767
Fee and commission expenses	–	–	47	47
Income from other services	–	42	82	124
Expenses for other services	–	167	1,390	1,557
Interest income from deposits and receivables	–	18	–	18
Other operating expenses	3	29	181	213

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(i) Transaction amounts with related parties (Continued)

	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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties

	As at 31 December 2018			
	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	1,065	341	1,481
Loans and advances to customers and other parties (note (2))	–	3,453	4,216	7,669
Placements with banks and non-bank financial institutions	–	–	571	571
Cash and deposits	–	–	7,618	7,618
Derivative financial instruments and other assets	–	–	672	672
Investments in financial assets – Financial assets at FVPL	–	–	372	372
Trade and other payables	389	13,235	2,840	16,464
Deposits from customers	310	9,343	14,828	24,481
Deposits from bank and non-bank financial institutions	–	–	21,695	21,695
Derivative financial instruments and other liabilities	–	–	1	1
Bank and other loans	7,044	16,039	116	23,199
Off-balance sheet items				
Entrusted funds	5,484	137	49,619	55,240
Funds raised from investors of non-principle guaranteed wealth management products	–	10	423	433
Guarantees provided (note (3))	–	–	11,811	11,811
Guarantees received	–	43,780	5,885	49,665

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties (Continued)

	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

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties (Continued)

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.

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

In addition to these related party transactions disclosed in Note 52(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 2018, the aggregate amount of the remuneration before tax paid to directors and executive officers of the Company amounted to HK$10.74 million (2017: HK$9.97 million).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

53 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 in which the Group holds an interest

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

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

	As at 31 December 2018						
	Investments in financial assets						
Carrying amount	Financial assets at amortised cost HK$ million	Financial assets at FVPL HK$ million	Debt investments at FVOCI HK$ million	Equity investments at FVOCI HK$ million	Total HK$ million	Guarantees HK$ million	Maximum loss exposure HK$ million
Wealth management products	1,198	1,946	–	–	3,144	–	3,144
Investment management products managed by securities companies	262,905	3,413	–	–	266,318	–	266,318
Trust investment plans	178,161	36,911	–	–	215,072	–	215,072
Asset-backed securities	45,476	1,471	70,753	–	117,700	–	117,700
Investment funds	–	233,132	–	417	233,549	–	233,549
Investments in creditor's rights on assets	583	–	–	–	583	–	583
Total	488,323	276,873	70,753	417	836,366	–	836,366

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

53 Structured entities (Continued)

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

	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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

53 Structured entities (Continued)

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

Wealth management products and trust plans

As at 31 December 2018, the aggregate amount of assets held by the unconsolidated non-principal-guaranteed wealth management products and trust plans which are sponsored by the Group was HK$3,093,454 million (31 December 2017: HK$3,731,749 million).

As at 31 December 2018, the amount of placements and financial assets held under resale agreements from the Group with non-principal-guaranteed wealth management products sponsored by the Group was HK$72,472 million (31 December 2017: HK$84,325 million).

During the year ended 31 December 2018, the maximum exposure of the placements and financial assets held under resale agreements from the Group with non-principal guaranteed wealth management products sponsored by the Group was HK$77,772 million (2017: HK$86,579 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 2018, the amount of fee and commission income recognised from the abovementioned structured entities sponsored by the Group was HK$8,927 million (2017: HK$11,620 million); interest income of HK$2,592 million (2017: HK$2,557 million).

53 Structured entities (Continued)

(d) Transfers of financial assets

For the year ended 31 December 2018, the Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements. Details of the financial assets sold under repurchase agreements are set forth in Note 43. Details of securitisation, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the year ended 31 December 2018 totalled HK$259,954 million are set forth below (2017: HK$210,072 million).

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to structured entities which issue asset-backed securities to investors.

During the year ended 31 December 2018, the Group entered into securitisation transactions and structured transfers on assets usufruct backed by financial assets transferred with book value before impairment of HK$220,178 million (2017: HK$152,254 million). The Group concluded that it had continuing involvement of the transferred credit assets with the book value of HK$8,214 million as at 31 December 2018 (2017: HK$1,035 million), and the rest is derecognised based on the related criteria set forth in Note 2(k) and Note 3. As at 31 December 2018, the Group continued to recognise assets and liabilities of HK$1,812 million (31 December 2017: HK$920 million) respectively, arising from such continuing involvement.

During the year ended 31 December 2018, the Group also through other types of transactions transferred loans of book value before impairment of HK$39,776 million (2017: HK$57,817 million), of which HK$39,776 million represented non-performing loans (2017: HK$46,336 million). The Group carried out assessment based on the criteria as detailed in Note 2(k) and Note 3 and concluded that these transferred assets qualified for full de-recognition.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

54 Major business combinations

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

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

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

Consideration:

	HK$ million
Cash	3,696
Recognised amounts of identifiable assets acquired and liabilities assumed	
Cash and deposits	133
Trade and other receivables	706
Inventories	304
Fixed assets	3,329
Total identifiable assets acquired	4,472
Trade and other payables	(434)
Bank and other loans	(331)
Tax payable	(11)
Total identifiable liabilities assumed	(776)
Total identifiable net assets of Xigang Group and Jingjiang Port	3,696

Net cash paid for acquisition:

	HK$ million
Total consideration paid in cash	3,696
Cash and cash equivalents acquired	(133)
	3,563

Notes:

(i) Acquisition-related costs of approximately HK$2 million have been charged to other operating expenses in the consolidated income statement for the year ended 31 December 2018.

(ii) The fair value of acquired trade and other receivables is HK$706 million including trade receivables with a fair value of HK$78 million.

(iii) The revenue and net profit attributable to ordinary shareholders of the Group during the period from 12 June 2018 to 31 December 2018 contributed by Xigang Group and Jingjiang Port were HK$2,248 million and HK$34 million respectively. Had Xigang Group and Jingjiang Port been consolidated from 1 January 2018, the consolidated income statement would show pro-forma revenue and net profit attributable to ordinary shareholders of the Group of approximately HK$534,666 million and HK$49,580 million respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

55 Supplementary information to the consolidated cash flow statement

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Cash	**7,155**	8,150
Bank deposits on demand	**69,540**	48,224
Surplus deposit reserve funds	**146,568**	106,815
Investments in debt securities due within three months	**31,584**	62,101
Deposits with banks and non-bank financial institutions due within three months	**126,406**	171,472
Placements with banks and non-bank financial institutions due within three months	**141,555**	94,601
Cash and cash equivalents in the consolidated cash flow statement	**522,808**	491,363

(b) Disposal of subsidiaries

	For the year ended 31 December	
	2018 HK$ million	2017 HK$ million
Total assets	**15,207**	5,554
Total liabilities	**(13,466)**	(6,843)
Non-controlling interests	**(760)**	(132)
Net assets/(liabilities) disposed	**981**	(1,421)
Total consideration	**2,836**	913
Remeasurement at fair value of retained interest in former subsidiaries	**108**	2,393
Gains on disposal/deemed disposal of subsidiaries	**1,963**	4,727
Net cash inflow is determined as follows:		
Cash proceeds received		
– Proceeds from the above disposal of subsidiaries	**2,793**	913
– Collection of receivables from previous disposal of subsidiaries	**–**	305
Less: cash and cash equivalents disposed	**(59)**	(354)
	2,734	864

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

55 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	4,957	662,444
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	361	32,308
Other non-cash movements	(147)	1,353	–	33,610	34,816
At 31 December 2017	142,442	653,371	422	7,233	803,468
Cash flows	17,314	124,127	–	(38,103)	103,338
(Disposal of subsidiaries)/business combination	(8,971)	–	–	57	(8,914)
Foreign exchange adjustments	(2,135)	(30,811)	(84)	(568)	(33,598)
Other non-cash movements	6,940	(7,964)	(46)	38,961	37,891
At 31 December 2018	155,590	738,723	292	7,580	902,185

(d) Issue and redemption of other equity instruments by subsidiaries

In 2018, issuance of other equity instruments by subsidiaries was from CBI, a subsidiary of the Group, which issued RMB3,343 million (approximately HK$3,957 million) perpetual non-cumulative subordinated additional Tier-one capital securities.

In 2018, redemption of other equity instruments by subsidiaries was from CITIC Envirotech, a subsidiary of the Group, which redeemed RMB2,271 million (approximately HK$2,689 million) perpetual capital securities.

56 Major transactions with non-controlling interests

Dilution of interests in a subsidiary without loss of control

In June 2018, Xingcheng Special Steel issued new shares to five investors, raising HK$2,297 million in total. Upon the issuance of new shares, equity interests owned by CITIC Pacific in Xingcheng Special Steel reduced from 100% to 90%. The Group recognised an increase in non-controlling interests of HK$2,264 million and an increase in equity attributable to shareholders of the Company of HK$33 million.

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

	For the year ended 31 December 2018 HK$ million
Increase in carrying amount of non-controlling interests	2,264
Consideration received from non-controlling interests	(2,297)
Gain on disposal within equity	(33)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

57 Balance sheet and reserve movement of the Company

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Non-current assets		
Fixed assets	9	11
Intangible assets	1	–
Interests in subsidiaries	440,888	428,227
Interests in joint ventures	35	35
Available-for-sale financial assets	N/A	3,597
Investments in financial assets		
– Financial assets at fair value through profit or loss	3,557	N/A
	444,490	431,870
Current assets		
Derivative financial instruments	11	62
Amounts due from subsidiaries	60,114	61,898
Trade and other receivables	154	137
Cash and deposits	6,393	5,874
	66,672	67,971
Total assets	511,162	499,841
Current liabilities		
Bank and other loans	1,978	78
Amounts due to subsidiaries and other related parties	11,891	11,769
Trade and other payables	18	1,224
Derivative financial instruments	19	93
Income tax payable	235	435
Debt instruments issued	–	8,996
	14,141	22,595
Non-current liabilities		
Long term borrowings	39,018	21,683
Debt instruments issued	64,313	55,517
Derivative financial instruments	685	900
	104,016	78,100
Total liabilities	118,157	100,695
Equity		
Share capital	381,710	381,710
Perpetual capital securities	–	7,873
Reserves	11,295	9,563
Total ordinary shareholders' funds and perpetual capital securities	393,005	399,146
Total liabilities and equity	511,162	499,841

The balance sheet of the Company was approved and authorised for issue by the board of directors on 29 March 2019.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

57 Balance sheet and reserve movement of the Company (Continued)

(a) Reserve movement of the Company

	Share capital HK$ million (Note 48(a))	Perpetual capital securities HK$ million (Note 48(c))	Capital reserve HK$ million (Note 48(d)(i))	Hedging reserve HK$ million (Note 48(d)(ii))	Investment related reserves HK$ million (Note 48(d)(iii))	Retained earnings HK$ million	Total HK$ million
At 31 December 2017	381,710	7,873	630	(819)	15	9,737	399,146
Changes in accounting policies	–	–	–	–	(15)	15	–
At 1 January 2018	381,710	7,873	630	(819)	–	9,752	399,146
Cash flow hedges:							
– Fair value gain during the year	–	–	–	26	–	–	26
– Transfer to net finance charges	–	–	–	190	–	–	190
	–	–	–	216	–	–	216
Profit attributable to shareholders of the Company	–	600	–	–	–	13,153	13,753
Redemption of perpetual capital securities	–	(7,800)	–	–	–	–	(7,800)
Dividends paid to ordinary shareholders of the Company	–	–	–	–	–	(11,637)	(11,637)
Distributions to holders of perpetual capital securities	–	(673)	–	–	–	–	(673)
At 31 December 2018	381,710	–	630	(603)	–	11,268	393,005

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

57 Balance sheet and reserve movement of the Company (Continued)

(a) Reserve movement of the Company (Continued)

	Share capital HK$ million (Note 48(a))	Perpetual capital securities HK$ million (Note 48(c))	Capital reserve HK$ million (Note 48(d)(i))	Hedging reserve HK$ million (Note 48(d)(ii))	Investment related reserves HK$ million (Note 48(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

58 Post balance sheet events

(a) On 4 March 2019, CITIC Bank issued a total of 400,000,000 A share convertible corporate bonds ("A Share Convertible Bonds"), with a nominal value of RMB100 each and an aggregate value amounting to RMB40 billion. The A Share Convertible Bonds was issued at nominal value and the initial conversion price shall be RMB7.45 per share. The A Share Convertible Bonds have a term of six years from the date of the issuance, which commences from 4 March 2019 and ends on 3 March 2025.

(b) The placements of A Share Convertible Bonds are made with priority given to the A share ordinary shareholders of CITIC Bank. On 4 March 2019, CITIC Corporation, being an A share ordinary shareholder of CITIC Bank, subscribed 263,880,000 A Share Convertible Bonds with an aggregate value amounting to RMB26.39 billion.

59 Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2019.

60 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 2018 and which have not been early adopted in these consolidated financial statements.

HKFRS 16	Leases (1)
HK(IFRIC) 23	Uncertainty over Income Tax Treatments (1)
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation (1)
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures (1)
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement (1)
Annual Improvements to HKFRS Standards 2015-2017 Cycle (1)	
HKAS 28 and HKFRS 10 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture (2)
HKFRS 17	Insurance Contracts (3)

(1) Effective for the annual periods beginning on or after 1 January 2019.
(2) Originally effective for annual periods beginning on or after 1 January 2016. The effective date has not been determined.
(3) Effective for the annual periods beginning on or after 1 January 2021.

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:

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For the year ended 31 December 2018

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

HKFRS 16, Leases

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

The accounting for lessors will not significantly change. The Group's activities as a lessee or lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by the Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for some leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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 2019.

61 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%
CITIC Pacific Special Steel Investment Limited (formerly known as Jiangsu CP Xingcheng Special Steel Co., Ltd.) 中信泰富特鋼投資有限公司 (原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	1,886,023,825	56.97%	0%	56.97%
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	3,587,260,382	59.36%	0%	59.36%
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%
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%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

61 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 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	96.58%	0%	98.69%
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%
CITIC Heye Investment Co., Ltd. 中信和業投資有限公司	Mainland China	Real estate	N/A	100%	0%	100%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

61 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 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 中信出版集團股份有限公司	Mainland China	Publishing	142,613,636	98%	0%	98%
CITIC Holdings Co., Ltd. 中信控股有限責任公司	Mainland China	Service	N/A	100%	0%	100%
CITIC Tourism Group Co., Ltd. 中信旅遊集團有限公司	Mainland China	Service	N/A	100%	0%	100%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

61 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:

				Proportion of ownership interest		
Name of company	Place of incorporation	Principal activity	Shares issued	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:

				Proportion of ownership interest		
Name of company	Place of incorporation	Principal activity	Shares issued	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%

Independent Auditor's Report

羅兵咸永道

Independent Auditor's Report
To the Members of CITIC Limited
(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of CITIC Limited (the "Company") and its subsidiaries (the "Group") set out on pages 178 to 364, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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.

Independent Auditor's Report

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:

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

Key Audit Matter	How our audit addressed the Key Audit Matter

Measurement of expected credit losses for loans and advances to customers and other parties and investments in financial assets of CITIC Bank

Refer to Note 2(k), Note 3, Note 28 and Note 29 to the consolidated financial statements.

As at 31 December 2018, loans and advances to customers and other parties of CITIC Bank amounted to RMB3,616.75 billion (approximately HK$4,127.77 billion), and the corresponding allowance for impairment losses was RMB101.10 billion (approximately HK$115.39 billion); investments in financial assets of CITIC Bank amounted to RMB1,291.95 billion (approximately HK$1,474.50 billion), and the corresponding allowance for impairment losses was RMB4.41 billion (approximately HK$5.03 billion).

The balances of loss allowances for the loans and advances to customers and other parties and investments in financial assets represent the management's best estimates at the balance sheet date of expected credit losses ("ECL") under HKFRS 9: Financial Instruments expected credit losses models.

The management assesses whether the credit risk of loans and advances to customers and other parties and investments in financial assets have increased significantly since their initial recognition, and apply a three-stage impairment model to calculate their ECL. For corporate loans and advances and investments in financial assets classified into stages 1 and 2, and all personal loans, the management assesses loss allowance using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For corporate loans and advances and investments in financial assets in stage 3, the management assesses loss allowance by estimating the cash flows from the loans.

We evaluated and tested the design and operational effectiveness of the internal controls relating to the measurement of ECL for loans and advances to customers and other parties, and investments in financial assets, primarily including:

- Governance over ECL models, including the selection, approval and application of modelling methodology; and the internal controls relating to the ongoing monitoring and optimization of the models;
- Internal controls relating to significant management judgments and assumptions, including the review and approval of model selections, parameters estimation, identification of significant increase in credit risk, defaults or credit-impaired loans, and forward-looking measurement;
- Internal controls over the accuracy and completeness of key inputs used by the models;
- Internal controls relating to estimated future cash flows and calculations of present values of such cash flows for corporate loans and advances and investments in financial assets in stage 3;
- Internal controls over the information systems for model-based measurement.

The substantive procedures we preformed primarily included:

We reviewed the modelling methodologies for ECL measurement, and assessed the reasonableness of the models selection, key parameters estimation, significant judgements and assumptions in relation to the models. We examined the coding for model measurement on a sample basis, to test whether or not the measurement models reflect the modelling methodologies documented by the management.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Measurement of expected credit losses for loans and advances to customers and other parties and investments in financial assets of CITIC Bank (Continued)	
The measurement models of ECL involves significant management judgments and assumptions, primarily including the following: • Criteria for determining whether or not there was a significant increase in credit risk, or a default or impairment loss was incurred; • Economic indicators for forward-looking measurement, and the application of economic scenarios and weightings; • The estimated future cash flows for corporate loans and advances and investments in financial assets in stage 3. CITIC Bank established governance processes and controls for the measurement of ECL. For measuring ECL, the management adopted complex models, employed numerous parameters and data inputs, and applied significant management judgments and assumptions. In addition, the exposures of the loans and advances to customers and other parties and investments in financial assets, the loss allowance and provision accrued involve significant amounts. In view of these reasons, we identified this as a key audit matter.	We selected samples, in consideration of the financial information and non-financial information of the borrowers, relevant external evidence and other factors, to assess the appropriateness of the management's identification of significant increase in credit risk, defaults and credit-impaired loans. For forward-looking measurement, we reviewed the management's model analysis of their selection of economic indicators; economic scenarios and weightings employed, assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis of economic indicators, economic scenarios and weightings. We examined major data inputs to the ECL models on selected samples, including historical data and data at the measurement date, to assess their accuracy and completeness. We also performed walk-through testing and reconciliation of the transmission of major data inputs between the models' measurement engines and the information systems, to verify their accuracy and completeness. For corporate loans and advances and investments in financial assets in stage 3, we examined, on a sample basis, forecasted future cash flows prepared by CITIC Bank based on financial information of borrowers and guarantors, latest collateral valuations and other available information together with discount rates in supporting the computation of loss allowance. Based on our procedures performed, in the context of the inherent uncertainties associated with measurement of ECL for loans and advances to customers and other parties and investments in financial assets, the models, key parameters, significant judgements and assumptions adopted by management and the measurement results were considered acceptable.

Independent Auditor's Report

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(g), Note 3 and Note 53 to the consolidated financial statements. As at 31 December 2018, 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 structured 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 analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; • assessed whether CITIC Bank acted as a principal or an agent through analysis of the scope of the decision-making authority of CITIC Bank, its remuneration entitlement, other interests CITIC Bank held, and the rights held by other parties. Based on the procedures performed above, we found management's judgement relating to the consolidation of structured entities for non-principal guaranteed WMPs acceptable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
De-recognition of financial assets of CITIC Bank	
Refer to Note 2(k), Note 3 and Note 53(d) to the consolidated financial statements. During the year ended 31 December 2018, CITIC Bank entered into transactions which involved transfers of financial assets including those through securitisation and loan transfers. Management analysed the contractual rights and obligations of CITIC Bank in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, CITIC Bank assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met. The de-recognition assessment relating to the transfer of financial assets involved significant judgement from management, and as such, we focused our audit on the de-recognition of these financial assets.	We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results. We selected samples and read through transaction agreements to assess the contractual rights and obligations of CITIC Bank, and whether CITIC Bank transferred the rights to receive contractual cash flows from the financial assets, or the transfer qualified for the "pass through" of those cash flows, to independent third parties. We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations. For financial assets where CITIC Bank neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether CITIC Bank had relinquished its control over these financial assets, and if CITIC Bank had a continuing involvement in these transferred financial assets. Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment of the Sino Iron Project

Refer to Note 3 and Note 9 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 2018.

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, management has determined that no further impairment charge is required.

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.

Independent Auditor's Report

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.

Independent Auditor's Report

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Chan Kwong Tak.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019