Contents of Financial Statements and Notes

Consolidated Income Statement

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 HK$ million	2018 HK$ million
Interest income		307,913	288,784
Interest expenses		(160,125)	(152,895)
Net interest income	5(a)	147,788	135,889
Fee and commission income		65,124	57,034
Fee and commission expenses		(6,807)	(6,641)
Net fee and commission income	5(b)	58,317	50,393
Sales of goods and services	5(c)	344,076	330,288
Other revenue	5(d)	16,316	16,715
		360,392	347,003
Total revenue		566,497	533,285
Cost of sales and services	6, 11	(283,148)	(270,863)
Other net income	7	9,944	7,713
Expected credit losses	8	(88,722)	(69,059)
Impairment losses	9	(7,024)	(6,511)
Other operating expenses	11	(103,894)	(102,685)
Net valuation (loss)/gain on investment properties	31	(756)	954
Share of profits of associates, net of tax		8,083	7,914
Share of profits of joint ventures, net of tax		5,474	2,786
Profit before net finance charges and taxation		106,454	103,534
Finance income		2,264	2,729
Finance costs		(12,703)	(12,294)
Net finance charges	10	(10,439)	(9,565)
Profit before taxation	11	96,015	93,969
Income tax	12	(17,827)	(18,944)
Profit for the year		78,188	75,025
Attributable to:			
– Ordinary shareholders of the Company		53,903	50,239
– Holders of perpetual capital securities		–	600
– Non-controlling interests		24,285	24,186
Profit for the year		78,188	75,025
Earnings per share for profit attributable to ordinary shareholders of the Company during the year:			
Basic and diluted earnings per share (HK$)	16	1.85	1.73

The notes on pages 186 to 356 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 HK$ million	 2018 HK$ million
Profit for the year		**78,188**	75,025
Other comprehensive loss for the year (after tax and reclassification adjustments)	17		
Items that may be reclassified subsequently to profit or loss:			
Fair value changes on financial assets at fair value through other comprehensive income		**1,948**	11,885
Loss allowance changes on financial assets at fair value through other comprehensive income		**780**	166
Cash flow hedge: net movement in the hedging reserve		**(588)**	234
Share of other comprehensive income/(loss) of associates and joint ventures		**85**	(1,938)
Exchange differences on translation of financial statements and others		**(19,027)**	(34,735)
Items that will not be reclassified subsequently to profit or loss:			
Reclassification of owner-occupied property as investment property: revaluation gain		**1,117**	164
Fair value changes on investments in equity instruments designated at fair value through other comprehensive income		**(436)**	(844)
Other comprehensive loss for the year, net of tax		**(16,121)**	(25,068)
Total comprehensive income for the year		**62,067**	49,957
Attributable to:			
– Ordinary shareholders of the Company		**43,656**	32,081
– Holders of perpetual capital securities		**–**	600
– Non-controlling interests		**18,411**	17,276
Total comprehensive income for the year		**62,067**	49,957

The notes on pages 186 to 356 form part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2019

	Note	As at 31 December 2019 HK$ million	2018 HK$ million
Assets			
Cash and deposits	19	**740,434**	832,968
Placements with banks and non-bank financial institutions	20	**226,686**	200,030
Derivative financial instruments	21	**19,580**	37,294
Trade and other receivables	22	**167,427**	111,057
Contract assets	23	**11,504**	11,068
Inventories	24	**54,735**	58,087
Financial assets held under resale agreements	25	**11,117**	12,955
Loans and advances to customers and other parties	26	**4,366,639**	4,024,401
Investments in financial assets	27		
– Financial assets at amortised cost		**1,040,997**	899,348
– Financial assets at fair value through profit or loss		**403,776**	395,259
– Debt investments at fair value through other comprehensive income		**701,936**	582,899
– Equity investments at fair value through other comprehensive income		**7,020**	6,921
Assets classified as held for sale	36	**28,819**	–
Interests in associates	29	**123,345**	116,631
Interests in joint ventures	30	**40,963**	38,620
Fixed assets	31	**150,075**	189,647
Investment properties	31	**37,555**	32,579
Right-of-use assets	32	**36,494**	N/A
Intangible assets	33	**11,977**	14,387
Goodwill	34	**21,203**	22,885
Deferred tax assets	35	**58,729**	50,011
Other assets		**28,913**	23,666
Total assets		**8,289,924**	7,660,713

Consolidated Balance Sheet

As at 31 December 2019

	Note	As at 31 December 2019 HK$ million	2018 HK$ million
Liabilities			
Borrowing from central banks		**268,256**	327,629
Deposits from banks and non-bank financial institutions	37	**1,061,380**	888,966
Placements from banks and non-bank financial institutions	38	**107,400**	129,163
Financial liabilities at fair value through profit or loss		**1,436**	1,468
Derivative financial instruments	21	**20,763**	37,676
Trade and other payables	39	**148,908**	171,093
Contract liabilities	23	**21,380**	18,535
Financial assets sold under repurchase agreements	40	**127,766**	138,589
Deposits from customers	41	**4,541,841**	4,159,924
Employee benefits payables		**23,542**	22,705
Income tax payable	35	**13,989**	11,551
Bank and other loans	42	**151,312**	156,678
Debt instruments issued	43	**823,964**	745,031
Lease liabilities	32	**17,435**	N/A
Liabilities directly associated with assets classified as held for sale	36	**20,674**	–
Provisions	44	**11,155**	9,713
Deferred tax liabilities	35	**9,963**	8,756
Other liabilities		**24,269**	22,576
Total liabilities		**7,395,433**	6,850,053
Equity	45		
Share capital		**381,710**	381,710
Reserves		**209,816**	176,835
Total ordinary shareholders' funds		**591,526**	558,545
Non-controlling interests		**302,965**	252,115
Total equity		**894,491**	810,660
Total liabilities and equity		**8,289,924**	7,660,713

Approved and authorised for issue by the board of directors on 31 March 2020.

Director: **Zhu Hexin** *Director:* **Wang Jiong**

The notes on pages 186 to 356 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Share capital HK$ million (Note 45(a))	Capital reserve HK$ million (Note 45(d)(i))	Hedging reserve HK$ million (Note 45(d)(ii))	Investment related reserves HK$ million (Note 45(d)(iii))	General reserve HK$ million (Note 45(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 45(d)(v))	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 31 December 2018		381,710	(62,239)	2,253	905	45,354	221,409	(30,847)	558,545	252,115	810,660
Changes in accounting policies	2(f)	–	–	–	–	–	(162)	–	(162)	(282)	(444)
Balance at 1 January 2019		381,710	(62,239)	2,253	905	45,354	221,247	(30,847)	558,383	251,833	810,216
Profit for the year		–	–	–	–	–	53,903	–	53,903	24,285	78,188
Other comprehensive (loss)/income for the year	17	–	–	(530)	2,888	–	–	(12,605)	(10,247)	(5,874)	(16,121)
Total comprehensive (loss)/income for the year		–	–	(530)	2,888	–	53,903	(12,605)	43,656	18,411	62,067
Capital injection by non-controlling interests		–	–	–	–	–	–	–	–	679	679
Issue of other equity instruments by subsidiaries	51(d)	–	–	–	–	–	–	–	–	46,701	46,701
Transfer of profits to general reserve		–	–	–	–	5,791	(5,791)	–	–	–	–
Dividends paid to ordinary shareholders of the Company	15	–	–	–	–	–	(12,799)	–	(12,799)	–	(12,799)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	(8,154)	(8,154)
Redemption of other equity instruments by subsidiaries	51(d)	–	–	–	–	–	–	–	–	(2,076)	(2,076)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	73	73
Disposal of subsidiaries	51(b)	–	–	–	108	–	(108)	–	–	(128)	(128)
Transactions with non-controlling interests	52	–	2,202	–	–	–	–	–	2,202	(4,680)	(2,478)
Disposal of equity investments at fair value through other comprehensive income		–	–	–	645	–	(645)	–	–	–	–
Others		–	84	–	–	–	–	–	84	306	390
Other changes in equity		–	2,286	–	753	5,791	(19,343)	–	(10,513)	32,721	22,208
Balance at 31 December 2019		381,710	(59,953)	1,723	4,546	51,145	255,807	(43,452)	591,526	302,965	894,491

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Note	Share capital HK$ million (Note 45(a))	Perpetual capital securities HK$ million (Note 45(c))	Capital reserve HK$ million (Note 45(d)(i))	Hedging reserve HK$ million (Note 45(d)(ii))	Investment related reserves HK$ million (Note 45(d)(iii))	General reserve HK$ million (Note 45(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 45(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		–	–	–	–	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	17	–	–	–	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	45(c)	–	(7,800)	–	–	–	–	–	–	(7,800)	–	(7,800)
Capital injection by non-controlling interests		–	–	–	–	–	–	–	–	–	642	642
Issue of other equity instruments by subsidiaries	51(d)	–	–	–	–	–	–	–	–	–	3,957	3,957
Transfer of profits to general reserve		–	–	–	–	–	252	(252)	–	–	–	–
Dividends paid to ordinary shareholders of the Company	15	–	–	–	–	–	–	(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	51(d)	–	–	–	–	–	–	–	–	–	(2,689)	(2,689)
Disposal of subsidiaries	51(b)	–	–	–	–	–	–	–	–	–	(760)	(760)
Transactions with non-controlling interests		–	–	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

The notes on pages 186 to 356 form part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 HK$ million	2018 HK$ million
Cash flows from operating activities			
Profit before taxation		96,015	93,969
Adjustments for:			
– Depreciation and amortisation	11(b)	21,806	15,091
– Expected credit losses	8	88,722	69,059
– Impairment losses	9	7,024	6,511
– Net valuation loss/(gain) on investment properties	31	756	(954)
– Net valuation (gain)/loss on investments		(831)	7,301
– Share of profits of associates and joint ventures, net of tax		(13,557)	(10,700)
– Interest expenses on debts instruments issued	5(a)	24,574	26,667
– Finance income	10	(2,264)	(2,729)
– Finance costs	10	12,703	12,294
– Net gain on investments in financial assets		(10,475)	(12,729)
– Net gain on disposal of subsidiaries, associates and joint ventures		(3,751)	(3,212)
		220,722	200,568
Changes in working capital			
(Increase)/decrease in deposits with central banks, banks and non-bank financial institutions		(32,147)	82,995
(Increase)/decrease in placements with banks and non-bank financial institutions		(20,380)	50,873
Increase in trade and other receivables		(56,899)	(8,477)
Increase in contract assets		(436)	(7,542)
Decrease/(increase) in inventories		7,333	(2,398)
Decrease in financial assets held under resale agreements		1,523	51,232
Increase in loans and advances to customers and other parties		(510,536)	(535,417)
Decrease in investments in financial assets held for trading purposes		24,368	14,854
(Increase)/decrease in other assets		(27,372)	19,073
Increase/(decrease) in deposits from banks and non-bank financial institutions		198,096	(23,664)
(Decrease)/increase in placements from banks and non-bank financial institutions		(19,791)	39,950
(Decrease)/increase in financial liabilities at fair value through profit or loss		(276)	1,134
(Decrease)/increase in trade and other payables		(18,933)	7,220
Increase in contract liabilities		2,959	4,470
Decrease in financial assets sold under repurchase agreements		(7,928)	(15,523)
Increase in deposits from customers		471,209	246,834
(Decrease)/increase in borrowing from central banks		(51,726)	52,248
Increase/(decrease) in other liabilities		1,047	(8,996)
Increase in employee benefits payables		1,419	2,276
Increase/(decrease) in provisions		1,442	(732)
Cash generated from operating activities		183,694	170,978
Income tax paid		(23,612)	(19,079)
Net cash generated from operating activities		160,082	151,899

Consolidated Cash Flow Statement

For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 HK$ million	 2018 HK$ million
Cash flows from investing activities			
Proceeds from disposal and redemption of financial investments		2,239,189	1,691,875
Proceeds from disposal of fixed assets, intangible assets and other assets		1,689	2,901
Proceeds from disposal of associates and joint ventures		1,348	3,679
Net cash received from disposal of subsidiaries	51(b)	1,082	2,734
Dividends received from equity investments, associates and joint ventures		6,613	4,989
Payments for purchase of financial investments		(2,519,759)	(1,845,989)
Payments for additions of fixed assets, intangible assets and other assets		(19,626)	(16,421)
Net cash payment for acquisition of subsidiaries		(981)	(7,266)
Net cash payment for acquisition of associates and joint ventures		(6,066)	(14,193)
Net cash used in investing activities		(296,511)	(177,691)
Cash flows from financing activities			
Capital injection received from non-controlling interests		679	606
Transaction with non-controlling interests	52	494	2,977
Proceeds from new bank and other loans	51(c)	127,134	121,703
Repayment of bank and other loans and debt instruments issued	51(c)	(685,251)	(1,088,334)
Proceeds from new debt instruments issued	51(c)	661,283	1,108,072
Issue of other equity instruments by subsidiaries	51(d)	46,701	3,957
Principal and interest elements of lease payment	51(c)	(6,673)	N/A
Interest paid on bank and other loans and debt instruments issued	51(c)	(37,043)	(38,103)
Dividends paid to non-controlling interests		(8,369)	(9,065)
Dividends paid to ordinary shareholders of the Company	15	(12,799)	(11,637)
Redemption of other equity instruments by subsidiaries	51(d)	(2,076)	(2,689)
Redemption of perpetual capital securities		–	(7,800)
Distribution paid to holders of perpetual capital securities		–	(673)
Net cash generated from financing activities		84,080	79,014
Net (decrease)/increase in cash and cash equivalents		(52,349)	53,222
Cash and cash equivalents at 1 January		522,808	491,363
Effect of exchange changes		(7,421)	(21,777)
Cash and cash equivalents at 31 December	51(a)	463,038	522,808

The notes on pages 186 to 356 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 2019, the equity interests held by CITIC Group in the Company through its overseas wholly-owned subsidiaries was 58.13% (31 December 2018: 58.13%).

2 Significant accounting policies

(a) Basis of preparation

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

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. None of these had a significant effect on the consolidated financial statements of the Group, except for the adoption of HKFRS 16 Leases ("HKFRS 16").

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) HKFRS 16, Leases

HKFRS 16 has affected primarily the accounting by lessees and has resulted in the recognition of almost all leases on balance sheet. The standard has removed the current distinction between operating and financing leases and has required recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

Lease charges has been replaced with interest and depreciation. The statement of profit or loss has also been affected because the total expense is typically higher in the earlier years of a lease and lower in later years.

Operating cash flows has been higher as cash payments for the lease liability are classified within financing activities.

The accounting by lessors has not significantly changed.

The specific HKFRS 16 accounting policies applied in the current period are set out in Note 2(s). The impact of the adoption of HKFRS 16 on the Group are described in Note 2(e).

(ii) Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

(iii) Prepayment Features with Negative Compensation – Amendments to HKFRS 9

The amendments made to HKFRS 9 Financial Instruments enable the Group to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

(iv) Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. The Group accounts for such interests under HKFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in HKAS 28 Investments in Associates and Joint Ventures.

(v) Plan Amendment, Curtailment or Settlement – Amendments to HKAS 19

The amendments to HKAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements.

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(vi) Annual Improvements to HKFRS Standards 2015-2017 Cycle

HKFRS 3 Business Combinations – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.

HKFRS 11 Joint Arrangements – clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

HKAS 12 Disclosure of Interests in Other Entities – clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

HKAS 23 Borrowing Costs – clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

(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 16 Leases

The Group leases various fixed assets. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2(s).

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The right-of-use ("ROU") asset of the Group were measured on a retrospective basis or at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. With the adoption of new leasing standard, a decrease in retained earnings of HK$162 million as at 1 January 2019 was recognised.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the ROU asset and the lease liability at the date of initial application. The measurement principles of HKFRS 16 are only applied after that date.

2 Significant accounting policies (Continued)

(e) Changes in significant accounting policies and accounting estimates (Continued)

HKFRS 16 Leases (Continued)

Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the ROU asset at the date of initial application; and
- the lease term may be determined on the basis of the actual exercise of the option before the initial application date and other latest information.

(f) Impact of changes in significant accounting policies

(i) Measurement of lease liabilities as at 1 January 2019

	HK$ million
Operating lease commitments disclosed as at 31 December 2018	28,607
Discounted using the lessee's incremental borrowing rate of at the date of initial application (note)	27,211
Add: finance lease liabilities recognised as at 31 December 2018	259
Less: short-term leases recognised on a straight-line basis as expense	(199)
Less: low-value leases recognised on a straight-line basis as expense	–
Less: contracts reassessed as service components	(474)
Add: adjustments as a result of a different treatment of extension and termination options	1,080
Others	(285)
Lease liability recognised as at 1 January 2019	27,592

Note:

As at 1 January 2019, for the purpose of measuring lease liabilities, the Group adopted the same discount rate for lease contracts with similar characteristics. The incremental borrowing rates used were from 3.10% to 6.00%.

2 Significant accounting policies (Continued)

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

(ii) Impact of the Group's adoption of HKFRS 16 on 1 January 2019 on the consolidated balance sheet

	As at 31 December 2018 HK$ million	Impact of first-time adoption of HKFRS 16 HK$ million	As at 1 January 2019 HK$ million
ROU assets	N/A	48,958	48,958
Fixed assets	189,647	(20,878)	168,769
Trade and other receivables	111,057	(1,689)	109,368
Lease liabilities	N/A	27,592	27,592
Trade and other payables	171,093	(757)	170,336
Reserves	176,835	(162)	176,673
Non-controlling interests	252,115	(282)	251,833

(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.

(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.

2 Significant accounting policies (Continued)

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

(ii) Business combinations not involving entities under common control (Continued)

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.

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.

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 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.

If there is a difference between the accounting entity of the Group and the accounting entity of the company or a subsidiary on measuring the same transaction, the transaction will be adjusted from the perspective of the Group.

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

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

2 Significant accounting policies (Continued)

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

(iv) Investment in subsidiaries

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(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 Financial Instruments ("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.

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.

2 Significant accounting policies (Continued)

(h) Associates and joint ventures (Continued)

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.

(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. The effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows.

2 Significant accounting policies (Continued)

(j) Translation of foreign currencies (Continued)

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

(i) Financial assets

(1) Classification and Measurement

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

– Financial assets at amortised cost;

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

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

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

Debt instruments

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

– 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"), and that are not designated at FVPL. Interest income from these financial assets is recognised using the effective interest rate method.

2 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

(i) Financial assets (Continued)

(1) Classification and Measurement (Continued)

Debt instruments (Continued)

– 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"), and that are not designated at FVPL. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, foreign exchange gains and losses and interest income on the instrument's amortised cost which are recognised in profit or loss.

– FVPL:

Assets that do not meet the criteria for amortised cost or FVOCI are at FVPL. The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting the liabilities. A financial instrument is an equity instrument if, and only if, both conditions (i) and (ii) below are met: (i) The financial instrument includes no contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; (ii) If the financial instrument will or may be settled in the Group's own equity instruments, it is a non-derivative instrument that includes no contractual obligations for the Group to deliver a variable number of its own equity instruments; or a derivative that will be settled only by the Group exchanging a fixed amount of cash or another financial asset for a fixed number of its own 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 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

(i) Financial assets (Continued)

(2) Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial assets at amortised cost, debt instrument at FVOCI, lease receivables and 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 with low credit risks as at the balance date, the Group recognises 12-month ECL based on the assumption that the credit risks have not significantly increased after initial recognition.

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

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

For account and bills receivables and contract assets whether there is significant financing component or not, the Group recognises life-time ECL.

2 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

(i) Financial assets (Continued)

(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 securitises financial assets, generally through the sale of these assets to structured entities which issue securities to investors. When the securitisation of financial assets qualifies for de-recognition, the relevant financial assets are de-recognised 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. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement and recognises an associated liability.

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 assets.

2 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

(i) Financial assets (Continued)

(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.

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 assets 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).

2 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

(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.

(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.

2 Significant accounting policies (Continued)

(k) Financial instruments (Continued)

(v) Derivatives (Continued)

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.

(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.

2 Significant accounting policies (Continued)

(l) Hedging (Continued)

(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.

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.

2 Significant accounting policies (Continued)

(l) Hedging (Continued)

(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.

(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. Investment properties are initially measured at cost. 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.

2 Significant accounting policies (Continued)

(n) Investment properties (Continued)

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.

(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 and borrowing costs capitalised (see Note 2(cc)).

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.

2 Significant accounting policies (Continued)

(o) Property, plant and equipment (Continued)

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 presented under ROU assets with the adoption of HKFRS16.

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).

(q) Intangible assets (other than goodwill)

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

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

– Mining assets	Over the estimated useful lives 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.

2 Significant accounting policies (Continued)

(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 (including systematically allocated production overhead) 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.

(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, 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.

2 Significant accounting policies (Continued)

(s) Leases

As explained in Note 2(e) and Note 2(f) above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described as below and the impact of the change in Note 2(f).

Until 31 December 2018, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a ROU asset and a corresponding liability by the lessee at the commencement date.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

(i) Lease liabilities

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

2 Significant accounting policies (Continued)

(s) Leases (Continued)

(i) Lease liabilities (Continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases, which does not have recent third party financing, and

- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and the ROU asset is adjusted accordingly.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) ROU assets

ROU assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life.

2 Significant accounting policies (Continued)

(s) Leases (Continued)

(ii) ROU assets (Continued)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. As leasees, the Group recognises finance leases as finance lease receivables, which are measured at amortised cost. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

(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);

– ROU assets;

– investments in subsidiaries, associates and joint ventures;

– goodwill; and

– intangible assets.

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

2 Significant accounting policies (Continued)

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

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).

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 (if any) 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

Employee benefits refer to all forms of consideration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term 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, housing provident funds, labour union fee and staff and workers' education fee, which are all calculated based on the regulated benchmark and ratio.

2 Significant accounting policies (Continued)

(v) Employee benefits (Continued)

(ii) Defined contribution retirement schemes

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

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

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

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

(iii) Post-employment benefits: Defined benefit plans

The defined benefit plans of the Group are supplementary retirement benefits provided to the domestic employees.

(iv) Termination benefits

When the Group terminates the employment with employees before the employment contracts expire, or provides compensation under an offer to encourage employees to accept voluntary redundancy, a provision is recognised with a corresponding expense in profit or loss at the earlier of the following dates:

- When the Group cannot unilaterally withdraw the offer of termination benefits because of an employee termination plan or a curtailment proposal;
- When the Group has a formal detailed restructuring plan involving the payment of termination benefits and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

2 Significant accounting policies (Continued)

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantee 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(b); 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).

2 Significant accounting policies (Continued)

(w) Financial guarantees issued, provisions and contingent liabilities (Continued)

(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.

(x) Revenue recognition

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.

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

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.

(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 provisions for returns using the expected value method based on historical experience, as a deduction of the revenue. The Group recognises provisions for the expected refunds to customers; meanwhile, other assets are 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.

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

(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.

(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.

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.

2 Significant accounting policies (Continued)

(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.

(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.

2 Significant accounting policies (Continued)

(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.

Business segments are identified based on the Group's internal management requirements as well as following aspects. 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.

2 Significant accounting policies (Continued)

(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.

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.

3 Critical accounting estimates and judgements (Continued)

(a) Classification of financial assets

The critical judgments the Group has in determining the classification of financial assets include analysis of business models and characteristics of contractual cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include evaluation and reporting of financial asset performance to key management personnel, risks affecting the performance of financial assets and their management methods, and the way related business management personnel receive payments.

When assessing whether the contractual cash flow of financial assets is consistent with the basic lending arrangement, the Group has the following main judgments: whether the principal may be subject to change in the duration or amount of money due to prepayments during the duration; whether interests is only included currency time value, credit risk, other basic borrowing risks, and considerations for costs and profits. For example, whether the amount paid in advance reflect only the outstanding principal and interest on the outstanding principal, as well as reasonable compensation for early termination of the contract.

(b) 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 48(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 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 48(a).

(c) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net 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)

(d) Impairment of non-financial assets

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

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

(e) Fair value of financial instruments

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

(f) Depreciation

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful life of the respective assets using the straight-line method. The cost of ROU assets is charged as depreciation expense generally over the shorter of the asset's useful life and the lease term on a straight-line basis.

Management periodically reviews changes in technology and industry conditions, asset retirement activity, residual values to determine adjustments to estimated remaining useful lives and depreciation rates. In determining the lease term of ROU assets, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

3 Critical accounting estimates and judgements (Continued)

(g) Income taxes

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

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

(h) Assets acquired/liabilities assumed in business combination

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

(i) De-recognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, 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;

3 Critical accounting estimates and judgements (Continued)

(i) De-recognition of financial assets (Continued)

- 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.

(j) Consolidation of structured entities

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

- assesses its contractual rights and obligations in light of the transaction structures, and evaluates the Group's power over the structured entities;

- performs independent analyses and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; and

- assesses its ability to exercise its power to influence the variable returns assessed whether the Group acts as a principal or an agent through analysis of the scope of the Group's decision-making authority, remuneration entitled, other interests the Group holds, and the rights held by other parties.

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

MCC 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.

3 Critical accounting estimates and judgements (Continued)

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

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

As set out in the Company's announcement dated 24 December 2013, Sino Iron and MCC WA entered into a supplemental contract pursuant to which Sino Iron will take over the management of the construction and commissioning of the remaining four production lines of the Sino Iron Project. An independent audit will opine on various matters including the contract price for the hand over pursuant to the supplemental contract and related fees and expenses, the value of the supporting services provided by Sino Iron to MCC WA in carrying out its responsibilities under the contract, the extent of the works completed by MCC WA in respect of the first two production lines, and the liability of MCC WA in respect of the extensive delays on completion of the works under the contract. By reference to such findings of the independent audit, Sino Iron and MCC WA expect to enter into further negotiations to determine the amount of liabilities to be borne between the parties. Outcomes are not yet known as at 31 December 2019.

(l) 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, together with other project agreements, provide 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 the Company 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. The remaining options have now lapsed. Following the exercise of the first option, Mineralogy and Mr. Palmer 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 relation to the dispute 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 asserted by Mineralogy and Mr. Palmer.

3 Critical accounting estimates and judgements (Continued)

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

Option Agreement Dispute (Continued)

Notwithstanding the making of these declarations, Mineralogy and Mr. Palmer have not taken the actions necessary to permit completion of the transaction resulting from the Company's exercise of the first option under the Option Agreement. On 31 March 2016, the CITIC Parties commenced a proceeding in the Supreme Court of Western Australia in relation to the Option Agreement ("Proceeding CIV 1514/2016") to seek orders compelling Mineralogy to take the steps necessary to complete the transfer of a further company having the right to mine one billion tonnes of magnetite ore. On 26 February 2018, Justice K Martin granted leave for Cape Preston Resource Holdings Pty Ltd to be added as a plaintiff to the proceeding and for the writ to be amended for that purpose.

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.

The hearing of the CITIC Parties' application for a separate trial of preliminary issues in this proceeding, which was scheduled for 11 October 2019, was vacated by orders made by the Court with the consent of all parties on 5 September 2019.

On 14 January 2020, Mineralogy indicated that the defendants intend to further amend their defences in this proceeding. On 26 February 2020, Justice K Martin ordered that the defendants must file their further amended defences by 11 March 2020 and the plaintiffs must file any further amended reply by 25 March 2020. His Honour also ordered that there be no further amendments to the pleadings without the leave of the Court. To date, the defendants have not yet filed their further amended defence.

The proceeding has been provisionally listed for a ten day trial, commencing on 7 December 2020.

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 Supreme Court of New South Wales but transferred to the Supreme Court of Western Australia), Mineralogy pursued a claim against Sino Iron and Korean Steel seeking payment of sums in respect of Royalty Component B on products produced up to 31 March 2017, damages for alleged breaches of the MRSLAs and certain other relief. In that proceeding, Mineralogy also pursued a claim against the Company pursuant to a guarantee given under the Fortescue Coordination Deed ("FCD"), one of the project agreements for the Sino Iron Project.

3 Critical accounting estimates and judgements (Continued)

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

Royalty Component B Dispute (Continued)

The CITIC Parties' position was that, among other things, because of the cessation of the Annual Benchmark Pricing System ("Benchmark") in early 2010, there was no longer any "prevailing published annual FOB price" ("Disputed Phrase") for the relevant products, and therefore it was no longer possible to calculate Royalty Component B. Mineralogy's position was that the Disputed Phrase was not limited to a reference to Benchmark prices and Royalty Component B was ascertainable by using published data, undertaking certain calculations and making certain adjustments.

The trial in Proceeding CIV 1808/2013 ran for 10 sitting days from 14 June 2017. Justice K Martin delivered his reasons for decision on 24 November 2017, finding in favour of Mineralogy, including as to the proper construction of the Disputed Phrase and the calculation of Royalty Component B.

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

On 12 January 2018, Sino Iron paid to Mineralogy the judgment sums of US$82,409,227.91, including US$7,702,492.91 interest, plus interest on that amount, in accordance with Justice K Martin's final orders on behalf of itself. Sino Iron paid the same amount on behalf of Korean Steel. From that time and up to the date on which final orders were made by the Western Australian Supreme Court of Appeal, Sino Iron, on behalf of itself and Korean Steel, paid Royalty Component B to Mineralogy quarterly in accordance with the judgment of Justice K Martin.

The CITIC Parties appealed the consolidation orders and final orders made by Justice K Martin. These appeals were heard on 4 and 5 December 2018 by the Court of Appeal of the Supreme Court of Western Australia. President Buss and Justices of Appeal Murphy and Beech delivered their judgment in the appeal on 21 May 2019. The CITIC Parties were largely unsuccessful in the appeal. While the Court of Appeal allowed certain limited parts of the CITIC Parties' appeal, the Court's construction of the Disputed Phrase, which was the key issue for determination, was "broadly consistent" with the decision of Justice K Martin at first instance. Among other things, the Court of Appeal found that the Disputed Phrase should be construed as referring to the "prevailing published export market price" for Mount Newman fines and Brazilian pellets for the preceding quarter. The Court of Appeal also dismissed the CITIC Parties' appeal against the consolidation orders. Final orders were made on 28 June 2019, requiring the CITIC Parties to pay an additional US$3,966,892 (including interest) for the judgment quarters (being all quarters up to and including the quarter ending 31 March 2017).

Sino Iron, on behalf of itself and Korean Steel, has paid Mineralogy the sum required by the final orders of the Court of Appeal. Sino Iron, on behalf of itself and Korean Steel, has also made adjustment payments to Mineralogy (including in respect of interest) for all quarters after the judgment quarters (as required) and has otherwise paid Royalty Component B to Mineralogy quarterly in accordance with the judgment of the Court of Appeal.

3 Critical accounting estimates and judgements (Continued)

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

Royalty Component B Dispute (Continued)

On 26 July 2019, the CITIC Parties filed an Application for Special Leave to Appeal to the High Court of Australia in respect of the judgment delivered by the Court of Appeal. At an oral hearing held on 14 February 2020, the CITIC Parties' application was refused by the High Court. Accordingly, Sino Iron and Korean Steel are required to continue making payments of Royalty Component B in accordance with the construction of the Disputed Phrase determined by the Court of Appeal. There is no further right of appeal available in respect of the Royalty Component B dispute.

FCD Indemnity Disputes

Mineralogy and Mr. Palmer have commenced and threatened to commence proceedings to pursue claims pursuant to an indemnity given by the Company under the FCD to Mineralogy and Mr. Palmer. That indemnity extends to losses suffered by Mineralogy and Mr. Palmer 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, the final day of the trial in Proceeding CIV 1808/2013, 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.

On 16 April 2018, the CITIC Parties filed an amended defence, which pleaded a number of defences, including that there has been no breach of the project agreements, construction arguments, causation and mitigation.

On 14 February 2020, Mineralogy and Mr. Palmer provided an incomplete and informal list of documents to the CITIC Parties, which relate to the categories of documents identified for discovery.

On 19 March 2020, Justice K Martin made orders, including orders that Mineralogy and Mr. Palmer have until 3 April 2020 to file any amended statement of claim and that Mineralogy and Mr. Palmer must provide discovery by 1 May 2020. The proceeding has been listed for a directions hearing on 12 June 2020.

No trial date has been set for this proceeding.

3 Critical accounting estimates and judgements (Continued)

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

FCD Indemnity Disputes (Continued)

(ii) Palmer Petroleum FCD Indemnity Claim

On 16 February 2018, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia ("Proceeding CIV 1267/2018") in which it claims damages in the sum of AUD2,675,400,000. The statement of claim pleads that Mineralogy had agreed to provide:

(a) from December 2009, funding; and

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

to its wholly owned subsidiary, Palmer Petroleum Pty Ltd (now named Aspenglow Pty Ltd) ("Palmer Petroleum"). As 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 petroleum prospecting licence and suffered a diminution in value, equivalent to the sale value of oil that allegedly would have been recoverable under that 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, which is in similar terms to their defence in Proceeding CIV 2072/2017. The CITIC Parties have pleaded a number of defences including that there has been no breach of the project agreements, construction arguments, causation and mitigation.

On 14 February 2020, Mineralogy provided an incomplete and informal list of documents to the CITIC Parties, which relate to the categories of documents identified for discovery. On 19 March 2020, Justice K Martin made orders, including orders that Mineralogy has until 3 April 2020 to file any amended statement of claim and that Mineralogy must provide discovery by 1 May 2020. The proceeding has been listed for a directions hearing on 12 June 2020.

No trial date has been set for this proceeding.

3 Critical accounting estimates and judgements (Continued)

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

Mine Continuation Proposals/Tenure Dispute

The continued operation of the Sino Iron Project requires it to extend beyond the footprint it currently occupies. The need for extension 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 extend in order to continue operation, are all held by Mineralogy. Without an increased footprint, it will be necessary to suspend operations at the Sino Iron Project.

The CITIC Parties commenced a proceeding against 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 and Mr. Palmer made a cross-vesting application in which they sought orders that Proceeding WAD 471/2018 be transferred to the Supreme Court of Western Australia. On 17 May 2019, Justice Banks-Smith determined that it was appropriate for this proceeding to be transferred to the Supreme Court of Western Australia. The proceeding was admitted to the Commercial Managed Cases List of Justice K Martin on 10 June 2019 ("Proceeding CIV 1915/2019").

Mediation was conducted in late 2019 but was unsuccessful. Since then, Mineralogy and Mr. Palmer have filed a further amended defence and the CITIC Parties have filed their reply to that defence.

On 19 March 2020, Justice K Martin made orders relating to discovery by categories and applications to strike out or to apply for summary judgment of any part of the pleadings by either party. The proceeding has been listed for a special appointment and directions hearing on 18 and 19 May 2020 to deal with any such applications and any disagreement as to discovery categories.

No trial date has been set for this proceeding.

3 Critical accounting estimates and judgements (Continued)

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

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:

(a) an act, matter or thing outside their control;

(b) Mineralogy doing, or failing to do an act (under the MRSLAs or otherwise); or

(c) a failure to obtain all government approvals necessary to allow them to do so (provided Sino Iron and Korean Steel used best endeavours to obtain such approvals in a timely manner).

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 payable on the amount of magnetite ore required to produce six million tonnes of iron ore concentrate ("Minimum Production Royalty"). The Minimum Production Royalty has been the subject of earlier proceedings, including Proceeding CIV 1808/2013, Proceeding CIV 2303/2015, Proceeding CIV 3011/2017 and Proceeding CIV 3166/2017.

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. In their statement of claim in Proceeding CIV 3129/2018, Mineralogy and Mr. Palmer pleaded 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 sought relief, including:

(a) orders that each of Sino Iron and Korean Steel pay Mineralogy AUD6,865,985 plus US$87,104,633, plus default interest;

(b) an order that the Company pay Mineralogy AUD13,731,970 plus US$174,209,266, plus interest (pursuant to the guarantee under the FCD);

(c) orders for specific performance of the MRSLAs and the FCD; and

(d) a declaration that Sino Iron and Korean Steel have acted in breach of their obligation of good faith.

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

3 Critical accounting estimates and judgements (Continued)

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

Minimum Production Royalty Disputes (Continued)

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 was an abuse of process. That application was heard on 25 September 2019. Justice K Martin delivered his reasons for decision on 13 February 2020, finding in favour of the CITIC Parties. His Honour found that proceeding CIV 3129/2018 was an abuse of process of the court by Mineralogy and Mr. Palmer and that the proceeding should therefore be permanently stayed.

On 20 February 2020, Justice K Martin made orders that Proceeding CIV 3129/2018 be permanently stayed. On 4 March 2020, Mineralogy and Mr. Palmer each filed appeals against Justice K Martin's decision to stay Proceeding CIV 3129 of 2018 (CACV 27 of 2020 and CACV 29 of 2020, respectively). On 5 March 2020, the CITIC Parties and SIH filed notices of intention to take part in the appeals.

No date has been set for the hearing of the appeals.

Site Remediation Fund Dispute

Under clause 20.5 of the MRSLAs, Mineralogy may require Sino Iron and Korean Steel to provide reasonable security for the performance of their obligations under clause 20 of the MRSLAs, relating to the protection of the environment and rehabilitation following Mine Closure. Such security is to be provided by way of contributions by Sino Iron and Korean Steel into a Site Remediation Fund. Clause 20.6 of the MRSLAs provides for the operation of the Site Remediation Fund, and requires that:

(a) Mineralogy will establish the Site Remediation Fund, which will be maintained in a separate interest-bearing trust account, designated as a trust account, and Sino Iron and Korean Steel will make contributions into the Site Remediation Fund; and

(b) 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".

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. Mineralogy claims that the CITIC Parties are required to contribute AUD529,378,207 into the Site Remediation Fund established under the MRSLAs, as security for the performance of their obligations relating to the protection of the environment and rehabilitation.

While the CITIC Parties acknowledge their site remediation obligations and their obligations under clauses 20.5 and 20.6 of the MRSLAs, they dispute the amount claimed by Mineralogy. Among other arguments, the CITIC Parties consider that the amount demanded by Mineralogy is not an "annual charge" as required by clause 20.6(e) of the MRSLAs. Further, the CITIC Parties do not consider that the amount demanded is a "best prevailing estimate" of future site remediation costs, as required by clause 20.6(e) of the MRSLAs.

3 Critical accounting estimates and judgements (Continued)

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

Site Remediation Fund Dispute (Continued)

The CITIC Parties have filed a defence and counterclaim in Proceeding CIV 2840/2018 seeking, among other things, orders appointing a 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.

Mediation took place in late 2019, but was unsuccessful.

The parties have been ordered to give discovery by reference to certain categories of documents identified for discovery by 24 April 2020.

On 25 February 2020, Justice K Martin made programming orders and set down the proceeding for a five day trial commencing on 16 November 2020.

4 Taxation

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the year ended 31 December 2019 is 16.5% (2018: 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 2019 is 25% (2018: 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.

5 Revenue (Continued)

(a) Net interest income

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Interest income arising from(note):		
Deposits with central banks, banks and non-bank financial institutions	**9,143**	11,819
Placements with banks and non-bank financial institutions	**7,167**	9,696
Financial assets held under resale agreements	**947**	1,328
Investments in financial assets		
– Financial assets at amortised cost	**44,084**	39,301
– Debt investments at FVOCI	**23,365**	19,573
Loans and advances to customers and other parties	**223,189**	206,868
Others	**18**	199
	307,913	288,784
Interest expenses arising from:		
Borrowing from central banks	**(9,244)**	(10,585)
Deposits from banks and non-bank financial institutions	**(28,290)**	(31,232)
Placements from banks and non-bank financial institutions	**(4,046)**	(3,915)
Financial assets sold under repurchase agreements	**(1,959)**	(1,923)
Deposits from customers	**(91,071)**	(78,242)
Debt instruments issued	**(24,574)**	(26,667)
Lease liabilities	**(625)**	N/A
Others	**(316)**	(331)
	(160,125)	(152,895)
Net interest income	**147,788**	135,889

Note:

Interest income includes interest income accrued on credit-impaired financial assets of HK$411 million for the year ended 31 December 2019(2018: HK$444 million).

5 Revenue (Continued)

(b) Net fee and commission income

	For the year ended 31 December	
	2019 HK$ million	2018 HK$ million
Guarantee and advisory fees	**5,571**	6,627
Bank card fees	**39,582**	29,022
Settlement and clearing fees	**1,501**	1,502
Agency fees and commission	**8,380**	5,730
Trustee commission and fees	**9,856**	13,623
Others	**234**	530
	65,124	57,034
Fee and commission expenses	**(6,807)**	(6,641)
Net fee and commission income	**58,317**	50,393

(c) Sales of goods and services

	For the year ended 31 December	
	2019 HK$ million	2018 HK$ million
Sales of goods	**293,731**	281,911
Services rendered to customers		
– Revenue from construction contracts	**22,853**	19,906
– Revenue from other services	**27,492**	28,471
	344,076	330,288

(d) Other revenue

	For the year ended 31 December	
	2019 HK$ million	2018 HK$ million
Net trading gain (note (i))	**5,967**	7,708
Net gain on investments in financial assets under financial services segment	**10,222**	5,575
Net (loss)/gain from securitisation of financial assets	**(8)**	3,766
Others	**135**	(334)
	16,316	16,715

5 Revenue (Continued)

(d) Other revenue (Continued)

(i) Net trading gain

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Trading profit:		
– debt securities and certificates of deposits	**3,148**	4,702
– foreign currencies	**2,532**	2,354
– derivatives	**287**	652
	5,967	7,708

6 Costs of sales and services

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Costs of goods sold	**244,888**	236,327
Costs of services rendered		
– Costs of construction contracts	**20,341**	17,367
– Costs of other services	**17,919**	17,169
	283,148	270,863

7 Other net income

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Net gain on disposal/deemed disposal of subsidiaries, associates and joint ventures	**3,751**	3,212
Net gain/(loss) on investments in financial assets under non-financial services segment	**2,100**	(162)
Net foreign exchange gain	**116**	1,016
Others	**3,977**	3,647
	9,944	7,713

8 Expected credit losses

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Expected credit losses charged on/(reversed from):		
– deposits and placements with banks and non-bank financial institutions	**(19)**	12
– financial assets held under resale agreements	**48**	(39)
– account and bills receivables and other receivables	**1,444**	4,067
– loans and advances to customers and other parties	**78,951**	56,447
– investments in financial assets		
– financial assets at amortised cost	**4,060**	1,309
– debt investments at FVOCI	**772**	89
– impairment provision of credit commitments and guarantees provided	**1,261**	(53)
– others	**2,205**	7,227
	88,722	69,059

9 Impairment losses

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Impairment losses charged on/(reversed from):		
– inventories	**1,720**	3,998
– interests in associates (Note 29)	**4,285**	3
– interests in joint ventures	**75**	–
– fixed assets(note)	**26**	1,299
– intangible assets(note)	**22**	65
– prepayments	**(1)**	19
– goodwill	**202**	730
– others	**695**	397
	7,024	6,511

9 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. An impairment assessment was undertaken on the Sino Iron Project by the Group as at 30 June 2019, with an update assessment on 31 December 2019.

In the model a discount rate of 11.88% 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 2020 to 2022 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 undertaken at 30 June 2019 and updated at 31 December 2019 did not result in further impairment charge to be recognised (2018: Nil).

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

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

- Quoted prices (unadjusted) in active markets for identical or similar CGU (level 1);
- Inputs other than quote d 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

10 Net finance charges

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Finance costs		
– Interest on bank and other loans	**6,207**	6,446
– Interest on debt instruments issued	**5,786**	5,714
– Interest and finance charges paid/payable for lease liabilities	**684**	N/A
	12,677	12,160
Less: interest expense capitalised (note)	**(349)**	(175)
	12,328	11,985
Other finance charges	**375**	309
	12,703	12,294
Finance income	**(2,264)**	(2,729)
	10,439	9,565

Note:

Capitalisation rates applied to funds borrowed are 2.60% – 5.65% per annum for the year ended 31 December 2019 (2018: capitalisation rate of 2.60% – 5.70%).

11 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	
	2019 **HK$ million**	2018 HK$ million
Salaries and bonuses	**49,889**	48,193
Contributions to defined contribution retirement schemes	**5,248**	4,982
Others	**8,918**	9,188
	64,055	62,363

(b) Other items

	For the year ended 31 December	
	2019 **HK$ million**	2018 HK$ million
Amortisation	**2,387**	2,514
Depreciation (note)	**19,419**	12,577
Lease charges (note)	**1,680**	8,135
Tax and surcharges	**2,673**	2,491
Property management fees	**1,372**	1,308
Non-operating expenses	**1,075**	886
Professional fees (other than auditors' remuneration)	**1,356**	1,191
Auditors' remuneration		
– Audit services	**179**	198
– Non-audit services	**67**	51
	30,208	29,351

Note:

Since 1 January 2019, according to HKFRS 16, ROU assets are depreciated on a straight-line basis, while short-term-leases, low-value leases and variable lease payment are recorded at lease charges.

12 Income tax expense

(a) Income tax expense in the income statement

	For the year ended 31 December	
	2019 **HK$ million**	2018 HK$ million
Current tax – Mainland China		
Provision for enterprise income tax	**24,116**	23,238
Land appreciation tax	**118**	243
	24,234	23,481
Current tax – Hong Kong		
Provision for Hong Kong profits tax	**1,625**	1,993
Current tax – Overseas		
Provision for the year	**191**	174
	26,050	25,648
Deferred tax		
Origination and reversal of temporary differences	**(8,223)**	(6,704)
	17,827	18,944

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	
	2019 **HK$ million**	2018 HK$ million
Profit before taxation	**96,015**	93,969
Less: Share of profits of		
– associates	**(8,083)**	(7,914)
– joint ventures	**(5,474)**	(2,786)
	82,458	83,269
Notional tax on profit before taxation calculated at statutory tax rate of 16.5%	**13,606**	13,739
Effect of different tax rates in other jurisdictions	**7,059**	6,826
Tax effect of unused tax losses not recognised	**900**	387
Tax effect of non-deductible expenses	**4,188**	4,239
Tax effect of non-taxable income (note)	**(8,086)**	(6,532)
Others	**160**	285
Actual tax expense	**17,827**	18,944

Note:

The non-taxable income mainly contains interest income arising from PRC government bonds and local government bonds and dividends from equity investments.

13 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 2019 are set out as follows:

	For the year ended 31 December 2019									
	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, ii]	–	0.41	0.31	–	0.03	0.15	0.08	–	–	0.98
Wang Jiong [i]	–	0.41	0.31	–	0.03	0.14	0.08	–	–	0.97
Li Qingping [i]	–	0.37	0.28	–	0.03	0.15	0.08	–	–	0.91
Non-executive Directors:										
Song Kangle	–	–	–	–	–	–	–	–	–	–
Yan Shuqin	–	–	–	–	–	–	–	–	–	–
Liu Zhuyu	–	–	–	–	–	–	–	–	–	–
Peng Yanxiang	–	–	–	–	–	–	–	–	–	–
Liu Zhongyuan	–	–	–	–	–	–	–	–	–	–
Yang Xiaoping	0.38	–	–	–	–	–	–	0.15	–	0.53
Independent Non-executive Directors:										
Francis Siu Wai Keung	0.38	–	–	–	–	–	–	0.35	–	0.73
Xu Jinwu	0.38	–	–	–	–	–	–	0.25	–	0.63
Anthony Francis Neoh	0.38	–	–	–	–	–	–	0.25	–	0.63
Shohei Harada	0.38	–	–	–	–	–	–	–	–	0.38
Gregory Lynn Curl [ii]	0.29	–	–	–	–	–	–	0.04	–	0.33
Name of Former Directors										
Wu Youguang [ii]	0.03	–	–	–	–	–	–	–	–	0.03
Pu Jian [ii]	–	0.09	0.06	–	0.01	0.04	0.02	–	–	0.22
Lee Boo Jin [ii]	0.09	–	–	–	–	–	–	0.01	–	0.10
Paul Chow Man Yiu [ii]	0.16	–	–	–	–	–	–	0.02	–	0.18
	2.47	1.28	0.96	–	0.10	0.48	0.26	1.07	–	6.62

13 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

Notes:

(i) The emoluments for the year ended 31 December 2019 in respect of Mr. Chang Zhenming, Mr. Wang Jiong and Ms. Li Qingping 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$0.219 million for Mr. Chang Zhenming, HK$0.219 million for Mr. Wang Jiong, HK$0.197 million for Ms. Li Qingping and HK$0.084 million for Pu Jian.

(ii) Changes in directors during the year ended 31 December 2019:

(1) On 30 March 2020, Mr. Zhu Hexin was appointed as chairman of the board of directors and executive director of the Company, and Mr. Chang Zhenming was resigned as chairman of the board of directors and executive director of the Company.

(2) In June 2019, Mr. Paul Chow Man Yiu retired as an independent non-executive director of the Company.

(3) 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.

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

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

13 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 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								Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	Fees HK$ million	Salary HK$ million	Discretionary bonuses HK$ million	Housing allowance HK$ million	Estimated money value of other benefits HK$ million	Social securities in China mainland HK$ million	Employer's contribution to a retirement benefit scheme HK$ million	Remunerations paid or receivable in respect of accepting office as committee member HK$ million	HK$ million	Total HK$ million
Name of Current Directors										
Executive Directors:										
Chang Zhenming [i]	–	0.39	0.45	–	0.03	0.15	0.07	–	–	1.09
Wang Jiong [i]	–	0.39	0.44	–	0.03	0.13	0.07	–	–	1.06
Li Qingping [i]	–	0.35	0.40	–	0.02	0.15	0.06	–	–	0.98
Pu Jian [i]	–	0.35	0.40	–	0.02	0.15	0.06	–	–	0.98
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	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	1.69	–	0.10	0.58	0.26	1.13	–	8.20

13 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 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 2018:

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

(2) 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.

(3) 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.

(b) Other benefits and interests

For the year ended 31 December 2019, 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 (2018: None). No consideration was provided to or receivable by third parties for making available directors' services (2018: None). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: 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 2019 (2018: None).

14 Individuals with highest emoluments

For the year ended 31 December 2019, none of the five highest paid individuals are directors (2018: none) whose emoluments are disclosed in Note 13. The aggregate of the emoluments in respect of these 5 individuals (2018: five) are as follows:

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Salaries and other emoluments	**13.65**	22.73
Discretionary bonuses	**65.33**	51.46
Retirement scheme contributions	**0.48**	1.04
	79.46	75.23

The emoluments of the 5 individuals (2018: five) with the highest emoluments are within the following bands:

	For the year ended 31 December	
	2019	2018
	Number of individuals	Number of individuals
HK$12,500,001 to HK$13,000,000	**–**	2
HK$13,000,001 to HK$13,500,000	**1**	1
HK$14,000,001 to HK$14,500,000	**1**	–
HK$14,500,001 to HK$15,000,000	**1**	1
HK$16,000,001 to HK$16,500,000	**1**	–
HK$21,000,001 to HK$21,500,000	**1**	–
HK$21,500,001 to HK$22,000,000	**–**	1
	5	5

15 Dividends

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
2018 Final dividend paid: HK$0.26 (2017 Final: HK$0.25) per share	**7,563**	7,273
2019 Interim dividend paid: HK$0.18 (2018 Interim: HK$0.15) per share	**5,236**	4,364
2019 Final dividend proposed: HK$0.285 (2018 Final: HK$0.26) per share	**8,291**	7,563

16 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$53,903 million for the year ended 31 December 2019 (2018: HK$50,239 million) calculated as follows:

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Profit attributable to ordinary shareholders of the Company	**53,903**	50,239
Weighted average number of ordinary shares (in million)	**29,090**	29,090

Diluted earnings per share for the year ended 31 December 2019 and 2018 are same with basic earnings per share. As at 31 December 2019, 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 2019 (31 December 2018: Nil).

The basic earnings per share and diluted earnings per share for the year ended 31 December 2019 are HK$1.85 (2018: HK$1.73).

17 Other comprehensive loss

Components of other comprehensive loss, including reclassification adjustments

	For the year ended 31 December	
	2019 HK$ million	2018 HK$ million
Items that may be reclassified subsequently to profit or loss:		
Fair value gains on financial assets at FVOCI	**5,031**	15,745
Less: Net amounts previously recognised in other comprehensive (income)/loss transferred to profit or loss in the current year	**(2,487)**	177
Tax effect	**(596)**	(4,037)
	1,948	11,885
Allowance change for impairment losses on debt investments at FVOCI	**1,055**	205
Less: Net amounts previously recognised in other comprehensive income transferred to profit or loss in the current year	**–**	–
Tax effect	**(275)**	(39)
	780	166
(Loss)/gains arising from cash flow hedge	**(665)**	102
Less: Net amounts previously recognised in other comprehensive loss transferred to profit or loss in the current year	**21**	102
Tax effect	**56**	30
	(588)	234
Share of other comprehensive income/(loss) of associates and joint ventures	**85**	(1,938)
Exchange differences on translation of financial statements and others	**(19,027)**	(34,735)
Items that will not be reclassified subsequently to profit or loss:		
Reclassification of owner-occupied property as investment property: revaluation gain	**1,485**	196
Less: Tax effect	**(368)**	(32)
	1,117	164
Fair value changes on investments in equity instruments designated at FVOCI	**(690)**	(786)
Less: Tax effect	**254**	(58)
	(436)	(844)
	(16,121)	(25,068)

18 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.

18 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 2019 and 2018 is set out below:

	For the year ended 31 December 2019								
	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	222,316	94,951	119,328	23,373	5,943	100,546	40	–	566,497
Inter-segment revenue	212	6,083	266	1	137	1,211	24	(7,934)	–
Reportable segment revenue	222,528	101,034	119,594	23,374	6,080	101,757	64	(7,934)	566,497
Disaggregation of revenue:									
– Net interest income (Note 5(a))	147,869	–	–	–	65	–	46	(192)	147,788
– Net fee and commission income (Note 5(b))	58,339	–	–	–	–	–	7	(29)	58,317
– Sales of goods (Note 5(c))	–	99,142	116,806	15	3,659	80,141	–	(6,032)	293,731
– Services rendered to customers-construction contracts (Note 5(c))	–	–	1,002	20,277	–	1,598	–	(24)	22,853
– Services rendered to customers-others (Note 5(c))	–	1,892	1,786	3,082	2,356	20,018	–	(1,642)	27,492
– Other revenue (Note 5(d))	16,320	–	–	–	–	–	11	(15)	16,316
Share of profits/(losses) of associates, net of tax (Note 12(b))	3,249	647	160	46	4,128	(435)	288	–	8,083
Share of profits of joint ventures, net of tax (Note 12(b))	1,194	1,539	15	–	1,889	837	–	–	5,474
Finance income (Note 10)	–	253	283	676	639	211	1,599	(1,397)	2,264
Finance costs (Note 10)	–	(2,005)	(1,049)	(127)	(738)	(2,459)	(8,083)	1,758	(12,703)
Depreciation and amortisation (Note 11(b))	(6,972)	(2,940)	(4,669)	(227)	(262)	(6,683)	(53)	–	(21,806)
Expected credit losses (Note 8)	(88,009)	5	(85)	(112)	(386)	(172)	37	–	(88,722)
Impairment losses (Note 9)	(1,735)	(70)	(54)	–	(4,204)	(367)	(594)	–	(7,024)
Profit/(loss) before taxation	73,683	4,369	10,980	2,348	5,294	5,951	(6,444)	(166)	96,015
Income tax (Note 12)	(10,150)	(653)	(2,367)	(497)	(853)	(1,637)	(1,654)	(16)	(17,827)
Profit/(loss) for the year	63,533	3,716	8,613	1,851	4,441	4,314	(8,098)	(182)	78,188
Attributable to:									
– Ordinary shareholders of the Company	42,845	3,015	7,553	1,867	4,347	2,556	(8,098)	(182)	53,903
– Non-controlling interests	20,688	701	1,060	(16)	94	1,758	–	–	24,285

	As at 31 December 2019								
	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	7,703,980	134,304	117,240	59,030	166,404	162,893	191,563	(245,490)	8,289,924
Including:									
Interests in associates (Note 29)	42,267	21,549	5,262	1,102	38,577	13,013	1,575	–	123,345
Interests in joint ventures (Note 30)	9,871	6,293	197	–	20,341	4,261	–	–	40,963
Reportable segment liabilities	7,027,882	181,491	65,243	44,648	90,368	96,214	234,079	(344,492)	7,395,433
Including:									
Bank and other loans (Note 42) (note)	3,927	39,055	20,070	3,021	11,190	30,817	83,783	(41,185)	150,678
Debt instruments issued (Note 43) (note)	725,589	670	141	–	–	3,845	115,644	(27,860)	818,029

Note:

The amount is the principal excluding interest accrued.

18 Segment reporting (Continued)

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

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 (Note 5(a))	135,388	–	–	–	–	–	202	299	135,889
– Net fee and commission income (Note 5(b))	50,405	–	–	–	–	–	26	(38)	50,393
– Sales of goods (Note 5(c))	–	82,274	120,224	17	7,998	79,732	–	(8,334)	281,911
– Services rendered to customers-construction contracts (Note 5(c))	–	–	111	16,888	–	2,974	–	(67)	19,906
– Services rendered to customers-others (Note 5(c))	–	1,457	2,089	2,856	4,035	19,522	39	(1,527)	28,471
– Other revenue (Note 5(d))	16,704	–	–	–	–	–	54	(43)	16,715
Share of profits/(losses) of associates, net of tax (Note 12(b))	3,189	1,749	128	119	4,076	(1,491)	144	–	7,914
Share of profits of joint ventures, net of tax (Note 12(b))	337	1,338	3	–	364	744	–	–	2,786
Finance income (Note 10)	–	360	465	510	709	256	1,548	(1,119)	2,729
Finance costs (Note 10)	–	(2,085)	(1,285)	(103)	(736)	(1,588)	(7,532)	1,035	(12,294)
Depreciation and amortisation (Note 11(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)
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 (Note 12)	(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 (Note 29)	41,925	19,227	996	867	38,366	14,237	1,013	–	116,631
Interests in joint ventures (Note 30)	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 42) (note)	5,898	40,885	31,923	2,657	9,402	34,825	67,778	(37,778)	155,590
Debt instruments issued (Note 43) (note)	628,169	–	144	–	–	3,849	106,561	–	738,723

Note:

The amount is the principal excluding interest accrued.

18 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	
	2019 HK$ million	2018 HK$ million	**2019 HK$ million**	2018 HK$ million
Mainland China	**454,970**	426,667	**7,643,658**	7,011,809
Hong Kong, Macau and Taiwan	**46,494**	59,298	**538,872**	534,766
Overseas	**65,033**	47,320	**107,394**	114,138
	566,497	533,285	**8,289,924**	7,660,713

19 Cash and deposits

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Cash	**7,144**	7,155
Bank deposits	**50,916**	76,214
Balances with central banks (note (i)):		
– Statutory deposit reserve funds (note (ii))	**397,724**	459,369
– Surplus deposit reserve funds (note (iii))	**108,958**	146,568
– Fiscal deposits (note (iv))	**2,109**	3,214
– Foreign exchange reserves (note (v))	**3,438**	1,470
Deposits with banks and non-bank financial institutions	**169,119**	138,639
	739,408	832,629
Accrued interest	**1,185**	424
	740,593	833,053
Less: allowance for impairment losses on deposits with banks and non-bank financial institutions (Note 46)	**(159)**	(85)
	740,434	832,968

19 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 2019, the statutory deposit reserve funds placed by CITIC Bank with the People's Bank of China was calculated at 9% (31 December 2018: 12%) of eligible RMB deposits for domestic branches of CITIC Bank and at 9% (31 December 2018: 12%) of eligible RMB deposits from overseas financial institutions respectively. In addition, CITIC Bank is required to deposit an amount equivalent to 5% (31 December 2018: 5%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve funds as at 31 December 2019.

As at 31 December 2019, the statutory RMB deposit reserve rate applicable to Zhejiang Lin'an CITIC Rural Bank Corporation Limited, a subsidiary of CITIC Bank, according to the corresponding regulations of the People's Bank of China, was at 7.5% (31 December 2018: 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 2019, the statutory deposit reserve funds placed by CITIC Finance with the People's Bank of China was calculated at 6% (31 December 2018: 7%) of eligible RMB deposits from the customers of CITIC Finance. As at 31 December 2019, CITIC Finance is also required to deposit an amount equivalent to 5% (31 December 2018: 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. The reserve is payable on a monthly basis at 20% of the total contract amount of customers driven forward transactions in the previous month. Such foreign exchange reserve is non-interest bearing and will be repayable in 12 months according to the notice.

(vi) In addition to the statutory deposit reserve funds, fiscal deposits and foreign exchange reserves, HK$2,635 million (31 December 2018: HK$2,266 million) included in cash and deposits as at 31 December 2019 were restricted in use, mainly including guaranteed deposits.

20 Placements with banks and non-bank financial institutions

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Banks	93,860	70,876
Non-bank financial institutions	131,555	128,345
	225,415	199,221
Accrued interest	1,361	997
	226,776	200,218
Less: allowance for impairment losses (Note 46)	(90)	(188)
	226,686	200,030
Analysed by remaining maturity:		
– Within 1 month	139,968	132,834
– Between 1 month and 1 year	69,316	66,387
– Over 1 year	16,131	–
	225,415	199,221
Accrued interest	1,361	997
	226,776	200,218
Less: allowance for impairment losses (Note 46)	(90)	(188)
	226,686	200,030

21 Derivative financial instruments

The Group's subsidiaries under the financial services segment act as an intermediary to offer derivative products including forwards, swaps and option transactions. 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 to manage its own asset and liability and structural positions. Derivatives, except for those which are designated as hedging instruments, are held for trading. Derivatives classified as held for trading are for trading and customer initiated transactions purpose, and those for risk management purposes but do not meet the criteria for hedge accounting.

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.

21 Derivative financial instruments (Continued)

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 provide a basis for comparison with fair values of derivatives recognised on the consolidated statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair values of the derivatives and, therefore, do not indicate the Group's exposure to credit or market risks. Hedging instruments are derivatives used as hedge accounting, and non-hedging instruments are derivatives not used as hedge accounting.

	As at 31 December					
	2019			2018		
	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	3,227	16	18	9,570	116	9
– Currency derivatives	807	–	71	446	–	22
Cash flow hedge (note 2(l)(ii)):						
– Interest rate derivatives	13,382	4	1,666	15,214	6	1,370
– Currency derivatives	231	–	5	386	7	–
– Other derivatives	1,406	356	29	2,086	546	59
Non-hedging instruments						
– Interest rate derivatives	3,218,877	5,792	5,760	2,097,185	6,859	6,812
– Currency derivatives	1,691,109	13,175	12,345	2,965,101	28,449	28,061
– Precious metals derivatives	14,194	237	817	66,930	1,195	1,335
– Other derivatives	9,928	–	52	1,272	116	8
	4,953,161	19,580	20,763	5,158,190	37,294	37,676

21 Derivative financial instruments (Continued)

(a) Nominal amount analysed by remaining maturity

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Within 3 months	**1,962,082**	2,195,091
Between 3 months and 1 year	**1,958,516**	2,327,455
Between 1 year and 5 years	**1,011,931**	623,939
Over 5 years	**20,632**	11,705
	4,953,161	5,158,190

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 and Insurance 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 2019, the credit risk weighted amount for counterparty was HK$16,333 million (31 December 2018: HK$23,006 million).

22 Trade and other receivables

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Account and bills receivables (note (a))	**51,393**	46,494
Advanced payments and settlement accounts	**39,290**	2,688
Prepayments, deposits and other receivables (note (b))	**83,207**	67,425
	173,890	116,607
Less: allowance for impairment losses (Note 46)	**(6,463)**	(5,550)
	167,427	111,057

As at 31 December 2019, 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$7,382 million (31 December 2018: HK$7,102 million). The remaining trade and other receivables are expected to be recovered or recognised as expense within one year.

22 Trade and other receivables (Continued)

(a) Account and bills receivables

(i) Account and bills receivables at amortised cost by overdue analysis

As at 31 December 2019, the Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all account and bills receivables. As at the balance sheet date, the analysis of account and bills receivables at amortised cost of the Group based on the days overdue is as follows:

	As at 31 December 2019		
	Expected credit loss rate	Gross carrying amount HK$ million	Loss allowance provision HK$ million
Current	1%	24,253	(281)
Up to 3 months overdue	11%	2,305	(249)
3 months to 1 year overdue	6%	815	(51)
Over 1 year overdue	30%	9,605	(2,899)
		36,978	(3,480)

	As at 31 December 2018		
	Expected credit loss rate	Gross carrying amount HK$ million	Loss allowance provision HK$ million
Current	2%	24,222	(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)
		36,107	(3,423)

Note:

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

22 Trade and other receivables (Continued)

(a) Account and bills receivables (Continued)

(ii) Account and bills receivables at amortised cost by ageing analysis

As at 31 December 2019 and 2018, the ageing analysis of account and bills receivables at amortised cost of the Group based on invoice date is as follows:

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Within 1 year	**26,884**	28,014
Over 1 year	**10,094**	8,093
	36,978	36,107
Less: allowance for impairment losses (Note 46)	**(3,480)**	(3,423)
	33,498	32,684

(iii) As at 31 December 2019, the carrying amount of bills receivables at FVOCI was HK$14,415 million (31 December 2018: HK$10,387 million).

(iv) The movements in the allowance for impairment losses on trade and other receivables during the years ended 31 December 2019 and 2018 are disclosed in Note 46.

(b) Prepayments, deposits and other receivables

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Prepayments, deposits and other receivables	**83,207**	67,425
Less: allowance for impairment losses (Note 46)	**(2,676)**	(2,127)
	80,531	65,298

23 Contract assets and contract liabilities

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

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Contract assets	**11,511**	11,074
Less: Allowance for impairment losses (note(a))	**(7)**	(6)
Total contract assets	**11,504**	11,068
Advances from contracts with customers	**21,380**	18,535
Total contract liabilities	**21,380**	18,535

(a) Assessment of allowance for impairment losses of contract

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Expected credit loss rate (note)	**0.06%**	0.05%
Gross carrying amount	**11,511**	11,074
Loss allowance provision	**(7)**	(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 2019 (31 December 2018: Nil).

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

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Revenue from contracts with customers	**7,480**	7,104

(d) Revenue to be recognised in relating to unsatisfied performance obligations

As at 31 December 2019, transaction price allocated to unsatisfied contracts of the Group amounted at HK$76,132 million (2018: HK$73,179 million), of which HK$28,491 million is expected to be recognised as revenue in the next year (2018: HK$19,886 million) and the remaining HK$47,641 million is expected to be recognised after more than one year(2018: HK$53,293 million).

24 Inventories

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Raw materials	**6,384**	6,997
Work-in-progress	**5,898**	6,319
Finished goods	**16,340**	19,939
Properties:		
– Properties under development	**14,818**	17,740
– Properties held-for-sale	**5,166**	2,807
– Others	**3,371**	1,189
Others	**2,758**	3,096
	54,735	58,087

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	
	2019	2018
	HK$ million	HK$ million
Carrying amount of inventories sold	**244,888**	236,327
Write-down of inventories (Note 46)	**2,323**	4,854
Reversal of write-down of inventories (Note 46)	**(603)**	(856)
	246,608	240,325

As at 31 December 2019, the Group's inventories included an amount of HK$18,546 million expected to be recovered after more than one year (31 December 2018: HK$19,299 million).

25 Financial assets held under resale agreements

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Analysed by counterparties:		
– Banks	**11,164**	4,977
– Non-bank financial institutions	**5**	7,975
	11,169	12,952
Accrued interest	**1**	8
	11,170	12,960
Less: allowance for impairment losses (Note 46)	**(53)**	(5)
	11,117	12,955

Analysed by types of collateral:

As at 31 December 2019 and 2018, the collateral of the Group's financial assets held under resale agreements are all securities.

Analysed by remaining maturity:

As at 31 December 2019, the Group's financial assets held under resale agreements will expire within one month (31 December 2018: within one month).

26 Loans and advances to customers and other parties

(a) Loans and advances to customers and other parties analysed by nature

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Loans and advances to customers and other parties at amortised cost		
Corporate loans:		
– Loans	**2,153,473**	2,106,071
– Discounted bills	**7,995**	169,204
– Finance lease receivables	**48,004**	54,574
	2,209,472	2,329,849
Personal loans:		
– Residential mortgages	**867,018**	734,315
– Credit cards	**574,535**	505,013
– Personal consumption	**232,268**	232,656
– Business loans	**253,525**	222,252
	1,927,346	1,694,236
	4,136,818	4,024,085
Accrued interest	**11,388**	10,016
	4,148,206	4,034,101
Less: allowance for impairment losses (Note 46)	**(134,001)**	(119,857)
Carrying amount of loans and advances to customers and other parties at amortised cost	**4,014,205**	3,914,244
Loans and advances to customers and other parties at FVPL		
Personal loans		
– Residential mortgages	**7,719**	–
Loans and advances to customers and other parties at FVOCI		
Corporate loans:		
– Loans	**1,029**	156
– Discounted bills	**343,686**	110,001
Carrying amount of loans and advances to customers and other parties at FVOCI	**344,715**	110,157
Total carrying amount of loans and advances	**4,366,639**	4,024,401
Allowance for impairment losses on loans and advances to customers and other parties at FVOCI (Note 46)	**(521)**	(151)

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

(b) Assessment method of allowance for impairment losses

	As at 31 December 2019				
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 (note) 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	3,948,280	110,636	77,902	4,136,818	1.73%
Accrued interest	10,513	863	12	11,388	
Less: allowance for impairment losses	(43,509)	(30,234)	(60,258)	(134,001)	
Carrying amount of loans and advances at amortised cost	3,915,284	81,265	17,656	4,014,205	
Carrying amount of loans and advances at FVOCI	344,630	53	32	344,715	
Total carrying amount of loans and advances for which allowance for impairment losses is recognised	4,259,914	81,318	17,688	4,358,920	
Allowance for impairment losses of loans and advances at FVOCI	(505)	–	(16)	(521)	

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

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

As at 31 December 2018

	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 (note) 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 for which allowance for impairment losses is recognised	3,919,522	82,935	21,944	4,024,401	
Allowance for impairment losses of loans and advances at FVOCI	(151)	–	–	(151)	

Notes:

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

	As at 31 December 2019 HK$ million	As at 31 December 2018 HK$ million
Secured portion	**46,686**	43,453
Unsecured portion	**31,260**	31,710
Total loans and advances that are credit-impaired	**77,946**	75,163
Allowance for impairment losses	**(60,274)**	(53,219)
	17,672	21,944

As at 31 December 2019, the maximum exposure covered by fair value of pledge and collateral held against these loans and advances amounted to HK$48,141 million (31 December 2018: HK$41,669 million).

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

(c) Overdue loans by overdue period

	As at 31 December 2019				
	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	**19,179**	**11,734**	**1,682**	**160**	**32,755**
Guaranteed loans	**11,558**	**7,089**	**4,679**	**256**	**23,582**
Secured loans					
– Loans secured by collateral	**27,873**	**12,429**	**12,067**	**2,498**	**54,867**
– Pledged loans	**2,723**	**2,082**	**1,438**	**113**	**6,356**
	61,333	**33,334**	**19,866**	**3,027**	**117,560**

	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

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

27 Investments in financial assets

(a) Analysed by types

	As at 31 December 2019 HK$ million	2018 HK$ million
Financial assets at amortised cost		
Debt securities	645,126	438,361
Investment management products managed by securities companies (note (i))	208,896	262,905
Trust investment plans (note (i))	183,442	178,161
Certificates of deposit and certificates of interbank deposit	111	13,018
Wealth management products	33	1,198
Investments in creditor's rights on assets	570	583
Others	409	445
	1,038,587	894,671
Accrued interest	11,080	9,644
	1,049,667	904,315
Less: allowance for impairment losses (Note 46)	(8,670)	(4,967)
	1,040,997	899,348
Financial assets at FVPL		
Debt securities	50,399	86,115
Including: designated at FVPL	–	60
Investment management products managed by securities companies (note (i))	3,159	3,413
Trust investment plans (note (i))	7,395	36,911
Certificates of deposit and certificates of interbank deposit	52,236	19,074
Wealth management products	4,124	1,946
Investment funds	267,812	233,132
Equity investment	18,576	14,572
Others	75	96
	403,776	395,259
Debt investments at FVOCI (note (ii))		
Debt securities	688,554	560,392
Certificates of deposit and certificates of interbank deposit	5,433	14,431
Others	–	380
	693,987	575,203
Accrued interest	7,949	7,696
	701,936	582,899
Allowance for impairment losses on debt investments at FVOCI	(1,820)	(1,185)
Equity investments at FVOCI (note(ii))		
Equity investment	6,602	6,504
Investment funds	418	417
	7,020	6,921
	2,153,729	1,884,427

27 Investments in financial assets (Continued)

(a) Analysed by types (Continued)

Notes:

(i) As at 31 December 2019, an aggregate of HK$103,340 million (31 December 2018: HK$113,096 million) of trust investment plans and investment management products were managed by the 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 2019		
	Equity instruments HK$ million	Debt instruments HK$ million	Total HK$ million
Cost/amortised cost	**7,931**	**685,475**	**693,406**
Accumulative fair value change in OCI	**(911)**	**8,512**	**7,601**
Accrued interest	**–**	**7,949**	**7,949**
Carrying amount	**7,020**	**701,936**	**708,956**
Allowance for impairment losses (Note 46)	**N/A**	**(1,820)**	**(1,820)**

	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
Accrued interest	–	7,696	7,696
Carrying amount	6,921	582,899	589,820
Allowance for impairment losses (Note 46)	N/A	(1,185)	(1,185)

27 Investments in financial assets (Continued)

(b) Analysed by counterparties

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Issued by:		
– Government	753,257	560,789
– Policy banks	110,331	139,707
– Banks and non-bank financial institutions	1,100,440	993,732
– Corporates	170,267	170,371
– Public entities	405	2,488
	2,134,700	1,867,087
Accrued interest	19,029	17,340
	2,153,729	1,884,427
– Listed in Hong Kong	55,218	53,747
– Listed outside Hong Kong	1,586,899	1,250,302
– Unlisted	492,583	563,038
	2,134,700	1,867,087
Accrued interest	19,029	17,340
	2,153,729	1,884,427

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

27 Investments in financial assets (Continued)

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

	As at 31 December 2019			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Gross carrying amount of investments in financial assets at amortised cost	1,015,265	12,709	10,613	1,038,587
Accrued interest	10,995	85	–	11,080
Less: allowance for impairment losses	(4,212)	(515)	(3,943)	(8,670)
Carrying amount of investments in financial assets at amortised cost	1,022,048	12,279	6,670	1,040,997
Gross carrying amount of debt investments in financial assets at FVOCI	693,626	138	223	693,987
Accrued interest	7,949	–	–	7,949
Carrying amount of debt investments in financial assets at FVOCI	701,575	138	223	701,936
Total carrying amount of investments in financial assets for which allowance for impairment losses is recognised	1,723,623	12,417	6,893	1,742,933
Allowance for impairment losses on debt investments in financial assets at FVOCI	(1,486)	(3)	(331)	(1,820)

27 Investments in financial assets (Continued)

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

	As at 31 December 2018			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
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
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
Total carrying amount of investments in financial assets for which allowance for impairment losses is recognised	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)

28 Subsidiaries

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

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

28 Subsidiaries (Continued)

	As at 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 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%	41.81%	40.64%	40.50%	40.50%
Total assets	7,535,815	6,923,892	23,220	22,437	18,376	17,965	12,668	13,680
Mainly including:								
Cash and deposits	652,454	727,986	4,103	4,287	1,313	1,049	1,635	1,921
Placements with banks and non-bank financial institutions	228,345	201,049	–	–	–	–	–	–
Derivative financial assets	19,109	36,511	–	–	–	–	356	534
Financial assets held under resale agreements	11,112	12,315	–	–	–	–	–	–
Loans and advances to customers and other parties	4,345,489	4,012,383	–	–	–	–	–	–
Investments in financial assets	2,091,581	1,826,253	918	1,284	–	–	–	2
Fixed assets	24,975	24,406	5,629	5,851	2,435	2,767	3,004	3,115
ROU assets	12,769	–	32	–	695	–	102	–
Total liabilities	(6,941,336)	(6,406,789)	(14,862)	(14,044)	(8,950)	(9,070)	(6,475)	(7,626)
Mainly including:								
Borrowing from central banks	(268,256)	(326,901)	–	–	–	–	–	–
Deposits from banks and non-bank financial institutions	(1,061,781)	(892,792)	–	–	–	–	–	–
Placements from banks and non-bank financial institutions	(103,306)	(131,658)	–	–	–	–	–	–
Trade and other payables	–	–	(2,734)	(2,600)	(946)	(849)	(137)	(158)
Derivative financial liabilities	(18,795)	(36,117)	–	–	–	–	(7)	(24)
Financial assets sold under repurchase agreements	(124,849)	(137,315)	–	–	–	–	–	–
Deposits from customers	(4,547,163)	(4,165,271)	–	–	–	–	–	–
Bank and other loans	–	–	(7,352)	(7,739)	(2,716)	(3,369)	(5,053)	(4,532)
Lease liabilities	(12,164)	–	(35)	–	(506)	–	(91)	–
Net assets	594,479	517,103	8,358	8,393	9,426	8,895	6,193	6,054
Equity attributable to								
– Ordinary shareholders of subsidiaries	493,828	458,464	7,996	8,170	9,377	8,855	6,253	6,141
– Non-controlling interests in subsidiaries	100,651	58,639	362	223	49	40	(60)	(87)
Carrying amount of non-controlling interests	268,701	214,654	2,979	2,897	3,970	3,639	2,471	2,400

28 Subsidiaries (Continued)

	As at 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million
Revenue	213,693	196,235	5,960	6,156	9,014	9,464	3,426	4,427
Profit for the year	55,724	53,716	156	179	1,020	968	631	950
Total comprehensive income for the year	58,229	68,469	184	140	1,045	966	414	485
Profit attributable to non-controlling interests	20,700	19,990	66	94	437	403	274	412
Dividends paid to non-controlling interests	6,411	7,067	10	25	299	255	111	80
Net cash generated from operating activities	133,039	121,123	535	857	2,417	1,816	655	962
Net cash (used in)/generated from investing activities	(287,832)	(171,147)	(235)	349	(466)	(370)	694	764
Net cash generated from/(used in) financing activities	114,397	87,652	(496)	(910)	(1,683)	(1,800)	(1,659)	(1,171)

29 Interests in associates

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Carrying value	130,080	119,127
Less: allowance for impairment losses (Note 46)	(6,735)	(2,496)
	123,345	116,631

Notes:

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

29 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.		Ivanhoe Mines Ltd.	
	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million	2019 HK$ million	2018 HK$ million
Listed in:	**Hong Kong**		**Hong Kong, Shanghai**		**Canada**	
Gross amount of the associates						
Total assets	852,720	758,537	883,836	745,415	28,057	22,457
Total liabilities	(499,218)	(431,734)	(699,137)	(566,425)	(638)	(516)
Net assets	353,502	326,803	184,699	178,990	27,419	21,941
Equity attributable to:						
– Associates' shareholders	343,245	316,678	180,430	174,778	28,081	22,551
– Non-controlling interests in associates	10,257	10,125	4,269	4,212	(662)	(610)
	353,502	326,803	184,699	178,990	27,419	21,941

29 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.		Ivanhoe Mines Ltd.	
	2019 HK$ million	2018 HK$ million	**2019 HK$ million**	2018 HK$ million	**2019 HK$ million**	2018 HK$ million
Revenue	**187,901**	171,461	**64,922**	60,447	**–**	–
Profit for the year	**42,464**	40,470	**14,386**	11,692	**152**	155
Other comprehensive (loss)/ income for the year	**(3,670)**	(13,879)	**995**	(1,141)	**(37)**	(260)
Total comprehensive income/(loss) for the year	**38,794**	26,591	**15,381**	10,551	**115**	(105)
Dividends received from associates	**1,041**	931	**796**	913	**–**	–
Reconciled to the Group's interests in associates						
Gross amounts of net assets of associates attributable to the associates' shareholders	**343,245**	316,678	**180,430**	174,778	**28,081**	22,551
Group's effective interest	**10%**	10%	**16.50%**	16.50%	**26.31%**	19.50%
Group's share of net assets of associates	**34,325**	31,668	**29,771**	28,838	**7,388**	4,397
Goodwill and others	**1,417**	1,417	**1,309**	1,309	**(169)**	–
Impairment of interests in associates	**(2,606)**	–	**–**	–	**–**	–
Carrying amounts in the consolidated balance sheet	**33,136**	33,085	**31,080**	30,147	**7,219**	4,397
Quoted fair value	**33,252**	29,472	**56,478**	36,459	**7,984**	2,678

Note:

Aggregate information of associates that are not individually material:

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**51,928**	49,002
Aggregate amount of the Group's share of those immaterial associates:		
Profit for the year	**1,736**	2,156
Other comprehensive loss for the year	**(98)**	(399)
Total comprehensive income for the year	**1,638**	1,757

30 Interests in joint ventures

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Carrying value	**42,450**	40,068
Less: allowance for impairment losses (Note 46)	**(1,487)**	(1,448)
	40,963	38,620

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

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

	As at 31 December					
	CITIC Prudential Life Insurance Co., Ltd.		中船置業有限公司		山東新巨龍能源有限責任公司	
	2019 HK$ million	2018 HK$ million	**2019 HK$ million**	2018 HK$ million	**2019 HK$ million**	2018 HK$ million
Gross amount of the joint ventures						
Total assets	**116,227**	85,186	**18,501**	13,566	**19,178**	20,345
Total liabilities	**(105,977)**	(77,758)	**(10,091)**	(8,240)	**(14,253)**	(15,907)
Net assets	**10,250**	7,428	**8,410**	5,326	**4,925**	4,438
Equity attributable to:						
– Joint ventures' shareholders	**9,680**	6,840	**8,410**	5,326	**4,925**	4,438
– Non-controlling interests in joint ventures	**570**	588	**–**	–	**–**	–
	10,250	7,428	**8,410**	5,326	**4,925**	4,438

30 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.		中船置業有限公司		山東新巨龍能源有限責任公司	
	2019 HK$ million	2018 HK$ million	**2019 HK$ million**	2018 HK$ million	**2019 HK$ million**	2018 HK$ million
Revenue	**28,304**	20,743	**4,765**	211	**9,300**	8,381
Profit/(loss) for the year	**2,070**	1,307	**3,230**	(13)	**3,280**	2,773
Other comprehensive income for the year	**970**	13	**–**	–	**–**	–
Total comprehensive income/(loss) for the year	**3,040**	1,320	**3,230**	(13)	**3,280**	2,773
Dividends received from joint ventures	**–**	–	**–**	–	**638**	1,005
Reconciled to the Group's interests in joint ventures						
Gross amounts of net assets of joint ventures attributable to joint ventures' shareholders	**9,680**	6,840	**8,410**	5,326	**4,925**	4,438
Group's effective interest	**50%**	50%	**50%**	50%	**30%**	30%
Group's share of net assets of joint ventures	**4,840**	3,420	**4,205**	2,663	**1,478**	1,331
Goodwill and others	**1,255**	1,339	**49**	13	**1,068**	1,122
Carrying amount in the consolidated balance sheet	**6,095**	4,759	**4,254**	2,676	**2,546**	2,453

Aggregate information of joint ventures that are not individually material:

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**28,068**	28,732
Aggregate amount of the Group's share of those joint ventures		
Profit for the year	**1,856**	1,408
Other comprehensive loss for the year	**(49)**	(6)
Total comprehensive income for the year	**1,807**	1,402

31 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 2018	81,907	168,841	19,402	16,807	13,201	15,802	315,960	19,637	335,597	32,579
Changes in accounting policies (Note 2(f))	(3,916)	(126)	–	–	(510)	(180)	(4,732)	(19,637)	(24,369)	–
At 1 January 2019	77,991	168,715	19,402	16,807	12,691	15,622	311,228	–	311,228	32,579
Exchange adjustments	(1,488)	(1,758)	(294)	(346)	(138)	(279)	(4,303)	–	(4,303)	(513)
Disposal of subsidiaries	(3,064)	(8,007)	(566)	(296)	(75)	(587)	(12,595)	–	(12,595)	–
Transfers into assets classified as held for sale (Note 36)	(2,313)	(7,011)	(591)	(331)	(1)	(8,854)	(19,101)	–	(19,101)	–
Additions	1,504	2,959	11,269	2,272	936	1,102	20,042	–	20,042	149
Disposals	(1,490)	(2,234)	–	(993)	(497)	(600)	(5,814)	–	(5,814)	(543)
Transfers	7,997	3,031	(15,506)	120	146	628	(3,584)	–	(3,584)	5,166
Change in fair value of investment properties	–	–	–	–	–	–	–	–	–	717
At 31 December 2019	79,137	155,695	13,714	17,233	13,062	7,032	285,873	–	285,873	37,555
Accumulated depreciation, amortisation and impairment losses:										
At 31 December 2018	(23,324)	(92,917)	(1,189)	(11,723)	(6,482)	(7,731)	(143,366)	(2,584)	(145,950)	–
Changes in accounting policies (Note 2(f))	635	123	–	–	86	63	907	2,584	3,491	–
At 1 January 2019	(22,689)	(92,794)	(1,189)	(11,723)	(6,396)	(7,668)	(142,459)	–	(142,459)	–
Exchange adjustments	432	865	56	321	64	130	1,868	–	1,868	–
Disposal of subsidiaries	774	2,978	–	165	47	229	4,193	–	4,193	–
Transfers into assets classified as held for sale (Note 36)	363	4,120	–	198	1	4,757	9,439	–	9,439	–
Charge for the year	(2,366)	(6,635)	–	(1,679)	(645)	(1,326)	(12,651)	–	(12,651)	–
Disposals	570	1,596	208	847	232	385	3,838	–	3,838	–
Impairment losses (Note 46)	(288)	290	–	–	(2)	(26)	(26)	–	(26)	–
At 31 December 2019	(23,204)	(89,580)	(925)	(11,871)	(6,699)	(3,519)	(135,798)	–	(135,798)	–
Net book value:										
At 31 December 2019	55,933	66,115	12,789	5,362	6,363	3,513	150,075	–	150,075	37,555
Represented by:										
Cost	79,137	155,695	13,714	17,233	13,062	7,032	285,873	–	285,873	–
Valuation	–	–	–	–	–	–	–	–	–	37,555
	79,137	155,695	13,714	17,233	13,062	7,032	285,873	–	285,873	37,555

31 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 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	–	–	(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	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	(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 46)	(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

31 Fixed assets (Continued)

As at 31 December 2019, the Group was in the process of applying the ownership certificates in respect of certain premises of HK$14,372 million (31 December 2018: HK$3,841 million). The Group anticipates that there would be no significant issues and costs in completing such procedures.

(a) Fair value measurement of investment properties

(i) Property valuation

Investment properties were revalued as at 31 December 2019 and 2018 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 2019
Mainland China and Hong Kong	China Enterprise Appraisals Consultation Co., Ltd.
	Centaline Surveyors Limited
	Zhong Ming(Beijing) Assets Appraisal International Co., Ltd.
	Prudential Surveyors (Hong Kong) Limited
	YINXIN Appraisal Co., Ltd.
	Knight Frank Petty Limited
	Beijing Dexiang Assets Appraisal Co., Ltd.
Overseas	Network Real Estate Appraisal Co., Ltd.
	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited

31 Fixed assets (Continued)

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

(i) Property valuation (Continued)

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.

(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.

31 Fixed assets (Continued)

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

(ii) Fair value hierarchy (Continued)

	Level 3 For the year ended 31 December	
	2019 HK$ million	2018 HK$ million
Recurring fair value measurement		
Investment properties – Mainland China		
At 1 January	18,067	17,851
Exchange adjustments	(509)	(777)
Additions	125	28
Disposals	(195)	(1,109)
Transfers	5,236	1,651
Change in fair value of investment properties	1,032	423
At 31 December	23,756	18,067
Investment properties – Hong Kong		
At 1 January	14,068	14,779
Exchange adjustments	(2)	1
Additions	23	519
Disposals	(348)	(501)
Transfers	(70)	(1,226)
Change in fair value of investment properties	(340)	496
At 31 December	13,331	14,068
Investment properties – Overseas		
At 1 January	444	443
Exchange adjustments	(2)	(37)
Additions	1	3
Change in fair value of investment properties	25	35
At 31 December	468	444

31 Fixed assets (Continued)

(a) 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 2019, there were no Level 1 and Level 2 fair value hierarchy (2018: Nil) and no transfers into or out of Level 3 (2018: 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.

32 ROU assets and lease liabilities

(a) ROU assets

	Plant and buildings HK$ million	Machinery and equipment 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
At 31 December 2018	–	–	–	–	–	–	–	–
Changes in accounting policies (Note 2(f))	27,280	13	151	524	698	28,666	20,292	48,958
At 1 January 2019	27,280	13	151	524	698	28,666	20,292	48,958
Exchange adjustments	(432)	–	(2)	(46)	(16)	(496)	(265)	(761)
Additions	6,109	12	8	6	358	6,493	1,573	8,066
Reductions	(282)	(1)	(5)	–	(1)	(289)	(104)	(393)
Transfers	–	–	–	–	–	–	(1,636)	(1,636)
Disposal of subsidiaries	(142)	–	(4)	(17)	–	(163)	(337)	(500)
Transfers into assets classified as held for sale (Note 36)	(9,926)	–	–	–	–	(9,926)	(96)	(10,022)
Depreciation charge	(6,335)	(11)	(49)	(140)	(130)	(6,665)	(553)	(7,218)
At 31 December 2019	16,272	13	99	327	909	17,620	18,874	36,494

(i) The expense relating to short-term leases (included in cost of goods sold and other operating expenses) and the expense relating to leases of low-value assets that are not shown above as short-term leases (included in other operating expenses) for the year ended 31 December 2019 were HK$1,071 million.

(ii) The expense relating to variable lease payments not included in lease liabilities (included in other operating expenses) was HK$609 million.

(iii) The total cash outflow for leases for the year ended 31 December 2019 was HK$8,353 million.

32 ROU assets and lease liabilities (Continued)

(b) Lease liabilities

Lease liabilities analysed by maturity

	As at 31 December 2019 HK$ million
– Within 1 year	4,668
– Over 1 year	12,767
	17,435

As at 31 December 2019, the table below presents on maturity date by the undiscounted cash flows of the Group's lease liabilities:

	As at 31 December 2019 HK$ million
– Within 1 year	4,835
– Between 1 and 5 year	11,420
– Over 5 year	3,545
	19,800

33 Intangible assets

	For the year ended 31 December			
	Mining assets HK$ million	Franchise right HK$ million	Others HK$ million	Total HK$ million
Cost:				
At 1 January 2019	19,316	3,015	14,816	37,147
Exchange adjustments	–	(2)	(220)	(222)
Additions	12	–	2,160	2,172
Disposals of subsidiaries	–	–	(532)	(532)
Transfers into assets classified as held for sale (Note 36)	–	(3,013)	(122)	(3,135)
Disposals	(46)	–	(313)	(359)
At 31 December 2019	19,282	–	15,789	35,071
Accumulated amortisation and impairment losses:				
At 1 January 2019	(17,023)	(262)	(5,475)	(22,760)
Exchange adjustments	–	–	79	79
Charge for the year	(56)	(150)	(1,295)	(1,501)
Disposals of subsidiaries	–	–	425	425
Transfers into assets classified as held for sale (Note 36)	–	412	25	437
Disposals	46	–	202	248
Impairment losses (Note 46)	–	–	(22)	(22)
At 31 December 2019	(17,033)	–	(6,061)	(23,094)
Net book value:				
At 31 December 2019	2,249	–	9,728	11,977

33 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 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 46)	–	(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

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

34 Goodwill

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Cost:		
At 1 January	**23,971**	24,373
Additions	**203**	32
Disposals	**(61)**	(130)
Transfers into assets classified as held for sale (Note 36)	**(950)**	–
Exchange differences	**(612)**	(304)
At 31 December	**22,551**	23,971
Accumulated impairment losses:		
At 1 January	**(1,086)**	(384)
Additions (Note 46)	**(202)**	(730)
Disposals	**–**	3
Exchange differences	**(60)**	25
At 31 December	**(1,348)**	(1,086)
Net book value:		
At 31 December	**21,203**	22,885

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

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Resources and energy	**649**	649
Financial services	**1,495**	1,509
Manufacturing	**1,002**	1,086
Real estate	**389**	391
Others	**17,668**	19,250
	21,203	22,885

In conducting goodwill impairment test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination.

The recoverable amount of an asset group or a group of asset groups is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The corresponding impairment loss of an asset group or a group of asset groups will not be recognized if either the fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset is higher than the carrying value.

Based on management's impairment assessment, impairment loss of HK$202 million was recognised for the year ended 31 December 2019 (2018: HK$730 million).

35 Income tax in the balance sheet

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

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Income tax payable	**13,989**	11,551

(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 2019 and 2018, 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 31 December 2017	12,037	2,891	21,797	3,966	6,711	1,760	49,162
Changes in accounting policies	–	–	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
At 1 January 2019	13,446	3,245	28,288	566	6,446	1,602	53,593
Credited/(charged) to profit or loss	725	1,098	9,642	113	(1,007)	(127)	10,444
Credited/(charged) to other comprehensive income	–	30	81	(44)	–	26	93
Disposal of subsidiaries	(3)	(297)	(75)	–	(149)	(13)	(537)
Transfers into assets classified as held for sale (Note 36)	(9)	(147)	(7)	–	(76)	(56)	(295)
Exchange adjustments and others	(66)	(63)	(788)	(16)	142	(83)	(874)
At 31 December 2019	14,093	3,866	37,141	619	5,356	1,349	62,424

35 Income tax in the balance sheet (Continued)

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

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the years ended 31 December 2019 and 2018, 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 2018	(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)
At 1 January 2019	(3,604)	(2,175)	(3,768)	(2,791)	(12,338)
(Charged)/credited to profit or loss	(322)	586	100	(2,585)	(2,221)
(Charged)/credited to other comprehensive income	(242)	–	(368)	157	(453)
Disposal of subsidiaries	–	253	–	31	284
Transfers into assets classified as held for sale (Note 36)	–	66	–	953	1,019
Exchange adjustments and others	(95)	12	87	47	51
At 31 December 2019	(4,263)	(1,258)	(3,949)	(4,188)	(13,658)

(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	
	2019 HK$ million	2018 HK$ million
Deductible temporary differences	2,562	2,103
Tax losses	32,860	25,362
	35,422	27,465

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 2019, tax losses amounting to HK$14,220 million (31 December 2018: HK$7,874 million) that can be carried forward against future taxable income are expiring within 5 years.

36 Assets classified as held for sale

Starry Dream Investments Limited, a wholly-owned subsidiary of the Group, holds 61.54% interests in Fast Foods Holdings Limited ("FFHL") which directly holds 52% equity interests in Grand Foods Holdings Limited ("GFHL"), the holding company of McDonald's mainland China and Hong Kong businesses. During the year ended 31 December 2019, the Group has decided to dispose approximately 42.31% of its interests in FFHL. The Group's interests in FFHL will decrease to approximately 19.23% and therefore, loss control over FFHL upon the completion of the disposal. As at 31 December 2019, the disposal plan has been approved by the Board of Directors of the Company. The assets and liabilities of FFHL have been classified as assets and liabilities held for sale in the Group's consolidated financial statements, and are presented as below.

	As at 31 December 2019 HK$ million
Assets classified as held for sale	
– Cash and deposits	1,038
– Trade and other receivables	1,467
– Inventories	246
– Fixed assets(Note 31)	9,662
– ROU assets(Note 32(a))	10,022
– Intangible assets(Note 33)	2,698
– Interests in joint ventures	2,438
– Interests in associates	3
– Goodwill(Note 34)	950
– Deferred tax assets(Note 35(b))	295
	28,819
Liabilities directly associated with assets classified as held for sale	
– Trade and other payables	3,087
– Contract liabilities	114
– Bank and other loans	5,433
– Employee benefits payables	582
– Income tax payable	110
– Lease liabilities	10,300
– Deferred tax liabilities (Note 35(b))	1,019
– Other liabilities	29
	20,674

37 Deposits from banks and non-bank financial institutions

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Banks	186,072	242,717
Non-bank financial institutions	872,282	641,512
	1,058,354	884,229
Accrued interest	3,026	4,737
	1,061,380	888,966
Analysed by remaining maturity:		
– On demand	446,790	364,731
– Within 3 months	337,522	261,820
– Between 3 months and 1 year	274,034	257,483
– Over 1 year	–	195
	1,058,346	884,229
Accrued interest	3,034	4,737
	1,061,380	888,966

38 Placements from banks and non-bank financial institutions

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Banks	67,264	74,975
Non-bank financial institutions	39,699	53,913
	106,963	128,888
Accrued interest	437	275
	107,400	129,163
Analysed by remaining maturity:		
– On demand	115	–
– Within 3 months	65,989	93,487
– Between 3 months and 1 year	36,334	35,362
– Over 1 year	4,525	39
	106,963	128,888
Accrued interest	437	275
	107,400	129,163

39 Trade and other payables

	As at 31 December	
	2019 **HK$ million**	2018 HK$ million
Trade and bills payables	**73,238**	75,084
Advances from leasees	**281**	214
Other taxes payables	**5,720**	5,089
Settlement accounts	**7,699**	12,566
Dividend payables	**278**	493
Other payables	**61,692**	77,647
	148,908	171,093

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	
	2019 **HK$ million**	2018 HK$ million
Within 1 year	**57,437**	53,426
Between 1 and 2 years	**6,893**	5,102
Between 2 and 3 years	**562**	7,319
Over 3 years	**8,346**	9,237
	73,238	75,084

40 Financial assets sold under repurchase agreements

	As at 31 December	
	2019 **HK$ million**	2018 HK$ million
By counterparties:		
The People's Bank of China	**72,930**	106,312
Banks	**54,811**	31,096
Non-bank financial institutions	**–**	1,141
	127,741	138,549
Accrued interest	**25**	40
	127,766	138,589
By types of collateral:		
Debt securities	**39,726**	98,689
Discounted bills	**88,015**	39,860
	127,741	138,549
Accrued interest	**25**	40
	127,766	138,589

The Group did not derecognise financial assets transferred as collateral in connection with repurchase agreements. As at 31 December 2019, legal title of these collateral pledged has not been transferred to counterparties.

41 Deposits from customers

(a) Types of deposits from customers

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Demand deposits		
– Corporate customers	**1,862,591**	1,725,834
– Personal customers	**307,582**	300,114
	2,170,173	2,025,948
Time and call deposits		
– Corporate customers	**1,653,630**	1,577,529
– Personal customers	**672,759**	513,066
	2,326,389	2,090,595
Outward remittance and remittance payables	**7,227**	5,504
Accrued interest	**38,052**	37,877
	4,541,841	4,159,924

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

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Bank acceptances	**192,095**	186,106
Letters of credit	**13,122**	7,115
Guarantees	**23,879**	24,831
Others	**104,172**	125,116
	333,268	343,168

42 Bank and other loans

(a) Types of loans

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Bank loans		
Unsecured loans	**106,021**	101,708
Loan pledged with assets (note (d))	**16,430**	24,144
Guaranteed loans	**–**	308
	122,451	126,160
Other loans		
Unsecured loans	**27,177**	25,709
Loan pledged with assets (note (d))	**1,050**	3,721
	28,227	29,430
	150,678	155,590
Accrued interest	**634**	1,088
	151,312	156,678

(b) Maturity of loans

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Bank loans		
– Within 1 year or on demand	**38,632**	33,407
– Between 1 and 2 years	**17,392**	27,322
– Between 2 and 5 years	**39,479**	35,148
– Over 5 years	**26,948**	30,283
	122,451	126,160
Other loans		
– Within 1 year or on demand	**6,599**	4,530
– Between 1 and 2 years	**13,446**	7,900
– Between 2 and 5 years	**3,065**	9,562
– Over 5 years	**5,117**	7,438
	28,227	29,430
	150,678	155,590
Accrued interest	**634**	1,088
	151,312	156,678

42 Bank and other loans (Continued)

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

	As at 31 December	
	2019 HK$ million	2018 HK$ million
RMB	34,102	41,031
US$	53,178	56,545
HK$	51,766	40,019
Other currencies	11,632	17,995
	150,678	155,590
Accrued interest	634	1,088
	151,312	156,678

(d) As at 31 December 2019, the Group's bank and other loans of HK$17,480 million (31 December 2018 HK$27,865 million) are pledged with cash and deposits, inventories, trade and other receivables, fixed assets, intangible assets, ROU assets and the equity of subsidiary with an aggregate carrying amount of HK$70,196 million (31 December 2018: HK$79,818 million).

(e) 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 48(b). As at 31 December 2019, none of the covenants relating to drawn down facilities have been breached (31 December 2018: Nil).

43 Debt instruments issued

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Corporate bonds issued (note (a))	**99,913**	85,196
Notes issued (note (b))	**113,592**	119,367
Subordinated bonds issued (note (c))	**97,196**	141,485
Certificates of deposit issued (note (d))	**3,109**	3,141
Certificates of interbank deposit issued (note (e))	**489,886**	389,534
Convertible corporate bonds (note (f))	**14,333**	–
	818,029	738,723
Accrued interest	**5,935**	6,308
	823,964	745,031
Analysed by remaining maturity:		
– Within 1 year or on demand	**605,729**	400,682
– Between 1 and 2 years	**19,912**	114,852
– Between 2 and 5 years	**51,306**	58,997
– Over 5 years	**141,082**	164,192
	818,029	738,723
Accrued interest	**5,935**	6,308
	823,964	745,031

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 2019 (2018: Nil).

Notes:

(a) Corporate bonds issued

	As at 31 December	
	2019 HK$ million	2018 HK$ million
The Company (note (i))	**63,277**	63,335
CITIC Corporation Limited (“CITIC Corporation”) (note (ii))	**30,100**	17,086
CITIC Telecom International (note (iii))	**3,493**	3,490
CITIC Heavy Industries (note (iv))	**141**	144
CITIC Pacific Limited’s (“CITIC Pacific”) subsidiaries (note(v))	**2,902**	1,141
	99,913	85,196

43 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(i) Details of corporate bonds issued by the Company

	As at 31 December 2019				
	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%

43 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 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%

43 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(ii) Details of corporate bonds issued by CITIC Corporation

	As at 31 December 2019				
	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%
19 CITIC bond-1	RMB	3,500	2019-02-25	2022-02-25	3.50%
19 CITIC bond-2	RMB	1,500	2019-02-25	2024-02-25	3.85%
19 CITIC bond-3	RMB	2,000	2019-03-19	2029-03-19	4.59%
19 CITIC bond-4	RMB	2,000	2019-04-22	2029-04-22	4.71%
19 CITIC bond-5	RMB	1,800	2019-07-17	2034-07-17	4.60%
19 CITIC bond-6	RMB	700	2019-07-17	2029-07-17	4.46%
19 CITIC bond-7	RMB	500	2019-08-14	2029-08-14	4.38%
19 CITIC bond-8	RMB	2,000	2019-08-14	2039-08-14	4.58%
19 CITIC bond-9	RMB	1,000	2019-11-05	2039-11-05	4.65%

	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%

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

	As at 31 December 2019				
	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 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%

43 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 2019				
	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 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%

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

	As at 31 December 2019				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
18 Corporate bonds	RMB	1,000	2018-05-31	2021-05-31	4.90%
19 Corporate bonds	RMB	1,000	2019-05-20	2022-05-20	3.90%
19 JLEPC SCP001	RMB	200	2019-09-05	2020-03-03	3.50%
19 JLEPC SCP002	RMB	200	2019-10-22	2020-07-18	3.45%
19 JLEPC SCP003	RMB	200	2019-12-05	2020-06-02	3.39%

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

43 Debt instruments issued (Continued)

Notes (Continued):

(b) Notes issued

	As at 31 December	
	2019 HK$ million	2018 HK$ million
CITIC Corporation (note (i))	20,035	24,998
CITIC Bank (note (ii))	89,700	91,641
CITIC Offshore Helicopter Company Limited (note (iii))	352	360
CITIC Trust Co., Ltd. (note (iv))	3,505	2,368
	113,592	119,367

(i) Details of notes issued by CITIC Corporation

	As at 31 December 2019				
	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-2	RMB	5,000	2012-03-28	2022-03-29	5.18%

	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%

43 Debt instruments issued (Continued)

Notes (Continued):

(b) Notes issued (Continued)

(ii) Details of notes issued by CITIC Bank

	As at 31 December 2019				
	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	2022-12-15	3.13%

	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	2022-12-15	3.13%

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

	As at 31 December 2019				
	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 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%

43 Debt instruments issued (Continued)

Notes (Continued):

(b) Notes issued (Continued)

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

	As at 31 December 2019				
	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
Guaranteed notes	US$	150	2019-05-22	2020-05-20	4.75%

	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

(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	
	2019 HK$ million	2018 HK$ million
Fixed rate notes maturing		
– In June 2020 (note (i))	2,382	3,955
– In February 2024 (note (ii))	3,860	–
– In May 2024 (note (iii))	–	2,345
Fixed rate bonds maturing		
– In May 2025 (note (iv))	12,838	13,125
– In June 2027 (note (v))	22,310	22,806
– In August 2024 (note (vi))	–	42,196
– In September 2028 (note (vii))	33,479	34,238
– In October 2028 (note (viii))	22,327	22,820
	97,196	141,485

43 Debt instruments issued (Continued)

Notes (Continued):

(c) Subordinated bonds issued (Continued)

		As at 31 December 2019				
		Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
(i)	Subordinated Notes	US$	304	2010-06-24	2020-06-24	6.88%
(ii)	Subordinated Notes	US$	500	2019-02-28	2024-02-28	4.63%
(iv)	Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(v)	Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(vii)	Subordinated Fixed Rate Bonds	RMB	30,000	2018-09-13	2028-09-13	4.96%
(viii)	Subordinated Fixed Rate Bonds	RMB	20,000	2018-10-22	2028-10-22	4.80%

		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%
(iii)	Subordinated Notes	US$	300	2013-11-07	2024-05-07	6.00%
(iv)	Subordinated Fixed Rate Bonds	RMB	11,500	2010-05-28	2025-05-28	4.30%
(v)	Subordinated Fixed Rate Bonds	RMB	20,000	2012-06-21	2027-06-21	5.15%
(vi)	Subordinated Fixed Rate Bonds	RMB	37,000	2014-08-26	2024-08-26	6.13%
(vii)	Subordinated Fixed Rate Bonds	RMB	30,000	2018-09-13	2028-09-13	4.96%
(viii)	Subordinated Fixed Rate Bonds	RMB	20,000	2018-10-22	2028-10-22	4.80%

(d) Certificates of deposit issued

These certificates of deposit were issued by CBI with interest rate of 3.13% per annum (31 December 2018: 2.05% to 2.26% per annum).

(e) Certificates of interbank deposit issued

As at 31 December 2019, CITIC Bank issued certain certificates of interbank deposit with a total value of RMB438,830 million (approximately HK$489,886 million) (31 December 2018: RMB341,310 million (approximately HK$389,534 million)). The yield ranges from 2.59% to 3.67% per annum (31 December 2018: 2.80% to 4.86% per annum). The original expiry terms are between 1 month to 1 year (31 December 2018: between 1 month to 1 year).

(f) Convertible corporate bonds

As approved by the relevant regulatory authorities in China, CITIC Bank made a public offering of RMB40,000 million (HK$46,824 million) A-share convertible corporate bonds (the "convertible bonds") on 4 March 2019. CITIC Corporation, as its parent company, has subscribed RMB26,388 million (HK$30,890 million), 65.97% of the total corporate bonds, which is the same percentage of the group's interest in CITIC Bank's common shares. The convertible bonds of CITIC Bank have a term of six years from 4 March 2019 to 3 March 2025, at coupon rates of 0.3% for the first year, 0.8% for the second year, 1.5% for the third year, 2.3% for the fourth year, 3.2% for the fifth year and 4.0% for the sixth year. The conversion of these convertible bonds begins on the first trading day (8 March 2019) after six months upon the completion date of the offering until the maturity date (from 11 September 2019 to 3 March 2025). As at 31 December 2019, convertible bonds (including accrued interest) were recorded as debt instruments issued of RMB12,873 million (HK$14,374 million) and non-controlling interests of RMB1,067 million (HK$1,213 million), respectively.

44 Provisions

	Environmental restoration expenditures HK$ million	Impairment loss of credit commitments and guarantees provided HK$ million	Others HK$ million	Total HK$ million
At 31 December 2017	2,470	837	2,167	5,474
Changes in accounting policy	–	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
At 1 January 2019	1,419	5,991	2,303	9,713
Exchange differences	(14)	(149)	(45)	(208)
Charge for the year	336	1,261	1,805	3,402
Payments made during the year	(14)	–	(9)	(23)
Disposal of subsidiaries	–	–	(1,729)	(1,729)
At 31 December 2019	1,727	7,103	2,325	11,155

45 Share capital, perpetual capital securities and reserves

(a) Share capital

As at 31 December 2019, the number of ordinary shares in issue of the Company was 29,090,262,630 (31 December 2018: 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 2019, 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 2019 (2018: Nil).

45 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.

(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.

45 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 2019 (31 December 2018: Nil).

46 Movement of allowances for impairment losses

	For the year ended 31 December 2019					
	At 1 January HK$ million	(Reversal)/ charge for the year HK$ million	Write-offs/ transfer out HK$ million	Disposal of subsidiaries and Assets classified as held for sale HK$ million (Note 36)	Exchange differences and others (note(i)) HK$ million	At 31 December HK$ million
Allowances for expected credit losses						
Deposits and placements with banks and non-bank financial institutions (Note 19 and 20)	273	(19)	–	–	(5)	249
Financial assets held under resale agreements (Note 25)	5	48	–	–	–	53
Account and bills receivables and other receivables (Note 22)	5,462	1,444	(66)	(210)	(243)	6,387
Loans and advances to customers and other parties (Note 26)	119,919	78,951	(69,023)	–	4,581	134,428
Investments in financial assets (Note 27)						
– Financial assets at amortised cost	4,949	4,060	(212)	–	(148)	8,649
– Debt investments at FVOCI	1,185	772	(102)	–	(35)	1,820
Credit commitments and guarantees provided (Note 44)	5,991	1,261	–	–	(149)	7,103
Others (note(ii))	12,531	2,205	(10,511)	–	(266)	3,959
	150,315	88,722	(79,914)	(210)	3,735	162,648
Allowances for impairment losses						
Inventories (Note 24)	5,600	1,720	(171)	(425)	(34)	6,690
Interests in associates (Note 29)	2,496	4,285	(12)	–	(34)	6,735
Interests in joint ventures (Note 30)	1,448	75	(35)	–	(1)	1,487
Fixed assets (Note 31)	48,015	26	(29)	(101)	(271)	47,640
Intangible assets (Note 33)	16,721	22	(26)	(42)	7	16,682
Prepayments (Note 22)	88	(1)	(1)	(8)	(2)	76
Goodwill (Note 34)	1,086	202	–	–	60	1,348
Other assets	1,552	695	(375)	–	134	2,006
	77,006	7,024	(649)	(576)	(141)	82,664
	227,321	95,746	(80,563)	(786)	3,594	245,312

46 Movement of allowances for impairment losses (Continued)

	For the year ended 31 December 2018 (Restated)					
	At 1 January HK$ million	Charge/ (reversal) for the year HK$ million	Write-offs/ transfer out HK$ million	Disposal of subsidiaries HK$ million	Exchange differences and others (note (i)) HK$ million	At 31 December HK$ million
Allowances for expected credit losses						
Deposits and placements with banks and non-bank financial institutions (Note 19 and 20)	269	12	–	–	(8)	273
Financial assets held under resale agreements (Note 25)	44	(39)	–	–	–	5
Account and bills receivables and other receivables (Note 22)	10,850	4,067	(4,449)	(2)	(5,004)	5,462
Loans and advances to customers and other parties (Note 26)	121,697	56,447	(55,565)	–	(2,660)	119,919
Investments in financial assets (Note 27)						
– Financial assets at amortised cost	4,605	1,309	(816)	–	(149)	4,949
– Debt investments at FVOCI	1,136	89	–	–	(40)	1,185
Credit commitments and guarantees provided (Note 44)	6,289	(53)	–	–	(245)	5,991
Others (note(ii))	–	7,227	–	–	5,304	12,531
	144,890	69,059	(60,830)	(2)	(2,802)	150,315
Allowances for impairment losses						
Inventories (Note 24)	2,738	3,998	(916)	–	(220)	5,600
Interests in associates (Note 29)	2,523	3	(1)	–	(29)	2,496
Interests in joint ventures (Note 30)	1,454	–	(6)	–	–	1,448
Fixed assets (Note 31)	47,606	1,299	(429)	(15)	(446)	48,015
Intangible assets (Note 33)	16,673	65	(16)	–	(1)	16,721
Prepayments (Note 22)	76	19	(3)	–	(4)	88
Goodwill (Note 34)	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

Note:

(i) Others include recovery of loans written off.

(ii) Movement of allowances for accrued interest of the loans and advances to customers and other parties, investments in financial assets are included in others.

47 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, 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. Guarantees and letters of credit represent guarantee provided by the Group to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

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

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Contractual amount		
Loan commitments		
With an original maturity of within 1 year	**7,471**	5,160
With an original maturity of 1 year or above	**50,397**	40,387
	57,868	45,547
Credit card commitments	**608,970**	495,994
Acceptances	**475,619**	450,022
Guarantees	**165,729**	181,219
Letters of credit	**116,102**	106,053
	1,424,288	1,278,835

(b) Credit commitments analysed by credit risk weighted amount

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Credit risk weighted amount on credit commitments	**444,994**	422,882

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%.

47 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	
	2019	2018
	HK$ million	HK$ million
Redemption commitment for treasury bonds	**12,584**	12,669

As at 31 December 2019, the original maturities of these bonds vary from 1 to 5 years (31 December 2018: 1 to 5 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	
	2019	2018
	HK$ million	HK$ million
Related parties (note)	**16,229**	11,811
Third parties	**2,886**	3,169
	19,115	14,980

47 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	
	2019	2018
	HK$ million	HK$ million
Related parties (note)	**5,586**	5,706
Third parties	**228**	50
	5,814	5,756

Note:

As at 31 December 2019, 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$5,582 million) (31 December 2018: RMB5,000 million (approximately HK$5,706 million). China Overseas has provided counter guarantees to the Group.

The relationship and transaction with related parties are disclosed in Note 49.

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

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

(f) Capital commitments

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

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Contracted for	**33,183**	28,970

47 Contingent liabilities and commitments (Continued)

(g) Operating lease commitments

The Group leases certain of its fixed assets. 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
Within 1 year	6,709
Between 1 and 2 years	5,631
Between 2 and 3 years	4,769
Over 3 years	11,498
	28,607

From 1 January 2019, the Group has recognised ROU assets and lease liabilities for these leases, except for short-term and low-value leases, see Notes 2(s) and Note 32.

48 Financial risk management and fair values

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

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

(a) Credit risk

Credit risk management

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

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

48 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Credit risk management (Continued)

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.

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 account and bills receivables and contract assets, regardless whether there is significant financing component or not. 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.

48 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

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 increases; (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.

(2) Definition of default and 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 principal 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.

48 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 probability of default ("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.

The Group categorises exposures with similar risk characteristics and estimates the PD, LGD, EAD by the exposures respectively. The Group has obtained sufficient information to ensure its statistical reliability. ECL of the Group is measured based on the continuous assessment and follow-up of individuals and their financial status.

During the reporting period, there were no significant changes in the estimation 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 yearly basis, and the impact of these economic variables on the PD and the EAD was determined by statistical regression analysis.

48 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(4) Forward-looking information (Continued)

In addition to the base economic scenario, the Group determines the possible scenarios and their weighted 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.

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	
	2019 HK$ million	2018 HK$ million
Deposits with central banks, banks and non-bank financial institutions	**733,290**	825,813
Placements with banks and non-bank financial institutions	**226,686**	200,030
Trade and other receivables	**148,653**	91,272
Financial assets held under resale agreements	**11,117**	12,955
Loans and advances to customers and other parties	**4,358,920**	4,024,401
Investments in financial assets		
– At amortised cost	**1,040,997**	899,348
– Debt investments at FVOCI	**701,936**	582,899
Contract assets	**11,504**	11,068
Other financial assets	**2,366**	2,591
	7,235,469	6,650,377
Credit commitments and guarantees provided	**1,443,403**	1,293,815
Maximum credit risk exposure	**8,678,872**	7,944,192

48 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 debt instruments in the balance sheet without deducting any allowance for impairment losses. A summary of the maximum exposure is as follows:

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Derivative financial instruments	**19,580**	37,294
Loans and advances to customers and other parties at FVPL	**7,719**	–
Investments in financial assets		
– Financial assets at FVPL(debt instruments)	**366,373**	370,684
Maximum credit risk exposure	**393,672**	407,978

(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:

	For the year ended 31 December 2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	HK$ million	**HK$ million**	**HK$ million**	**HK$ million**
Balance at 1 January 2019	**3,959,696**	**109,399**	**75,163**	**4,144,258**
Movements:				
Net transfers out from stage 1	**(129,433)**	**–**	**–**	**(129,433)**
Net transfers into stage 2	**–**	**48,017**	**–**	**48,017**
Net transfers into stage 3	**–**	**–**	**81,416**	**81,416**
Net increase/(decrease) during the year (note (i))	**563,531**	**(43,503)**	**(7,884)**	**512,144**
Write offs	**–**	**–**	**(69,023)**	**(69,023)**
Others (note (ii))	**(90,371)**	**(2,361)**	**(1,726)**	**(94,458)**
Balance at 31 December 2019	**4,303,423**	**111,552**	**77,946**	**4,492,921**

48 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

	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:				
Net transfer from stage 1	(99,760)	–	–	(99,760)
Net transfer to stage 2	–	13,157	–	13,157
Net 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

48 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:

	For the year ended 31 December 2019			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2019	1,478,556	5,559	3,099	1,487,214
Movements:				
Net transfers out from stage 1	(12,954)	–	–	(12,954)
Net transfers into stage 2	–	11,793	–	11,793
Net transfers into stage 3	–	–	1,161	1,161
Net increase/(decrease) during the year (note (i))	287,477	(4,236)	7,001	290,242
Write offs	–	–	(212)	(212)
Others (note (ii))	(25,244)	(184)	(213)	(25,641)
Balance at 31 December 2019	1,727,835	12,932	10,836	1,751,603

	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:				
Net transfer from stage 1	(10,590)	–	–	(10,590)
Net transfer to stage 2	–	5,198	–	5,198
Net 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 purchased or originated credit-impaired financial assets or de-recognition excepting for write-off.

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

48 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 2019			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2019	40,325	26,464	53,219	120,008
Movements (note (i)):				
Net transfers out from stage 1	(2,648)	–	–	(2,648)
Net transfers into stage 2	–	6,977	–	6,977
Net transfers into stage 3	–	–	48,156	48,156
Net increase/(decrease) during the year (note (ii))	6,711	(9,095)	(2,118)	(4,502)
Write offs	–	–	(69,023)	(69,023)
Parameters change for the year (note (iii))	372	6,537	24,059	30,968
Others (note (iv))	(746)	(649)	5,981	4,586
Balance at 31 December 2019	44,014	30,234	60,274	134,522

	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)):				
Net transfer from stage 1	(2,215)	–	–	(2,215)
Net transfer to stage 2	–	609	–	609
Net 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

48 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 2019			
	Stage 1 HK$ million	Stage 2 HK$ million	Stage 3 HK$ million	Total HK$ million
Balance at 1 January 2019	3,970	327	1,855	6,152
Movements (note (i)):				
Net transfers out from stage 1	(67)	–	–	(67)
Net transfers into stage 2	–	220	–	220
Net transfers into stage 3	–	–	261	261
Net increase/(decrease) during the year (note (ii))	1,904	(28)	2,149	4,025
Write offs	–	–	(212)	(212)
Parameters change for the year (note (iii))	(26)	9	307	290
Others (note (iv))	(83)	(10)	(86)	(179)
Balance at 31 December 2019	5,698	518	4,274	10,490

	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)):				
Net transfer from stage 1	(294)	–	–	(294)
Net transfer to stage 2	–	182	–	182
Net 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

48 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

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 purchased or originated credit-impaired 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.

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

	As at 31 December					
	2019			2018		
	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	326,183	7%	288,557	359,746	8%	312,585
– Manufacturing	290,098	6%	127,970	339,909	8%	158,870
– Rental and business services	393,789	8%	213,173	322,893	7%	202,275
– Wholesale and retail	165,088	4%	98,624	173,866	4%	102,732
– Water, environment and public utility management	300,791	7%	139,303	238,441	6%	121,983
– Transportation, storage and postal services	172,346	4%	79,691	173,919	4%	88,656
– Construction	108,029	2%	51,945	91,025	2%	37,263
– Production and supply of electric power, gas and water	73,947	2%	52,616	83,244	2%	46,415
– Public management and social organizations	14,672	1%	7,517	15,255	1%	3,105
– Others	357,563	8%	162,774	362,503	9%	150,564
	2,202,506	49%	1,222,170	2,160,801	51%	1,224,448
Personal loans	1,935,065	42%	1,275,969	1,694,236	41%	1,141,525
Discounted bills	351,681	8%	–	279,205	7%	–
	4,489,252	99%	2,498,139	4,134,242	99%	2,365,973
Accrued interest	11,388	1%	–	10,016	1%	–
	4,500,640	100%	2,498,139	4,144,258	100%	2,365,973

48 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					
	2019			2018		
	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	4,297,094	94%	2,404,040	3,926,180	94%	2,286,150
Hong Kong, Macau and Taiwan	189,415	4%	92,826	200,088	4%	75,465
Overseas	2,743	1%	1,273	7,974	1%	4,358
	4,489,252	99%	2,498,139	4,134,242	99%	2,365,973
Accrued interest	11,388	1%	–	10,016	1%	–
	4,500,640	100%	2,498,139	4,144,258	100%	2,365,973

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

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Unsecured loans	1,090,369	925,754
Guaranteed loans	549,063	563,310
Secured loans		
– Loans secured by collateral	2,049,804	1,895,985
– Pledged loans	448,335	469,988
	4,137,571	3,855,037
Discounted bills	351,681	279,205
	4,489,252	4,134,242
Accrued interest	11,388	10,016
Gross loans and advances	4,500,640	4,144,258

48 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(vi) 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			
	2019		2018	
	Gross balance HK$ million	% of total loans and advances	Gross balance HK$ million	% of total loans and advances
Rescheduled loans and advances	25,444	0.57%	24,638	0.59%
– Rescheduled loans and advances overdue more than 3 months	12,057	0.27%	21,397	0.52%

(vii) 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 2019, 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 2018: 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.

48 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

The following tables indicate the analysis by remaining maturities of the Group's financial assets and liabilities:

	As at 31 December 2019					
	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 (note)	Total HK$ million
Total financial assets	415,780	2,695,101	1,757,424	2,066,205	734,694	7,669,204
Total financial liabilities	(2,839,200)	(3,410,296)	(829,669)	(179,560)	(5,735)	(7,264,460)
Financial asset-liability gap	(2,423,420)	(715,195)	927,755	1,886,645	728,959	404,744

	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 (note)	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

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

	As at 31 December 2019					
	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 (note)	Total HK$ million
Total financial assets	415,780	2,944,363	2,250,999	2,769,008	741,097	9,121,247
Total financial liabilities	(2,839,200)	(3,794,768)	(1,148,985)	(203,253)	(5,735)	(7,991,941)
Financial asset-liability gap	(2,423,420)	(850,405)	1,102,014	2,565,755	735,362	1,129,306

48 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

	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 (note)	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

Note:

For cash and balances with central banks, the indefinite maturity date amount represented statutory deposit reserve funds and fiscal deposits maintained with the People's Bank of China. For placements with and loans to banks and non-bank financial institutions, loans and advances to customers and investments, the indefinite maturity date amount represented the balances being impaired or overdue for more than one month. Equity investments were also reported under indefinite maturity date.

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 2019			
	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Loan commitments	18,254	20,654	18,960	57,868
Guarantees	107,830	54,797	3,102	165,729
Letters of credit	113,833	2,269	–	116,102
Acceptances	475,619	–	–	475,619
Credit card commitments	601,555	7,131	284	608,970
Total	1,317,091	84,851	22,346	1,424,288

	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

48 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 2019				
	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	465,307	4,771,193	1,202,500	1,230,204	7,669,204
Total financial liabilities	(190,602)	(6,102,438)	(775,284)	(196,136)	(7,264,460)
Financial asset-liability gap	274,705	(1,331,245)	427,216	1,034,068	404,744

	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

48 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Effective interest rate

	As at 31 December			
	2019		2018	
	Effective interest rate	HK$ million	Effective interest rate	HK$ million
Assets				
Cash and deposits	1.55%-2.00%	740,434	1.54%-2.22%	832,968
Placements with banks and non-bank financial institutions	2.82%	226,686	3.38%	200,030
Financial assets held under resale agreements	2.13%	11,117	2.59%	12,955
Loans and advances to customers and other parties	5.08%	4,366,639	4.86%	4,024,401
Investments in financial assets	3.66%-4.39%	2,153,729	3.80%-4.71%	1,884,427
Others	–	791,319	–	705,932
		8,289,924		7,660,713
Liabilities				
Borrowing from central banks	3.34%	268,256	3.29%	327,629
Deposits from banks and non-bank financial institutions	2.79%	1,061,380	3.54%	888,966
Placements from banks and non-bank financial institutions	2.84%	107,400	3.49%	129,163
Financial assets sold under repurchase agreements	2.39%	127,766	2.84%	138,589
Deposits from customers	2.08%	4,541,841	1.88%	4,159,924
Bank and other loans	1.10%-8.00%	151,312	0.47%-6.35%	156,678
Debt instruments issued	2.80%-6.95%	823,964	2.81%-6.95%	745,031
Lease liabilities	3.10%-6.00%	17,435	N/A	N/A
Others	–	296,079	–	304,073
		7,395,433		6,850,053

48 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 2019, 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$12,607 million (31 December 2018: decrease or increase by HK$12,844 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.

48 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 2019				
	HK$	**US$**	**RMB**	**Others**	**Total**
Total financial assets	**183,551**	**356,266**	**7,073,604**	**55,783**	**7,669,204**
Total financial liabilities	**(321,638)**	**(348,602)**	**(6,554,096)**	**(40,124)**	**(7,264,460)**
Financial asset-liability gap	**(138,087)**	**7,664**	**519,508**	**15,659**	**404,744**

	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

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 2019 would decrease or increase the Group's profit before taxation by HK$5,379 million (31 December 2018: decrease or increase by HK$3,464 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.

48 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.

48 Financial risk management and fair values (Continued)

(e) Fair values (Continued)

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

	As at 31 December 2019			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Assets				
Bills receivables at FVOCI	–	14,415	–	14,415
Loans and advances to customers and other parties at FVOCI	–	344,715	–	344,715
Loans and advances to customers and other parties at FVPL	–	–	7,719	7,719
Derivative financial assets	117	19,111	352	19,580
Investments in financial assets	138,381	895,670	78,681	1,112,732
	138,498	1,273,911	86,752	1,499,161
Liabilities				
Financial liabilities at FVPL	(147)	(244)	(1,045)	(1,436)
Derivative financial liabilities	(263)	(20,500)	–	(20,763)
	(410)	(20,744)	(1,045)	(22,199)

	As at 31 December 2018			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Assets				
Bills receivables at FVOCI	–	10,387	–	10,387
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	952,509	82,913	1,142,917
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)

For the year ended 31 December 2019, there were no significant transfers between instruments in different levels (2018: Nil) and no significant changes in valuation techniques for determining the fair values of the instruments (2018: Nil).

48 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 2019						
	Assets				Liabilities		
	Loans and advances to customers and other parties at FVOCI	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 2019	–	530	82,383	82,913	(370)	(1)	(371)
Total (losses)/gains:	–	(177)	1,257	1,080	(14)	–	(14)
– in profit or loss	–	–	881	881	(14)	–	(14)
– in other comprehensive (losses)/income	–	(177)	376	199	–	–	–
Net settlements	7,719	(1)	(4,959)	2,759	(661)	1	(660)
At 31 December 2019	7,719	352	78,681	86,752	(1,045)	–	(1,045)

	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 gains/(losses):	(349)	496	147	14	(1)	13
– in profit or loss	–	(92)	(92)	14	(1)	13
– in other comprehensive income/(losses)	(349)	588	239	–	–	–
Net settlements	4	6,764	6,768	(384)	–	(384)
At 31 December 2018	530	82,383	82,913	(370)	(1)	(371)

48 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 2019				
	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	1,040,997	1,057,365	2,448	743,741	311,176
Financial liabilities					
Debt instruments issued					
– Corporate bonds issued	101,530	100,670	64,254	36,416	–
– Notes issued	115,006	114,362	364	110,454	3,544
– Subordinated bonds issued	99,975	100,400	6,462	93,938	–
– Certificates of deposit (not for trading purpose)	3,196	3,113	–	3,113	–
– Certificates of interbank deposit issued	489,886	481,933	–	481,933	–
– Convertible corporate bonds issued	14,371	14,260	–	14,260	–
	823,964	814,738	71,080	740,114	3,544

	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

48 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.

49 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 2019			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Sales of goods	–	229	587	816
Purchase of goods	–	489	3,290	3,779
Interest income (note (2))	–	81	873	954
Interest expenses	85	717	446	1,248
Fee and commission income	70	5	979	1,054
Fee and commission expenses	–	–	107	107
Income from other services	2	121	310	433
Expenses for other services	–	142	1,275	1,417
Interest income from deposits and receivables	–	–	427	427
Other operating expenses	3	30	207	240

	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

49 Material related parties (Continued)

(b) Related party transactions (Continued)

(i) Transaction amounts with related parties (Continued)

Notes:

(1) These above transactions with related parties were conducted under the normal commercial terms.

(2) Interest rates of loans and advances to the related parties were determined at rates negotiated between the Group and the corresponding related parties on a case by case basis.

(3) During the relevant 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.

(ii) Outstanding balances with related parties

	As at 31 December 2019			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Trade and other receivables	70	1,068	4,471	5,609
Loans and advances to customers and other parties (note (2))	–	1,997	6,811	8,808
Cash and deposits	–	–	24,425	24,425
Derivative financial instruments and other assets	–	1	509	510
Investments in financial assets				
– Financial assets at FVPL	–	–	845	845
– Financial assets at amortised cost	–	–	79	79
Trade and other payables	350	11,937	2,354	14,641
Deposits from customers	2,233	7,913	16,105	26,251
Deposits from bank and non-bank financial institutions	–	–	25,531	25,531
Derivative financial instruments and other liabilities	–	–	144	144
Bank and other loans	5,290	21,925	73	27,288
Off-balance sheet items				
Entrusted funds	6,380	134	31,233	37,747
Funds raised from investors of non-principal guaranteed wealth management products	–	7	2,893	2,900
Guarantees provided (note (3))	–	–	16,229	16,229
Guarantees received	–	2,076	62,388	64,464

49 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties (Continued)

	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-principal guaranteed wealth management products	–	10	423	433
Guarantees provided (note (3))	–	–	11,811	11,811
Guarantees received	–	43,780	5,885	49,665

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.

49 Material related parties (Continued)

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

In addition to these related party transactions disclosed in Note 49 (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 2019, the aggregate amount of the remuneration before tax paid to directors and executive officers of the Company amounted to HK$7.26 million (2018: HK$10.74 million).

50 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 2019					
	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	Maximum loss exposure HK$ million
Wealth management products	33	3,211	–	–	3,244	3,244
Investment management products managed by securities companies	208,896	3,159	–	–	212,055	212,055
Trust investment plans	183,442	7,395	–	–	190,837	190,837
Asset-backed securities	113,515	97	147,605	–	261,217	261,217
Investment funds	–	267,812	–	418	268,230	268,230
Investments in creditor's rights on assets	570	–	–	–	570	570
Total	506,456	281,674	147,605	418	936,153	936,153

50 Structured entities (Continued)

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

	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	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

(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.

50 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 2019, 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$3,095,615 million (31 December 2018: HK$3,093,454 million).

As at 31 December 2019, the amount of placements from the Group with non-principal-guaranteed wealth management products sponsored by the Group was HK$59,724 million (31 December 2018: HK$72,472 million); the amount of placements from banks and non-bank financial institutions was HK$39,253 million (31 December 2018: HK$50,907 million).

During the year ended 31 December 2019, the maximum exposure of the placements from the Group with non-principal guaranteed wealth management products sponsored by the Group was HK$67,067 million (2018: HK$77,772 million).The maximum exposure of placements from banks and non-bank financial institutions was HK$14,190 million (2018: HK$15,333 million). 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 2019, the amount of fee and commission income recognised from the above mentioned structured entities sponsored by the Group was HK$6,372 million (2018: HK$8,927 million); interest income of HK$1,432 million (2018: HK$2,592 million). The amount of interest expenses was HK$962 million (2018: HK$734 million).

50 Structured entities (Continued)

(d) Transfers of financial assets

The Group entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, transfers of loans including non-performing loans, and financial assets sold under repurchase agreements.

These transactions were entered into in the normal course of business by which recognised financial assets were transferred to third parties or structured entities. Transfers of assets may give rise to full or partial de-recognition of the financial assets concerned. On the other hand, where transferred assets do not qualify for de-recognition as the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

Details of the financial assets sold under repurchase agreements are set forth in Note 40. Details of securitisation transactions, structured transfers on assets usufruct and loan transfer transactions conducted by the Group for the year ended 31 December 2019 totally HK$87,984 million (2018: HK$259,664 million) are set forth below.

Securitisation transactions and structured transfers on assets usufruct

The Group enters into securitisation transactions by which it transfers loans to structured entities which issue asset-backed securities to investors. The Group assessed among other factors, whether or not to derecognise the transferred assets by evaluating the extent to which it retains the risks and rewards of the assets and whether it has relinquished its controls over these assets based on the criteria as detailed in Note 2(k) and Note 3.

During the year ended 31 December 2019, the Group entered into securitisation transactions and structured transfers on assets usufruct backed by financial assets transferred with book value before impairment of HK$76,844 million (2018: HK$219,887 million). HK$50,721 million of this balance (2018: HK$8,214 million) was in respect of performing loans and the Group concluded that it had continuing involvement in these assets. The Group also recognised other assets and other liabilities of HK$6,664 million (2018: HK$1,024 million) arising from such continuing involvement. The remaining balance of the loans transferred were qualified for full de-recognition.

Loan transfers

During the year ended 31 December 2019, the Group also through other types of transactions transferred loans of book value before impairment of HK$11,140 million (2018: HK$39,776 million), of which HK$11,140 million represented non-performing loans (2018: HK$39,776 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.

51 Supplementary information to the consolidated cash flow statement

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

	As at 31 December	
	2019	2018
	HK$ million	HK$ million
Cash	**7,181**	7,155
Bank deposits on demand	**44,663**	69,540
Surplus deposit reserve funds	**108,958**	146,568
Investments in debt securities due within three months	**71,753**	31,584
Deposits with banks and non-bank financial institutions due within three months	**80,535**	126,406
Placements with banks and non-bank financial institutions due within three months	**149,948**	141,555
Cash and cash equivalents in the consolidated cash flow statement	**463,038**	522,808

(b) Disposal of subsidiaries

	For the year ended 31 December	
	2019	2018
	HK$ million	HK$ million
Total assets	**33,576**	15,207
Total liabilities	**(20,682)**	(13,466)
Non-controlling interests	**(128)**	(760)
Net assets disposed	**12,766**	981
Total consideration	**9,106**	2,836
Release of other comprehensive income relating to interests in disposed subsidiaries	**(50)**	(11)
Remeasurement at fair value of retained interest in former subsidiaries	**5,747**	108
Gains on disposal/deemed disposal of subsidiaries	**2,037**	1,952
Net cash inflow is determined as follows:		
Cash proceeds received		
– Proceeds from the above disposal of subsidiaries	**3,318**	2,793
– Collection of receivables from previous disposal of subsidiaries	**–**	–
Less: cash and cash equivalents disposed	**(2,236)**	(59)
	1,082	2,734

51 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	Interest expense HK$ million	Lease liabilities HK$ million	Total HK$ million
At 1 January 2018	142,442	653,371	7,233	422	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)	(568)	(84)	(33,598)
Other non-cash movements	6,940	(7,964)	38,961	(46)	37,891
At 31 December 2018	155,590	738,723	7,580	292	902,185
Recognised on adoption of HKFRS 16 (Note 2(f))	–	–	–	27,300	27,300
At 1 December 2019	155,590	738,723	7,580	27,592	929,485
Cash flows	8,758	94,408	(37,043)	(6,673)	59,450
(Disposal of subsidiaries)/business combination	(6,855)	–	–	(147)	(7,002)
Transfers into liabilities directly associated with assets classified as held for sale (Note 36)	(5,318)	–	(115)	(10,300)	(15,733)
Foreign exchange adjustments	(1,640)	(15,134)	(172)	(407)	(17,353)
Other non-cash movements	143	32	36,319	7,370	43,864
At 31 December 2019	150,678	818,029	6,569	17,435	992,711

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

In 2019, issuance of other equity instruments by subsidiaries was mainly from CITIC Bank, a subsidiary of the Group, which issued RMB39,993 million (approximately HK$45,488 million) undated capital bonds. CITIC Bank also issued convertible corporate bonds of which the equity portion is RMB1,066 million (approximately HK$1,213 million) (2018: RMB3,343 million, approximately HK$3,957 million, perpetual non-cumulative subordinated additional Tier-one capital securities from CBI).

In 2019, redemption of other equity instruments by subsidiaries was from CBI, a subsidiary of the Group, which redeemed RMB1,825 million (approximately HK$2,076 million) (2018: RMB2,271 million, approximately HK$2,689 million from CITIC Envirotech) perpetual capital securities.

52 Major transactions with non-controlling interests

(i) On 19 September 2019, Daye Special Steel Group Limited ("Daye Special Steel", a non-wholly-owned subsidiary of the Group and listed on the Shenzhen Stock Exchange) acquired in aggregate of 86.50% equity interest in Jiangyin Xingcheng Special Steel Works Group Limited ("Xingcheng Special Steel", a non-wholly-owned subsidiary of the Group) from CITIC Pacific Special Steel Investment Group Limited ("CPSS", a wholly-owned subsidiary of the Group) and other shareholders by way of issuance of domestic listed shares (A shares), and resulted in CPSS became the controlling shareholder of Daye Special Steel and thereby enabling the Group to effectively list its special steel related business on the Shenzhen Stock Exchange. On 28 November 2019, Daye Special Steel further acquired the remaining 13.50% shares in Xingcheng Special Steel from CPSS by cash consideration. Upon the completion of above transactions, Daye Special Steel held 100% of shareholding in Xingcheng Special Steel. Dilution gain arising from the above transactions of HK$620 million was recognised in equity.

(ii) The privatisation of Dah Chong Hong Holdings Limited ("Dah Chong Hong", previously a 56.81% owned listed subsidiary of CITIC Pacific, a wholly-owned subsidiary of the Group) at a cancellation price of HK$3.70 per share, was approved on the shareholders' meeting of Dah Chong Hong on 19 December 2019 (subsequently sanctioned without modification by the High Court and the listing of Dah Chong Hong shares on the Hong Kong Stock Exchange was withdrawn on 10 January 2020) and total consideration of HK$3,022 million was accrued. Gain arising from the privatisation of HK$1,111 million, representing the excess of the Group's interest in the net assets acquired from non-controlling interests over the consideration paid, was recognised in equity.

	For the year ended 31 December 2019 HK$ million
Decrease in carrying amount of non-controlling interests	4,133
Consideration to be paid to non-controlling interests	(3,022)
Gain on acquisition within equity	1,111

(ii) In July 2019, CITIC Press Corporation ("CITIC Press") was listed on the Shenzhen Stock Exchange, with an initial public offering of 47,537,879 shares, raising HK$732 million in total. Upon the issuance of new shares, equity interests owned by the Group in CITIC Press reduced from 98% to 73.5%. The Group recognised an increase in non-controlling of interests of HK$448 million and an increase in equity attributable to shareholders of the Company of HK$284 million.

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

	For the year ended 31 December 2019
Increase in carrying amount of non-controlling interests	(448)
Consideration received from non-controlling interests	732
Gain on disposal within equity	284

53 Balance sheet and reserve movement of the Company

	As at 31 December	
	2019 HK$ million	2018 HK$ million
Non-current assets		
Fixed assets	6	9
Intangible assets	1	1
Interests in subsidiaries	449,153	440,888
Interests in joint ventures	35	35
Investments in financial assets		
– Financial assets at fair value through profit or loss	3,732	3,557
	452,927	444,490
Current assets		
Derivative financial instruments	–	11
Amounts due from subsidiaries	67,050	60,114
Trade and other receivables	157	154
Cash and deposits	3,387	6,393
	70,594	66,672
Total assets	523,521	511,162
Current liabilities		
Bank and other loans	11,840	1,978
Amounts due to subsidiaries and other related parties	13,257	11,891
Trade and other payables	43	18
Derivative financial instruments	–	19
Income tax payable	960	235
Debt instruments issued	3,955	–
	30,055	14,141
Non-current liabilities		
Long term borrowings	39,689	39,018
Debt instruments issued	60,299	64,313
Derivative financial instruments	807	685
	100,795	104,016
Total liabilities	130,850	118,157
Equity		
Share capital	381,710	381,710
Reserves	10,961	11,295
Total ordinary shareholders' funds	392,671	393,005
Total liabilities and equity	523,521	511,162

The balance sheet of the Company was approved and authorised for issue by the board of directors on 31 March 2020.

Director: **Zhu Hexin** *Director:* **Wang Jiong**

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

(a) Reserve movement of the Company

	Share capital HK$ million (Note 45(a))	Capital reserve HK$ million (Note 45(d)(i))	Hedging reserve HK$ million (Note 45(d)(ii))	Retained earnings HK$ million	Total HK$ million
At 31 December 2018	381,710	630	(603)	11,268	393,005
Cash flow hedges:					
– Fair value loss during the year	–	–	(142)	–	(142)
– Transfer to net finance charges	–	–	(79)	–	(79)
	–	–	(221)	–	(221)
Profit attributable to shareholders of the Company	–	–	–	12,686	12,686
Dividends paid to ordinary shareholders of the Company	–	–	–	(12,799)	(12,799)
At 31 December 2019	381,710	630	(824)	11,155	392,671

	Share capital HK$ million (Note 45(a))	Perpetual capital securities HK$ million (Note 45(c))	Capital reserve HK$ million (Note 45(d)(i))	Hedging reserve HK$ million (Note 45(d)(ii))	Investment related reserves HK$ million (Note 45(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

54 Post balance sheet events

(a) Assessment of the impact of coronavirus disease 2019

Since the outbreak of Coronavirus Disease 2019 ("COVID-19") from the beginning of 2020, the virus has spread around the world, resulting in global macro-economy slowdown and casting significant uncertainties to business operations. The Group has been diligently following government requirements on COVID-19 prevention and containment, and took multiple measures to ensure the stability of the subsidiaries' operations.

According to the Group's assessment, COVID-19 may have certain impact to the Group on the credit position and rate of return of the financial assets, business operations and project constructions within infected areas as well as the recoverability of trade and other receivables, resulting in price volatility and changes of supply and demand of commodities including iron ore, crude oil and steel, and bringing challenges to the Group's related business operations and management.

The degree of the impact depends on the situation of relevant containment measures, duration of the pandemic and implementations of regulatory policies since the spread is ongoing. The Group will keep continuous attention on the situation, assess and react actively to its impacts on the financial position and operating results of the Group.

(b) Disposal of subsidiary

By referring to Note 36, on 2 March 2020, a Starry Dream Investments Limited entered into a share purchase agreement with CCHL Fast Food Holdings Limited ("CCHL"), a company wholly-owned by a newly established fund of which a wholly-owned subsidiary of CITIC Capital Holdings Limited acts as the general partner. Pursuant to the agreement, the Group agreed to sell and CCHL agreed to purchase 42.31% equity interests in FFHL and CCHL will also be assigned the corresponding portion of outstanding shareholder loans of FFHL in an amount of approximately US$217 million. The total consideration of the disposal is US$533 million. Upon completion of the disposal, the Group's equity interests in FFHL will be reduced to 19.23%, and therefore, FFHL and GFHL will no longer be consolidated into the financial statements of the Group.

55 Comparative amounts

Reclassifications have been made on some of the comparative amounts to ensure the comparability.

56 Approval of the consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2020.

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

The Group has not applied the following amendments to standards and new standards which are effective for the financial year beginning after 1 January 2019 and which have not been early adopted in these consolidated financial statements.

HKAS 1 and HKAS 8 (Amendments)	Definition of Material [(1)]
HKFRS 3 (Amendments)	Definition of a Business [(1)]
Revised Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting [(1)]
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting [(1)]
HKFRS 17	Insurance Contracts [(2)]

(1) Effective for the annual periods beginning on or after 1 January 2020.

(2) Effective for the annual periods beginning on or after 1 January 2021 (likely to be extended to 1 January 2022).

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.

58 Principal subsidiaries, associates and joint ventures

(a) Principal subsidiaries

				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 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	51,097	100%	100%	0%
CITIC Pacific Special Steel Group Co., Ltd. (formerly known as Daye Special Steel Co., Ltd.) 中信泰富特钢集团股份有限公司 (前稱大冶特殊钢股份有限公司)	Mainland China	Manufacturing	2,968,907,902	83.85%	0%	83.85%
Dah Chong Hong Holdings Limited (Note 52) 大昌行集團有限公司(Note 52)	Hong Kong	Investment holding	1,891,247,220	56.81%	0%	56.81%
CITIC Mining International Ltd. 中信礦業國際有限公司	Cayman Islands	Resources and energy	1	100%	100%	0%

58 Principal subsidiaries, associates and joint ventures (Continued)

(a) Principal subsidiaries (Continued)

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest: Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC 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 Telecom International Holdings Limited 中信國際電訊集團有限公司	Hong Kong	Telecom services	3,659,239,882	58.19%	0%	58.19%
M China Management Limited 金拱門中國管理有限公司	Hong Kong	Service	N/A	32%	0%	100%
CITIC Finance Company International Limited 中信財務(國際)有限公司	Hong Kong	Financial services	N/A	100%	100%	0%
China CITIC Bank Corporation Limited 中信銀行股份有限公司	Mainland China	Financial services	49,284,811,106	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	7,502,832,116	65.97%	0%	100%
CITIC Trust Co., Ltd. 中信信託有限責任公司	Mainland China	Financial services	N/A	100%	0%	100%
CITIC Finance Company Limited 中信財務有限公司	Mainland China	Financial services	N/A	92.80%	0%	94.90%
CITIC Consumer Finance Co.,Ltd. 中信消費金融有限公司	Mainland China	Financial services	N/A	70%	0%	70%
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 Construction Company Limited 中信建設有限責任公司	Mainland China	Engineering contracting	N/A	100%	0%	100%

58 Principal subsidiaries, associates and joint ventures (Continued)

(a) Principal subsidiaries (Continued)

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Engineering Design and Construction Company Limited 中信工程設計建設有限公司	Mainland China	Engineering contracting	N/A	100%	0%	100%
CITIC Urban Development & Operation Co., Ltd. 中信城市開發運營有限責任公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Heye Investment Co., Ltd. 中信和業投資有限公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC 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	190,151,515	73.50%	0%	73.50%

58 Principal subsidiaries, associates and joint ventures (Continued)

(a) Principal subsidiaries (Continued)

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest: Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC 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%

(b) Principal associates

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

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest: Attributable to the Group	Held by the Company	Held by subsidiaries
China Overseas Land & Investment Ltd. 中國海外發展有限公司	Hong Kong	Real estate	10,956,201,535	10%	0%	10%
CITIC Securities Co., Ltd.(note) 中信證券股份有限公司	Mainland China	Securities related services	12,116,908,400	16.50%	0%	16.50%
Ivanhoe Mines Ltd.	Canada	Resources and energy	1,196,109,399	26.31%	0%	26.31%

Note:

CITIC Securities Co., Ltd. issued new A shares on 11 March, 2020. Upon the consummation of the issuance, the Group's interest in CITIC Securities Co., Ltd. was diluted to 15.47%.

58 Principal subsidiaries, associates and joint ventures (Continued)

(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%
中船置業有限公司	Mainland China	Real estate	N/A	50%	0%	50%
山東新巨龍能源有限責任公司	Mainland China	Resources and energy	N/A	30%	0%	30%

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of CITIC Limited (the "Company") and its subsidiaries (the "Group") set out on pages 178 to 356, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

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

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 26 and Note 27 to the consolidated financial statements.

As at 31 December 2019, loans and advances to customers and other parties of CITIC Bank amounted to RMB4,001.18 billion (approximately HK$4,466.70 billion), and the corresponding allowance for impairment losses was RMB115.96 billion (approximately HK$129.45 billion); investments in financial assets of CITIC Bank amounted to RMB1,559.79 billion (approximately HK$1,741.27 billion), and the corresponding allowance for impairment losses was RMB8.41 billion (approximately HK$9.39 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.

How our audit addressed the Key Audit Matter

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 tested whether or not the measurement models reflect the modelling methodologies documented by the management on a sample basis.

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;
- Management overlay adjustments due to significant uncertain factors not covered in the models;
- 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.

In addition, we assessed the reasonableness of the selection of significant uncertain factors, its application and measurement in the management overlay adjustments, and examined the accuracy of the relevant mathematical calculations.

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.

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, Note 27 and Note 50 to the consolidated financial statements.

As at 31 December 2019, consolidated and unconsolidated structured entities, including non-principal guaranteed wealth management products ("WMPs") issued and managed by CITIC Bank, are disclosed in Note 27(a) and Note 50(b) to the consolidated financial statements.

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;
- evaluated and examined on the appropriateness of disclosures relating to structured entities in the consolidated financial statements.

Based on the audit procedures performed above, we considered that management's assessment and disclosure on the consolidation of structured entities with non-principal guaranteed wealth management products were appropriate in all material respects.

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 50(d) to the consolidated financial statements. During the year ended 31 December 2019, CITIC Bank entered into transactions which involved transfers of financial assets including securitisation transactions, structured transfers on assets usufruct, and transfers of non-performing loans. Management analysed the contractual rights and obligations of CITIC Bank in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, CITIC Bank assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met. The de-recognition assessment relating to the transfer of financial assets involved significant judgement from management, and as such, we focused our audit on the de-recognition of these financial assets.	We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results. We selected samples and read through transaction agreements to assess the contractual rights and obligations of CITIC Bank, and whether CITIC Bank transferred the rights to receive contractual cash flows from the financial assets, or the transfer qualified for the "pass through" of those cash flows, to independent third parties. We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations. For financial assets where CITIC Bank neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether CITIC Bank had relinquished its control over these financial assets, and if CITIC Bank had a continuing involvement in these transferred financial assets. Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment of the Sino Iron Project

Refer to Note 3 and Note 9 to the consolidated financial statements.

An impairment assessment was undertaken on the Sino Iron Project ("the Project") by management as at 30 June 2019, with an update assessment on 31 December 2019.

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.

Other Information

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

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

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

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

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

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

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

Audit and Risk Management Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2020