



ALUMINIUM

OIL

ANNUAL REPORT **2017** 年報

COAL

MANGANESE

IMPORT AND EXPORT OF COMMODITIES

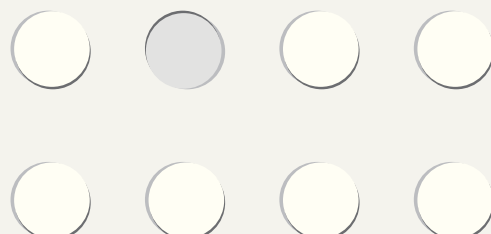


CITIC Resources Holdings Limited

中信資源控股有限公司

(incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock Code 股份代號 : 1205





Oil

Major income driver with steady production and development in oilfields located in Kazakhstan, China and Indonesia.



Aluminium

(1) a 22.5% participating interest in the Portland Aluminium Smelter joint venture, one of the largest and most efficient aluminium smelting operations in the world; and (2) a 9.6846% equity interest in Alumina Limited (ASX: AWC), one of Australia's leading companies with significant global interests in bauxite mining, alumina refining and selected aluminium smelting operations.



Coal

A 14% participating interest in the Coppabella and Moorvale coal mines joint venture (a major producer of low volatile pulverized coal injection coal in the international seaborne market) and interests in a number of coal exploration operations in Australia with significant resource potential.



Manganese

Single largest shareholder of CITIC Dameng Holdings Limited (SEHK: 1091), one of the largest vertically integrated manganese producers in the world.



Import and Export of Commodities

An import and export of commodities business, based on strong expertise and established marketing networks, with a focus on international trade.



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Corporate Information

Board of Directors

Executive Directors

Mr. Kwok Peter Viem (*Chairman*)
Mr. Suo Zhengang
(*Vice Chairman and Chief Executive Officer*)
Mr. Sun Yang (*Vice Chairman*)
Ms. Li So Mui

Non-executive Directors

Mr. Chan Kin
Mr. Ma Ting Hung

Independent Non-executive Directors

Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji
Mr. Look Andrew

Audit Committee

Mr. Fan Ren Da, Anthony (*Chairman*)
Mr. Gao Pei Ji
Mr. Look Andrew

Remuneration Committee

Mr. Gao Pei Ji (*Chairman*)
Mr. Fan Ren Da, Anthony
Mr. Look Andrew
Mr. Suo Zhengang

Nomination Committee

Mr. Kwok Peter Viem (*Chairman*)
Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji

Risk Management Committee

Mr. Look Andrew (*Chairman*)
Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji
Mr. Kwok Peter Viem
Mr. Ma Ting Hung
Mr. Suo Zhengang

Company Secretary

Mr. Cha Johnathan Jen Wah

Registered Office

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Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

Stock Code : 1205

Auditor

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue, Central, Hong Kong

Principal Bankers

China CITIC Bank International Limited
China Construction Bank (Asia) Corporation Limited
China Development Bank Corporation
DBS Bank Ltd.
Mizuho Bank, Ltd.

Chairman's Statement

The Group posted a considerably improved performance during the year, with operating results lifted by higher oil and commodities prices in 2017 when compared to 2016.

The pressures posed to the Group's operations in previous years from low oil and commodities prices were alleviated to some degree, as oil and commodities prices continued their rally from 4Q 2016 into 2017. Consequently, practically all of the Group's businesses achieved an enhanced return from normal operations, the exception being the Group's Portland Aluminium Smelter (the "PAS") which continued to deal with the adverse effects of the power outage in late 2016 and operated at a reduced capacity for much of the year. The Group's investment in Alumina Limited ("AWC") continued to make a substantial contribution to the Group. In addition, the Group's investments in its joint venture and associates reported better results, thereby adding to the Group's overall accomplishments for the year.

The Group's overall performance also continued to be aided by ongoing cost and expenditure control initiatives and efforts across its business segments, and the curtailment of non-essential capital expenditure.

Financial Results

During the year, the Group's revenue increased 21.9% year-on-year to HK\$3,602.9 million. EBITDA increased by 16.4% to HK\$2,100.4 million and profit attributable to shareholders rose 42.8% to HK\$518.3 million over 2016. As of 31 December 2017, the Group's total assets amounted to HK\$14,132.9 million and equity attributable to shareholders was HK\$6,064.2 million.

Business Review

Crude oil

The Group's crude oil business saw a significantly improved operating result for the year, primarily the result of a higher average crude oil realised price and the implementation of ongoing cost control measures.

Both the Seram Block in Indonesia and the Yuedong oilfield in China achieved a turnaround in operating results and the Group recorded a higher share of profit in respect of its interest in CITIC Canada Energy Limited, a joint venture established with JSC KazMunaiGas Exploration Production, through which the Group owns, manages and operates the Karazhanbas oilfield in Kazakhstan.

The Group achieved stable production comparable to 2016, helped by implementing a series of optimal maintenance plans to minimise the negative influence on production caused by the continuing natural decline of existing wells. The Group's average daily oil production was 49,980 barrels (100% basis) for the year, comparable to 50,580 barrels (100% basis) for 2016.

No new wells were drilled in the Seram Block and the Yuedong oilfield during the year due to current cost control programs. The Seram Block recorded an average daily production of 2,820 barrels (100% basis), representing a drop of 25% when compared to 2016. The Yuedong oilfield maintained an average daily production of 7,960 barrels (100% basis) which was comparable to 2016.

Chairman's Statement

The Karazhanbas oilfield was the largest contributor to the Group's overall oil production, reaching an average daily production of 39,200 barrels (100% basis) which was comparable to 2016.

Following the release of a lower oil reserves estimate for the Yuedong oilfield, an impairment loss was provided in respect of certain oil and gas properties. As to the Karazhanbas oilfield, since there was a change to the business model, a write-back of a prior year provision for impairment loss was made in respect of certain oil and gas properties.

Metals

As indicated earlier, the PAS was the only part of the Group's business that did not report a profit during the year, as operations continued to be adversely affected by the effects of the power outage in late 2016. In January 2017, the Group secured financial support from the State Government of Victoria and the Commonwealth Government of Australia under four year agreements to assist in funding the restart and restoration of the PAS's production capacity and ongoing operations. Pre-outage production capacity and operations were not fully restored until 4Q 2017, so the PAS was unable to benefit fully from significantly improved aluminium selling prices. As a result, the PAS recorded a loss for the year.

During the year, the Group reassessed its investment in AWC. On 30 June 2017, the Group reclassified its equity interest in AWC from a financial asset at fair value through profit or loss to an investment in an associate. As a result, the Group recorded a significant fair value gain prior to reclassification and a share of profit using the equity method after reclassification in respect of its interest in AWC.

CITIC Dameng Holdings Limited ("CDH") achieved a turnaround in its results with an increase in both average selling prices and sales volumes of major manganese products, driven by stronger demand from a re-energised steel sector. As a result, the Group recorded a share of profit for the year with respect to its interest in CDH.

Coal

Despite the operation of the Group's coal segment being affected by inclement weather in 2Q 2017, sales volume increased when compared to 2016. Benefiting from higher average coal selling price driven by reduced output from China, the segment recorded a better profit than in 2016.

Import and export of commodities

The Group's import and export of commodities business improved during the year as the Group increased its marketing efforts. Attributable to an increase in sales volume, the segment recorded better results when compared to 2016.

Financial Management

During the year, the Group arranged two term loan facilities, the proceeds of which were used to refinance its existing debt and finance its general corporate funding requirements.

Chairman's Statement

Outlook

The Group believes that oil and commodities prices will at least remain steady at current levels, which should continue to benefit and support the Group's business. These market conditions will be augmented by the Group's ongoing efforts to control its costs on a sustainable basis.

A priority of the Group this year will be to seek to extend the production sharing contract for the Seram Block, which is due to expire in October 2019, and to develop plans to continue exploration of the Lofin area. The Group shall also endeavour in promoting application of new technologies to improve productivity in the Yuedong oilfield and plans to add new wells in the oilfield under a managed drilling program.

The Group will also continue to strengthen its business portfolio by targeting quality investment opportunities. The ongoing support from CITIC Limited will drive the Group to achieve its objectives.

The Group believes its actions will effectively create reasonable return for shareholders in a changing marketplace.

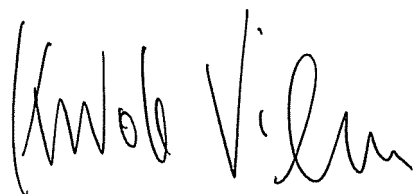
Board Member Change

In March 2017, Mr. Chan Kin was appointed as a non-executive director of the Company. The Board would like to express its warm welcome to Mr. Chan on his joining the Board.

Appreciation

I, on behalf of the Board, would like to extend my sincere appreciation to my fellow directors, management and all of my colleagues for their work, energy, concerted effort and dedication in delivering our strategy in the challenging market conditions. I would also like to express our heartfelt gratitude to our shareholders, customers, suppliers, bankers and business associates for their enduring support throughout the year.

The Group is implementing a number of initiatives and will look for the most effective strategy to achieve its goals and sustainable growth. I look forward to the continuous support from our shareholders.



Kwok Peter Viem
Chairman

Hong Kong, 23 February 2018

Management's Discussion and Analysis

The board of directors (the "Board") of CITIC Resources Holdings Limited (the "Company") presents the 2017 annual results of the Company and its subsidiaries (collectively, the "Group").

Financial Review

Group's financial results:

HK\$'000

Operating results and ratios

	Year ended 31 December		Increase
	2017	2016	
Revenue	3,602,947	2,956,732	21.9%
EBITDA ¹	2,100,417	1,803,719	16.4%
Adjusted EBITDA ²	1,660,669	1,100,244	50.9%
Profit attributable to shareholders	518,315	362,985	42.8%
Adjusted EBITDA coverage ratio ³	4.6 times	3.4 times	
Earnings per share (Basic) ⁴	HK 6.60 cents	HK 4.62 cents	

Financial position and ratios

	31 December		Increase / (decrease)
	2017	2016	
Cash and cash equivalents	1,405,672	1,160,989	21.1%
Total assets *	14,132,916	13,268,749	6.5%
Total debt ⁵	7,000,265	7,552,800	(7.3%)
Net debt ⁶	5,594,593	6,391,811	(12.5%)
Equity attributable to shareholders	6,064,173	4,804,758	26.2%
Current ratio ⁷	3.4 times	1.8 times	
Net debt to net total capital ⁸	48.0%	57.1%	
Net asset value per share ⁹	HK\$0.77	HK\$0.61	

¹ profit before tax + finance costs + depreciation + amortisation + asset impairment losses, net

² EBITDA + (share of finance costs, depreciation, amortisation, income tax expense and non-controlling interests of a joint venture) – share of reversal of asset impairment loss of a joint venture – pre-tax fair value gain on a financial asset at fair value through profit or loss

³ adjusted EBITDA / (finance costs + share of finance costs of a joint venture)

⁴ profit attributable to shareholders / weighted average number of ordinary shares in issue during the year

⁵ bank and other borrowings + finance lease payables

⁶ total debt – cash and cash equivalents

⁷ current assets / current liabilities

⁸ net debt / (net debt + equity attributable to shareholders) x 100%

⁹ equity attributable to shareholders / number of ordinary shares in issue at end of year

* including capital expenditure in respect of exploration, development and mining production activities during the year, totalling HK\$42,240,000 (2016: HK\$44,946,000)

Management's Discussion and Analysis

During the year, oil and commodities prices had a positive effect on the Group's financial performance. All of the Group's segments and investments, except the aluminium smelting segment, recorded profits for the year. The Group's aluminium smelting operation was affected by a power outage in late 2016 and only restored its production capacity to its pre-outage level in 4Q 2017. Notwithstanding the loss from the aluminium smelting segment and a provision for asset impairment of HK\$583.4 million in respect of the Group's oil and gas properties in China, the Group recorded a profit attributable to shareholders of HK\$518.3 million for the year (2016: HK\$363.0 million). The profit attributable to shareholders was primarily attributable to:

- an improvement in operating results of the Group's oil business, including the Karazhanbas oilfield (as defined on page 14) in Kazakhstan, resulting from a higher average crude oil realised price and stringent ongoing cost control;
- a post-tax fair value gain of HK\$287.9 million (2016: HK\$1,045.0 million) and a share of profit of HK\$132.6 million (2016: N/A) in respect of the Group's interest in Alumina Limited ("AWC");
- a write-back of a prior year provision for impairment loss of HK\$550.0 million (after tax expense) (2016: Nil) in respect of the Group's oil and gas properties in Kazakhstan;
- a better contribution from the Group's coal segment attributable to higher average selling price and sales volume of coal despite disruptions caused by inclement weather in 2Q 2017; and
- a share of profit of HK\$47.5 million (2016: a share of loss of HK\$29.6 million) recorded with respect to the Group's interest in CITIC Dameng Holdings Limited ("CDH").

The following is a description of the operating activities in each of the Group's business segments in 2017, with a comparison of their results against those in 2016.

Aluminium smelting

- The Group holds a 22.5% participating interest in the Portland Aluminium Smelter joint venture in Australia. The Portland Aluminium Smelter (the "PAS") sources alumina and produces aluminium ingots.
- Revenue HK\$707.5 million (2016: HK\$858.3 million) ▼ 18%
Segment results a loss of HK\$169.1 million (2016: a profit of HK\$ 3.8 million) N/A

Attributable to reduced output from China, the average selling price of aluminium increased by 24% compared to 2016. However, the increase was not enough to overturn the adverse impact caused to the PAS by the disruptions stemming from the Victorian transmission network power outage on 1 December 2016. Until 4Q 2017, the PAS operated at a much reduced capacity and consequently recorded a significant drop in revenue, gross margin and results when compared to 2016 as sales volume fell by 33% and cost of sales per tonne increased significantly as a result of the reduction in its production capacity.

In January 2017, the Group secured financial support from the State Government of Victoria and the Commonwealth Government of Australia under four year agreements to assist in funding the restart and restoration of the PAS's production capacity and ongoing operations. Details of the matter are set out in the announcements of the Company dated 2 December 2016 and 20 January 2017.

The PAS was restored to pre-outage production capacity in 4Q 2017.

The Group's aluminium smelting business is a net United States dollar ("US\$") denominated asset while certain costs are payable in Australian dollar ("A\$"). Fluctuations between A\$ and US\$ throughout the year caused a net exchange loss of HK\$13.7 million (2016: a net exchange loss of HK\$34.5 million).

Management's Discussion and Analysis

- The pricing mechanism used in the electricity supply agreement signed between the Group and the State Electricity Commission of Victoria, Australia (the "ESA") included a component that was subject to the price of aluminium. In accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the component was considered to be an embedded derivative and revalued at the end of each reporting period during its term and on its expiry, based on future aluminium prices with its fair value gain or loss recognised in the consolidated income statement.

On 31 October 2016, the ESA expired. Therefore, no fair value gain or loss arising from the revaluation was recorded for the year (2016: a realised fair value gain of HK\$35.1 million was recorded in "Other income and gains" in the consolidated income statement).

The revaluation of the embedded derivative had no cash flow consequences for the Group's operations but the movement in valuation (if any) introduced volatility into the consolidated income statement.

- On 1 March 2010, a base load electricity contract was signed between the Group and an independent electricity supplier (the "EHA1"). The EHA1 effectively allowed the PAS to hedge the spot price for electricity for a specific load from 1 November 2016 to 31 December 2036. The counterparties to the Group under the EHA1 were subsidiaries of AGL Energy Limited ("AGL"), an integrated renewable energy company listed on the Australian Securities Exchange (the "ASX") (Stock Code: AGL).

On 12 August 2016, as the hedged price agreed under the EHA1 was considerably higher than the then prevailing spot price of electricity resulting in higher cost of sales and hardship, the Group served a notice to terminate the EHA1 effective August 2017. Details of the matter are set out in the announcement of the Company dated 7 November 2016.

In accordance with HKFRSs, the EHA1 was considered to be a derivative financial instrument and revalued at the end of each reporting period during its term and on its expiry, based on forward market prices of electricity with its fair value gain or loss recognised in the consolidated statement of comprehensive income. However, since the date notice of termination of the EHA1 was served (the "Notice Date"), the EHA1 no longer qualified for hedge accounting and its fair value gain or loss was recognised in the consolidated income statement instead.

On 31 July 2017, the EHA1 terminated resulting in a realised fair value loss of HK\$54.1 million recorded in "Other expenses, net" (2016: an unrealised fair value gain of HK\$54.1 million recorded in "Other income and gains", being the net fair value change of the EHA1 from the Notice Date to 31 December 2016) in the consolidated income statement.

The revaluation of the derivative financial instrument had no cash flow consequences for the Group's operations but the movement in valuation (if any) introduced volatility into the consolidated income statement.

- In January 2017, the Group entered into a new hedging agreement with several subsidiaries of AGL in relation to the supply of electricity effective from 1 August 2017 to 31 July 2021 (the "EHA2"). Details of the matter are set out in the announcement of the Company dated 20 January 2017.

In accordance with HKFRSs, the EHA2 is considered to be a derivative financial instrument and revalued at the end of each reporting period during its term and on its expiry, based on forward market prices of electricity with its fair value gain or loss recognised in the consolidated statement of comprehensive income.

- At the end of 2016, as the performance of the PAS was expected to be affected until pre-outage production capacity was restored, an impairment of HK\$226.2 million (before tax credit) was provided in respect of the plant, machinery and equipment of the PAS and charged to "Provision for impairment of items of property, plant and equipment" in the consolidated income statement.

Management's Discussion and Analysis

Coal

- The Group holds a 14% participating interest in the Coppabella and Moorvale coal mines joint venture (the "CMJV") and interests in a number of coal exploration operations in Australia. The CMJV is a major producer of low volatile pulverized coal injection coal in the international seaborne market.
- | | | | |
|-----------------|-------------------|---------------------------|--------|
| Revenue | HK\$828.6 million | (2016: HK\$514.9 million) | ▲ 61% |
| Segment results | HK\$ 92.0 million | (2016: HK\$ 29.1 million) | ▲ 216% |

Despite a significant reduction in production and sales of the CMJV due to inclement weather in 2Q 2017, sales volume increased by 12% when compared to 2016. Together with a 44% increase in the average selling price of coal driven by reduced output from China, the segment recorded a substantial improvement in revenue, gross margin and results during the year.

Cost of sales per tonne increased by 21% during the year compared to 2016 mainly due to cleaning up cost resulting from inclement weather in 2Q 2017 and higher royalty fee payable in respect of increased selling prices.

The Group's coal business is a net US\$ denominated asset while most of its costs are payable in A\$. Fluctuations between A\$ and US\$ throughout the year caused a net exchange loss of HK\$30.3 million (2016: a net exchange gain of HK\$8.1 million).

- At the end of the year, an impairment of HK\$27.4 million (before tax credit) was provided in respect of other receivables which were considered potentially unrecoverable and charged to "Other expenses, net" in the consolidated income statement.
- In 2016, the Group disposed of its interests in certain coal tenements. As a result, a pre-tax gain on disposal of other assets of HK\$49.7 million was credited to "Other income and gains" in the consolidated income statement. Details of the transactions are set out in the announcement of the Company dated 9 May 2016.

Import and export of commodities

- Exported products include aluminium ingots, coal, iron ore, alumina and copper sourced from Australia and other countries for trade into China and other Asian countries. Imported products include steel, and vehicle and industrial batteries and tyres from China and other countries into Australia.
- | | | | |
|-----------------|-------------------|---------------------------|--------|
| Revenue | HK\$978.7 million | (2016: HK\$697.3 million) | ▲ 40% |
| Segment results | HK\$ 42.1 million | (2016: HK\$ 6.9 million) | ▲ 510% |

Attributable to an increase in sales volume, the segment recorded an improvement in revenue and results when compared to 2016, despite difficult market and operating conditions for the segment during the year.

The Group's import and export of commodities business is a net US\$ denominated asset while certain costs are payable in A\$. Fluctuations between A\$ and US\$ throughout the year caused a net exchange gain of HK\$5.7 million (2016: a net exchange loss of HK\$7.2 million).

Management's Discussion and Analysis

- In 2014, the Chinese authorities commenced an investigation into the allegedly fraudulent multiple use of warehouse receipts in respect of certain aluminium and copper products stored at Qingdao port, China (the "**Investigation**"). Although the Group is not involved in the Investigation, the Investigation has had significant adverse impact on the Group's export business since 2H 2014.
- The Group has certain alumina and copper stored in bonded warehouses at Qingdao port (the "**Inventories**"), with a gross carrying amount of HK\$979.2 million. In light of the Investigation, the Group applied to the Qingdao Maritime Court (the "**Qingdao Court**") in June 2014 for asset protection orders in respect of the Inventories. The Group also claimed against the operator of the bonded warehouses at Qingdao port and related parties (the "**Claim**"). Details of the Claim are set out in the announcements of the Company dated 9 June 2014, 17 June 2014 and 7 July 2014.

Pursuant to the decisions of the Qingdao Court in September 2016, the Claim was transferred to the Southern Branch of the Qingdao Public Security Bureau (the "**Public Security Bureau**") for determination in accordance with China's criminal procedures. As a result, the Claim terminated. Details of the judgment of the Qingdao Court are set out in the announcement of the Company dated 28 October 2016.

At the end of 2014, 2015 and 2016, provisions of HK\$319.8 million, HK\$389.7 million and HK\$89.4 million (each before tax credit) were made respectively in respect of the Inventories, representing a full provision on all the alumina of HK\$579.3 million and a partial provision on copper of HK\$219.6 million. These provisions were charged to "Provision for impairment of inventories" in the consolidated income statement. As at 31 December 2016, the net carrying amount of the remaining copper inventory (the "**Remaining Copper**") was HK\$180.3 million.

Since February 2017, following the lifting of the Shanxi APO (as defined below) by 山西省高級人民法院 (the Shanxi High People's Court) (the "**Shanxi Court**"), the Group has been in discussions with relevant parties and working to recover the Remaining Copper.

The Group remains confident in being able to recover the Remaining Copper having considered the evidence in hand, the progress of the recovery and the advice from its legal counsels. Therefore, no further provision was considered necessary for the year (2016: HK\$89.4 million (before tax credit)). As at 31 December 2017, the net carrying amount of the Remaining Copper remained HK\$180.3 million.

- In August 2014, 山煤煤炭進出口有限公司 (Shanxi Coal Import & Export Co., Ltd.) ("**Shanxi Coal I/E**"), a wholly-owned subsidiary of 山煤國際能源集團股份有限公司 (Shanxi Coal International Energy Group Co., Ltd.), commenced a claim in the Shanxi Court against, amongst others, CITIC Australia Commodity Trading Pty Limited ("**CACT**"), an indirect wholly-owned subsidiary of the Company ("**Shanxi Claim A**"). In connection with Shanxi Claim A, Shanxi Coal I/E obtained an asset protection order from the Shanxi Court over a certain quantity of the Inventories (the "**Shanxi APO**"). Details of Shanxi Claim A are set out in the announcements of the Company dated 27 August 2014 and 9 September 2015.

In January 2017, pursuant to a civil ruling of the Shanxi Court, Shanxi Claim A was transferred to the Public Security Bureau for determination in accordance with China's criminal procedures. As a result, Shanxi Claim A terminated and Shanxi Coal I/E had no further recourse or rights against CACT in respect of Shanxi Claim A. Details of the ruling of the Shanxi Court are set out in the announcement of the Company dated 19 January 2017.

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

Management's Discussion and Analysis

- In 2H 2015, CACT received an arbitration request notice from the International Court of Arbitration of the International Chamber of Commerce (the "ICC") in respect of an arbitration application by Shanxi Coal I/E ("Shanxi Claim B"). Details of Shanxi Claim B are set out in the announcement of the Company dated 21 December 2015.

In November 2016, a hearing was held in Singapore to determine the jurisdiction of Shanxi Claim B. Pursuant to the final award of the ICC of 28 September 2017, the ICC determined that it did not have jurisdiction over CACT and Shanxi Coal I/E for the purposes of arbitrating Shanxi Claim B. Details of the final award of ICC are set out in the announcement of the Company dated 12 October 2017.

Crude oil (the Seram Island Non-Bula Block, Indonesia)

- CITIC Seram Energy Limited ("CITIC Seram"), an indirect wholly-owned subsidiary of the Company, owns a 51% participating interest in the production sharing contract which grants the right to explore, develop and produce petroleum from the Seram Island Non-Bula Block, Indonesia (the "Seram Block") until October 2019 (the "PSC"). CITIC Seram is the operator of the Seram Block.

As at 31 December 2017, the Seram Block had estimated proved oil reserves of 1.1 million barrels (2016: 2.9 million barrels) as determined in accordance with the standards of the Petroleum Resources Management System (the "PRMS").

- For the year, the segment results of CITIC Seram recorded a profit of HK\$30.0 million (2016: a loss of HK\$75.4 million), a turnaround in results. The following table shows a comparison of the performance of the Seram Block for the years stated:

		2017 (51%)	2016 (51%)	Change
Average benchmark Mean of Platts Singapore (MOPS):				
Platts HSFO 180 CST Singapore	(US\$ per barrel)	50.8	36.4	▲ 40%
Average crude oil realised price	(US\$ per barrel)	43.9	34.2	▲ 28%
Sales volume	(barrels)	491,000	676,000	▼ 27%
Revenue	(HK\$ million)	168.1	180.3	▼ 7%
Total production	(barrels)	495,000	665,000	▼ 25%
Daily production	(barrels)	1,360	1,820	▼ 25%

Although the average crude oil realised price increased by 28%, sales volume decreased by 27% resulting in a 7% decrease in revenue when compared to 2016. Production decreased by 25% compared to 2016, due to the continuing natural decline of existing wells and as no new development wells have been drilled in the Seram Block since 2016 under current cost control programs.

The turnaround in segment results was attributable to a substantial decrease in cost of sales. Cost of sales per barrel decreased by 35% as compared to 2016, of which (a) direct operating costs per barrel decreased by 4% attributable to continuous cost saving efforts; and (b) depreciation, depletion and amortisation per barrel decreased by 46% attributable to the low carrying amount of oil and gas properties of CITIC Seram as it approaches the expiry of the PSC.

Management's Discussion and Analysis

- A tax regulation in Indonesia, effective in 1H 2015, limited value added tax (“VAT”) reimbursements to equity oil distributed to the government under the PSC. At the end of 2015, as it was uncertain whether any equity oil would be available for distribution to the government prior to the expiry of the PSC, an impairment of other receivables of HK\$105.7 million was made in respect of the potentially unrecoverable VAT reimbursement and charged to “Other expenses, net” in the consolidated income statement.

Following an amendment to this tax regulation in October 2016, VAT reimbursements can now be claimed after each delivery of the first tranche production to the government. Accordingly, a reversal of impairment of other receivables of HK\$24.1 million was made during the year and credited to “Other income and gains” in the consolidated income statement.

- At the end of the year, an impairment of HK\$26.4 million (before tax credit) was provided in respect of other receivables which were considered potentially unrecoverable and charged to “Other expenses, net” in the consolidated income statement.
- At the end of 2016, an impairment of HK\$36.3 million was provided in respect of the obsolete and slow-moving raw materials and charged to “Provision for impairment of inventories” in the consolidated income statement.
- Despite a substantial improvement in oil prices during the year compared to 2016, current oil prices remain a challenge for CITIC Seram. CITIC Seram will continue to carry out necessary maintenance works to enhance sustainability of existing wells of the Seram Block and conduct its cost control programs.
- The Lofin area has been plugged and abandoned since 2H 2015 and any development program relating to it will be determined if the PSC is renewed with the Indonesian government.
- In August 2017, Kuwait Foreign Petroleum Exploration Company (“KUFPEC”), which owns a 30% participating interest in the PSC, filed a claim in the Supreme Court of Queensland (the “Queensland Court”) against CITIC Seram for US\$1.6 million (HK\$12.3 million) in respect of certain expenditure alleged by KUFPEC as unauthorised under the PSC. In December 2017, CITIC Seram filed its defence with the Queensland Court and in January 2018, KUFPEC filed its reply to the Queensland Court. Up to the date of this report, no hearing has been held.
- On 7 February 2018, CITIC Seram entered into an agreement to sell all of its rights, interests and obligations in respect of a 10% participating interest (the “Sale Interest”) in the PSC to an independent third party (the “Buyer”). The purchase price payable by the Buyer for the Sale Interest is, subject to adjustment, US\$3.8 million (HK\$29.6 million). Completion of the sale of the Sale Interest is subject to certain conditions including applicable governmental approvals and the requisite approval of other participants in the PSC. Assuming completion of the sale of the Sale Interest, CITIC Seram will retain a 41% participating interest in the PSC. Up to the date of this report, the transaction has not completed. Details of the transaction are set out in the announcement of the Company dated 7 February 2018.

Management's Discussion and Analysis

Crude oil (the Hainan-Yuedong Block, China)

- CITIC Haiyue Energy Limited ("**CITIC Haiyue**"), an indirect wholly-owned subsidiary of the Company, owns a 90% interest in Tincy Group Energy Resources Limited ("**Tincy Group**").

Pursuant to a petroleum contract entered into with China National Petroleum Corporation ("**CNPC**") in February 2004, as supplemented by an agreement signed in May 2010, Tincy Group holds the right to explore, develop and produce petroleum from the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, China (the "**Hainan-Yuedong Block**") until 2034. Tincy Group is the operator of the Hainan-Yuedong Block in cooperation with CNPC.

As at 31 December 2017, the Yuedong oilfield (the "**Yuedong oilfield**"), the principal field within the Hainan-Yuedong Block, had estimated proved oil reserves of 30.2 million barrels (2016: 19.2 million barrels) as determined in accordance with the standards of the PRMS.

- For the year, the segment results of CITIC Haiyue recorded a profit of HK\$247.9 million (2016: a loss of HK\$191.3 million), a turnaround in results. The following table shows a comparison of the performance of the Yuedong oilfield for the years stated:

		2017 (Tincy Group's share)	2016	Change
Average benchmark quote:				
Platts Dubai crude oil	(US\$ per barrel)	53.2	41.3	▲ 29%
Average crude oil realised price	(US\$ per barrel)	54.0	43.2	▲ 25%
Sales volume	(barrels)	2,190,000	2,106,000	▲ 4%
Revenue	(HK\$ million)	920.0	706.0	▲ 30%
Total production	(barrels)	2,173,000	2,194,000	▼ 1%
Daily production	(barrels)	5,950	5,990	▼ 1%

There was a 30% increase in revenue when compared to 2016 as a result of a 25% increase in the average crude oil realised price and a 4% increase in sales volume. By developing new technologies, Tincy Group was able to maintain a production level comparable to 2016. Production would have otherwise decreased considerably due to the continuing natural decline of existing wells and as no new production wells have been drilled in the Yuedong oilfield since 2016 under current cost control programs.

The turnaround in segment results was attributable to a substantial decrease in cost of sales. Cost of sales per barrel decreased by 27% as compared to 2016, of which (a) direct operating costs per barrel decreased by 4% attributable to slight devaluation (in average) of Renminbi ("**RMB**") which is the functional currency of Tincy Group's financial statements; and (b) depreciation, depletion and amortisation per barrel decreased by 39% as a result of an upward revision of estimated proved oil reserves.

- At the end of the year, following the release of a lower probable and possible oil reserves estimate by an independent oil and gas consulting firm for the Yuedong oilfield, an impairment loss of HK\$583.4 million (before tax credit) was provided in respect of certain oil and gas properties of Tincy Group and charged to "Provision for impairment of items of property, plant and equipment" in the consolidated income statement.
- Since 2015, Tincy Group has been utilising thermal recovery on a more extensive scale within the Yuedong oilfield.

Tincy Group is actively prospecting potential exploration areas within the Bohai Bay Basin with the objective of increasing oil reserves.

Management's Discussion and Analysis

- Despite a substantial improvement in oil prices during the year compared to 2016, current oil prices remain a challenge for Tincy Group. While Tincy Group will continue to carry out necessary repairs and maintenance works to maintain the production level of existing wells of the Yuedong oilfield and conduct its cost control programs, it will also endeavour in promoting application of new technologies to improve productivity in the Yuedong oilfield and plans to add new wells under a managed drilling program.
- During the year, 勝利油田科爾工程建設有限公司 (Shengli Oilfield KEER Engineering and Construction Co., Ltd.) ("**Shengli KEER**") commenced a legal claim in the Dalian Maritime Court (the "**Dalian Court**") against Tincy Group (the "**Shengli Oilfield Claim**"). Pursuant to the Shengli Oilfield Claim, Shengli KEER is seeking compensation from Tincy Group of RMB29.5 million (HK\$35.5 million) for, among other things, standby costs and expenses of labour and equipment, work slowdown losses, staying expenses and losses for overtime construction and loss of profits plus interest in respect of work it was sub-contracted to perform at the Yuedong oilfield. Details of the Shengli Oilfield Claim are set out in the announcement of the Company dated 29 March 2017.

In July 2017, Shengli KEER applied to the Dalian Court to increase the compensation to RMB30.9 million (HK\$37.1 million). Court hearings in respect of the Shengli Oilfield Claim were held in 2H 2017 to determine any contractual relationship between Tincy Group and Shengli KEER, any rights and obligations thereunder and whether the Shengli Oilfield Claim had already lapsed. Up to the date of this report, no decision has been issued by the Dalian Court.

Manganese

- The Group has an interest in manganese mining and production through its 34.39% equity interest in CDH, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (Stock Code: 1091). CDH is an associate of the Group and the Group is the single largest shareholder of CDH.
- CDH owns a 100% interest in the Daxin manganese mine, the Tiandeng manganese mine and the Waifu manganese mine in Guangxi Province, China; a 64% interest in the Changgou manganese mine in Guizhou Province, China; and a 51% interest in the Bembélé manganese mine in Gabon, West Africa. CDH is one of the largest vertically integrated manganese producers in the world, engaged in the production and sale of manganese products at various stages of the production chain.

Since July 2015, following the acquisition of a 29.81% interest in China Polymetallic Mining Limited ("**CPM**"), a company listed on the Main Board of the Stock Exchange (Stock Code: 2133), CDH has diversified its investment into the non-ferrous metal sector, changing itself from a pure manganese producer to an integrated mineral producer.

During the year, CDH's equity interest in CPM was diluted from 29.81% to 24.84% following the issue of new shares by CPM and subsequently increased to 29.99% following the completion of a rights issue by CPM. As a result of such changes in its shareholding in CPM, CDH recorded a gain on increase of interest in an associate of HK\$9.3 million, of which the Group's share was HK\$3.2 million.

- Share of profit of an associate HK\$47.5 million (2016: a loss of HK\$29.6 million) N/A

The Group recorded a share of profit for the year with respect to its interest in CDH. Driven by stronger demand from a re-energised steel sector during the year, the average selling prices and sales volumes of major manganese products increased when compared to 2016. As a result, CDH achieved a turnaround in its results.

Detailed financial results of CDH are available on the websites of the Stock Exchange and CDH at <http://www.hkexnews.hk> and <http://www.dameng.citic.com> respectively.

Management's Discussion and Analysis

Bauxite mining and alumina refining

- The Group has an interest in a world-class global portfolio of upstream mining and refining operations in the aluminium sector through its 9.6846% equity interest in AWC, a leading Australian company listed on the ASX (Stock Code: AWC). Other subsidiaries of CITIC Limited have a total 9.3775% equity interest in AWC.

AWC has significant global interests in bauxite mining, alumina refining and selected aluminium smelting operations through its 40% ownership of the Alcoa World Alumina and Chemicals joint venture, the world's largest alumina producer.

- Between 31 December 2014 and 29 June 2017 inclusive, the Group's equity interest in AWC was classified as a financial asset at fair value through profit or loss. It was measured at its fair value based on the closing price of AWC shares as at the end of each reporting period with changes in fair value recognised in the consolidated income statement.

During the same period, the Group increased its equity interest in AWC from 8.5482% to 9.6846%. Together with other subsidiaries of CITIC Limited, the total equity interest in AWC increased from 13.7656% to 19.0621%. Effective 30 June 2017, the voting rights of AWC shares owned by the other subsidiaries of CITIC Limited have been duly assigned to the Group. The Group reassessed and concluded that significant influence over AWC has been demonstrated by the Group effective 30 June 2017. Consequently, the investment was reclassified as an investment in an associate on 30 June 2017 and its carrying amount as at 30 June 2017 was its fair value as at the close of business on 29 June 2017.

- At the close of business on 29 June 2017 and prior to the reclassification mentioned above, attributable to a higher closing price of AWC shares as compared to that at the end of 2016 and an appreciation of A\$, a pre-tax fair value gain of HK\$411.3 million (2016: HK\$1,045.0 million) was recorded in "Other income and gains" in the consolidated income statement in respect of the Group's interest in AWC. The post-tax effect of the fair value gain to the consolidated income statement was HK\$287.9 million (2016: HK\$1,045.0 million).

During the year, the Group received a dividend of HK\$67.4 million prior to the reclassification (2016: HK\$102.2 million) from AWC. The dividend income was credited to "Other income and gains" in the consolidated income statement.

- As a result of the reclassification mentioned above, effective 30 June 2017, the Group accounts for its share of profit or loss in AWC using the equity method.

Share of profit of an associate HK\$132.6 million (2016: N/A)

Detailed financial results of AWC are available on its website at <http://www.aluminalimited.com> .

Management's Discussion and Analysis

Crude oil (the Karazhanbas oilfield, Kazakhstan)

- CITIC Oil & Gas Holdings Limited, an indirect wholly-owned subsidiary of the Company, and JSC KazMunaiGas Exploration Production, through CITIC Canada Energy Limited ("CCEL"), jointly own, manage and operate JSC Karazhanbasmunai ("KBM"). Effectively, the Group owns 50% of the issued voting shares of KBM (which represents 47.31% of the total issued shares of KBM).

KBM is engaged in the development, production and sale of oil and holds the right to explore, develop, produce and sell oil from the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan (the "Karazhanbas oilfield") until 2035.

As at 31 December 2017, the Karazhanbas oilfield had estimated proved oil reserves of 209.1 million barrels (2016: 241.3 million barrels) as determined in accordance with the standards of the PRMS.

- Share of profit of a joint venture HK\$772.5 million (2016: HK\$210.9 million) ▲ 266%

The following table shows a comparison of the performance of the Karazhanbas oilfield for the years stated:

		2017 (50%)	2016 (50%)	Change
Average benchmark end-market quotes:				
Urals Mediterranean crude oil	(US\$ per barrel)	53.3	42.0	▲ 27%
Dated Brent crude oil	(US\$ per barrel)	54.1	43.3	▲ 25%
Average crude oil realised price	(US\$ per barrel)	50.7	39.0	▲ 30%
Sales volume	(barrels)	6,793,000	7,136,000	▼ 5%
Revenue	(HK\$ million)	2,685.7	2,158.9	▲ 24%
Total production	(barrels)	7,151,000	7,104,000	▲ 1%
Daily production	(barrels)	19,600	19,400	▲ 1%

Although sales volume decreased by 5%, CCEL was able to record a 24% increase in revenue when compared to 2016 as a result of a 30% increase in the average crude oil realised price. Production was comparable to 2016.

In CCEL's consolidated income statement, "Cost of sales" includes mineral extraction tax ("MET") while "Selling and distribution costs" includes export duty and rent tax. Different progressive rates are applied in respect of these taxes. The applicable rate of MET is determined by reference to production volume whereas the applicable rate of export duty and rent tax is determined by reference to average oil prices.

MET is charged on production volume on a quarterly basis at rates per tonne by reference to the average oil price for the quarter. Export duty is charged on export volume on a monthly basis at rates per tonne by reference to the average oil price for the month. Rent tax is charged on export revenue on a quarterly basis at rates per US\$ amount by reference to the average oil price for the quarter.

Management's Discussion and Analysis

Cost of sales per barrel increased by 6% as compared to 2016, of which (a) direct operating costs per barrel increased by 7%, mainly due to an appreciation of Kazakhstan Tenge (“**KZT**”) which is the functional currency of KBM’s financial statements; and (b) depreciation, depletion and amortisation per barrel increased by 5% as a result of lower sales volume. The average exchange rate of US\$1 against KZT in the year was 326.30 (2016: 341.82).

Selling and distribution costs per barrel increased by 28% compared to 2016. As export duty and rent tax are charged at progressive rates which are determined by reference to average oil prices, export duty per barrel and rent tax per barrel increased by 22% and 145% respectively following the increases in average oil prices.

- Previously, KBM was committed to selling certain amounts of crude oil to a bitumen plant in Kazakhstan (the “**Plant**”) to support production of bitumen. Crude oil sold to the Plant was charged at prices much lower than international prices.

During the year, KBM entered into an agreement with the government authorities in Kazakhstan pursuant to which KBM is, instead, allowed to deliver crude oil to the Plant for production of bitumen and paying a refining fee to the Plant. After refining, the bitumen together with residual crude oil is taken back and sold by KBM. The residual crude oil can be sold in international markets. As a result, KBM is able to significantly increase its export sales volume going forward and hence, significantly increase its revenue, operating results and cash flows. Accordingly, at the end of the year, a write-back of a prior year provision for impairment loss was made in respect of certain oil and gas properties of KBM and credited to “Reversal of impairment of items of property, plant and equipment” in CCEL’s consolidated income statement. The Group’s share was HK\$550.0 million (after tax expense) and the amount was credited to “Share of profit of a joint venture” in the consolidated income statement.

- In 2014, the Kazakhstan tax authorities (the “**Tax Authorities**”) completed a tax inspection on KBM in respect of transfer pricing for the five years from 2008 to 2012 and issued a tax assessment on KBM. In 2015, the Group made a full provision for its share. In 2016, the final appeal by KBM was concluded and the tax assessment on KBM was cancelled. Accordingly, the Group wrote back the provision made previously, being HK\$167.3 million.
- In 2014, the Tax Authorities completed an integrated tax inspection on KBM for the four years from 2009 to 2012. As a result, the Tax Authorities issued a tax assessment on KBM and the Group’s share was HK\$49.9 million. KBM made a provision for part of the tax assessment and the Group’s share was HK\$7.0 million. In 2015, KBM made a further provision in respect of the tax assessment and the Group’s share was HK\$23.0 million. In 2016, the Tax authorities issued a revised tax assessment with a reduced amount.

Based on the advice from KBM’s legal counsel, KBM has justifiable arguments for its tax position. Though KBM has failed in a couple of appeals in 2016 and during the year, it is still considering making a final appeal.

Management's Discussion and Analysis

Liquidity, Financial Resources and Capital Structure

Cash

As at 31 December 2017, the Group had cash and cash equivalents of HK\$1,405.7 million.

During the year, the Group entered into two term loan facilities, the D Loan (as defined below) and the E Loan (as defined on page 17). Drawdowns of US\$540 million (HK\$4,212 million) were made thereunder, mainly to repay the A Loan and the B Loan (each as defined below). The repayments of the term loans during the year amounted to US\$530 million (HK\$4,134 million).

During the year, the Company declared and paid a final dividend of HK 1.50 cents per ordinary share for the year ended 31 December 2016, totalling HK\$117.9 million.

Borrowings

As at 31 December 2017, the Group had total debt of HK\$7,000.3 million, which comprised:

- unsecured bank borrowings of HK\$3,088.3 million;
- unsecured other borrowing of HK\$3,900.0 million; and
- finance lease payables of HK\$12.0 million.

Most of the transactions of the Group's import and export of commodities business are debt funded. However, in contrast to term loans, these borrowings are self liquidating, transaction specific and of short durations, and matching the terms of the underlying transaction. When sale proceeds are received at the completion of a transaction, the related borrowings are repaid accordingly.

In September 2012, the Company entered into a facility agreement with a bank in respect of an unsecured 5-year term loan facility of US\$40 million (HK\$312 million) (the "**A Loan**"). The A Loan was fully prepaid by instalments during the year, with the final instalment in May 2017 using the proceeds of the D Loan (as defined below).

In June 2015, the Company entered into a facility agreement with a syndicate of financial institutions in respect of an unsecured term loan facility of US\$490 million (HK\$3,822 million) (the "**B Loan**"). The B Loan had two tranches, Tranche A and Tranche B, in the respective amounts of US\$380 million (HK\$2,964 million) and US\$110 million (HK\$858 million). Tranche A and Tranche B had a tenor of three years commencing from 29 June and 31 December 2015 respectively. The B Loan was fully prepaid in June 2017 using the proceeds of the E Loan.

In December 2016, the Company entered into a facility agreement with a syndicate of financial institutions in respect of an unsecured term loan facility of US\$310 million (HK\$2,418 million) (the "**C Loan**") to finance the repayment of an unsecured term loan facility of US\$310 million entered into by the Company in March 2014. The C Loan has a tenor of three years commencing from 30 December 2016. The outstanding balance of the C Loan as at 31 December 2017 was US\$310 million.

In May 2017, the Company entered into a facility agreement with a bank in respect of an unsecured 3-year term loan facility of US\$40 million (HK\$312 million) (the "**D Loan**") to finance the repayment of the then outstanding balance of the A Loan and the general corporate funding requirements of the Company. The outstanding balance of the D Loan as at 31 December 2017 was US\$40 million.

Management's Discussion and Analysis

In June 2017, a wholly-owned subsidiary of the Company entered into a facility agreement with a subsidiary of CITIC Limited (a substantial shareholder of the Company) in respect of an unsecured term loan facility of US\$500 million (HK\$3,900 million) (the "E Loan"). The proceeds of the E Loan were used to finance the repayment of the B Loan and the general corporate funding requirements of the Company. The E Loan has a tenor of five years commencing from 29 June 2017. The outstanding balance of the E Loan as at 31 December 2017 was US\$500 million.

Further details of the bank and other borrowings are set out in note 30 to the financial statements.

The Group leases certain plant and machinery for its coal mine operations. The lease is classified as a finance lease. Further details of the finance lease payables are set out in note 31 to the financial statements.

As at 31 December 2017, the Group's net debt to net total capital was 48.0% (2016: 57.1%). Of the total debt, HK\$395.2 million was repayable within one year, including short-term revolvers, trade finance and finance lease payables.

Share capital

There was no movement in the share capital of the Company during the year.

Financial risk management

The Group's diversified business is exposed to a variety of risks, such as market risks (including foreign currency risk, price risk, interest rate risk and inflation risk), credit risk and liquidity risk. The management of such risks is dictated by a set of internal policies and procedures designed to minimise potential adverse effects to the Group. The policies and procedures have proved effective.

The Group enters into derivative transactions, including principally forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivatives and electricity hedge agreements. Their purpose is to manage the foreign currency risk, price risk, interest rate risk and inflation risk arising from the Group's operations and sources of finance.

Further details of the financial risk management objectives and policies are set out in note 44 to the financial statements.

New investment

There was no new investment concluded during the year.

Opinion

The Board is of the opinion that, after taking into account the existing available borrowing facilities and internal resources, the Group has sufficient resources to meet its foreseeable working capital requirements.

Management's Discussion and Analysis

Employees and Remuneration Policies

As at 31 December 2017, the Group had around 310 full time employees, including management and administrative staff.

The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance. Rent-free quarters are provided to some employees in Indonesia.

The employees of the Group's subsidiaries which operate in China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The Group operates the following contribution retirement benefit schemes for its employees:

- (a) a defined scheme under the Government Law No.13/2003 of Indonesia for those employees in Indonesia who are eligible to participate;
- (b) a defined scheme under the superannuation legislation of Australia for those employees in Australia who are eligible to participate; and
- (c) a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate.

Contributions are made based on a percentage of the employees' basic salaries. The assets of the above schemes are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into these schemes.

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible persons.

Board of Directors and Senior Management

Directors

Mr. Kwok Peter Viem	<i>Chairman and Executive Director</i>
Mr. Suo Zhengang	<i>Vice Chairman, Executive Director and Chief Executive Officer</i>
Mr. Sun Yang	<i>Vice Chairman and Executive Director</i>
Ms. Li So Mui	<i>Executive Director</i>
Mr. Chan Kin	<i>Non-executive Director</i>
Mr. Ma Ting Hung	<i>Non-executive Director</i>
Mr. Fan Ren Da, Anthony	<i>Independent Non-executive Director</i>
Mr. Gao Pei Ji	<i>Independent Non-executive Director</i>
Mr. Look Andrew	<i>Independent Non-executive Director</i>

Directors – Biographies

Mr. Kwok Peter Viem, aged 69, joined in 2013 as an executive director and the Chairman of the Company, having previously held the same positions between 2000 and 2007. He is the chairman of the nomination committee of the Company (he was a member between 2006 and 2007) and a member of the risk management committee of the Company. He is also a director of several subsidiaries of the Company. He is responsible for the strategic planning and corporate development of the Group. Mr. Kwok holds a Bachelor of Arts Degree in Commerce from National Taiwan University, a Master of Philosophy Degree in Management Studies from The University of Hong Kong and a Doctoral Degree in Finance from University of California, Berkeley. Mr. Kwok ceased to act as a director of Cathay Financial Holding Co., Ltd. listed on the Taiwan Stock Exchange (Stock Code: 2882) in February 2018. Mr. Kwok held senior positions with various international financial institutions and has over 41 years' experience in banking and corporate finance.

Mr. Suo Zhengang, aged 55, joined in 2015 as an executive director, a Vice Chairman and the Chief Executive Officer of the Company. He is a member of the remuneration committee and the risk management committee of the Company. He is also a director of several subsidiaries of the Company. He is responsible for the strategic and corporate development, management and operations of the Group. Mr. Suo holds a Bachelor of Science Degree in Mechanical Engineering from North China University of Technology and was granted the title of senior economist by CITIC Senior Specialised Technique Qualification Evaluation Committee. He is a director of several subsidiaries of CITIC Limited, including Keentech Group Limited. Mr. Suo has held various positions in several subsidiaries of 中國中信集團有限公司 (CITIC Group Corporation) ("**CITIC Group**") since 1988. He is a non-executive director of CDH listed on the Main Board of the Stock Exchange (Stock Code: 1091). Mr. Suo has over 28 years' experience in business operations and development, and project investments. He has experience in the natural resources industry.

Mr. Sun Yang, aged 51, joined in 2014 as an executive director and a Vice Chairman of the Company. He is also a director of several subsidiaries of the Company. He is responsible for the strategic and corporate development, management and operations of the Group. Mr. Sun holds a Master's Degree in Management from Renmin University of China. He is the President of CITIC Kazakhstan LLP, an independent director of JSC AB Bank of China Kazakhstan and a director of KBM. Mr. Sun has held senior positions in several subsidiaries of CITIC Group since 1995. Mr. Sun has over 11 years' experience in the oil and gas industry.

Ms. Li So Mui, aged 63, joined in 2000 as an executive director of the Company. She was the Company Secretary of the Company between August 2000 and March 2015. She is also a director of several subsidiaries of the Company. She is responsible for the financial management of the Group. Ms. Li holds a Master's Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. Ms. Li has over 40 years' experience in the accounting and banking field.

Board of Directors and Senior Management

Mr. Chan Kin, aged 51, joined in 2017 as a non-executive director of the Company. Mr. Chan holds an AB Degree from Princeton University and a Master's Degree in Business Administration from the Wharton School of University of Pennsylvania where he was a Palmer Scholar. He is the founder, a partner and chief investment officer of Argyle Street Management Limited ("**ASM Limited**"). He is the chairman and a deemed executive non independent director of TIH Limited (Stock Code: T55) and a non-executive director of OUE Limited (Stock Code: LJ3), both companies listed on the Singapore Exchange (the "**SGX**"). He is also a non-executive director of The ONE Group Hospitality, Inc. (Stock Code: STKS), a company listed on the Nasdaq Stock Market. Mr. Chan ceased to act as the chairman and a non-executive director of Golden Energy and Resources Limited (formerly known as United Fiber System Limited) (Stock Code: AUE), a company listed on the SGX, from April 2015, as a non-executive director of Asia Resource Minerals Plc (Stock Code: ARMS), a company formerly listed on the London Stock Exchange, from August 2015 and as a non-executive director of Mount Gibson Iron Limited (Stock Code: MGX), a company listed on the ASX, from January 2018. Mr. Chan is a responsible officer of ASM Limited and is licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry on Type 4 (Advising on Securities) and Type 9 (Asset Management) regulated activity. He is also a licensed representative in Singapore for TIH Investment Management Pte Ltd. Mr. Chan has over 29 years' experience in international capital markets, investment banking, corporate advisory and major transactions, particularly in Asia.

Mr. Ma Ting Hung, aged 54, joined in 2015 as a non-executive director of the Company, having previously held the same position between 2007 and 2009. He is a member of the risk management committee of the Company. He was an executive director and a Vice Chairman of the Company between 2000 and 2007, the Chief Executive Officer of the Company between 2000 and 2005 and a member of the remuneration committee of the Company between 2006 and 2007. Mr. Ma holds a Bachelor of Arts Degree majoring in Economics from the University of Southern California. He is the Chairman of VCREDIT Holdings Limited. Mr. Ma has over 29 years' experience in banking, finance and natural resources industry.

Mr. Fan Ren Da, Anthony, aged 57, joined in 2000 as an independent non-executive director of the Company. He is the chairman of the audit committee of the Company and a member of the remuneration committee, nomination committee and the risk management committee of the Company. Mr. Fan holds a Master's Degree in Business Administration from the United States of America. He is the chairman and managing director of AsiaLink Capital Limited. He is also an independent non-executive director of Uni-President China Holdings Ltd. (Stock Code: 220), Raymond Industrial Limited (Stock Code: 229), Shanghai Industrial Urban Development Group Limited (Stock Code: 563), China Development Bank International Investment Limited (Stock Code: 1062), Technovator International Limited (Stock Code: 1206), Renhe Commercial Holdings Company Limited (Stock Code: 1387), CGN New Energy Holdings Co., Ltd. (Stock Code: 1811), Neo-Neon Holdings Limited (Stock Code: 1868), Hong Kong Resources Holdings Company Limited (Stock Code: 2882) and Tenfu (Cayman) Holdings Company Limited (Stock Code: 6868), all listed on the Main Board of the Stock Exchange. Mr. Fan ceased to act as an independent non-executive director of LT Commercial Real Estate Limited (Stock Code: 112) and Guodian Technology & Environment Group Corporation Limited (Stock Code: 1296) in June 2017 and August 2017 respectively. He is also the President of The Hong Kong Independent Non-Executive Director Association. Mr. Fan held senior positions with various international financial institutions.

Mr. Gao Pei Ji, aged 70, joined in 2011 as an independent non-executive director of the Company. He is the chairman of the remuneration committee of the Company and a member of the audit committee, nomination committee and the risk management committee of the Company. Mr. Gao holds a LL.M. Degree from the Law School of University of California, Berkeley. He has been admitted to practise law in China since 1984. He is a foreign legal consultant to Clifford Chance, Hong Kong office. He is also an independent non-executive director of CGN Mining Company Limited listed on the Main Board of the Stock Exchange (Stock Code: 1164). He was a partner of Clifford Chance between 1993 and 2007. Mr. Gao has extensive and diversified experience in general practice, including banking and finance, direct investment, international trade, construction contracts, arbitration and litigation in relation to financial matters, and insolvency.

Board of Directors and Senior Management

Mr. Look Andrew, aged 52, joined in 2015 as an independent non-executive director of the Company. He is the chairman of the risk management committee of the Company and a member of the audit committee and remuneration committee of the Company. Mr. Look holds a Bachelor of Commerce Degree from the University of Toronto. He is the founder, chief investment officer and managing director of Look's Asset Management Limited, a Securities and Futures Commission of Hong Kong licensed corporation based in Hong Kong. He is also an independent non-executive director of Ka Shui International Holdings Limited (Stock Code: 822), Cowell e Holdings Inc. (Stock Code: 1415), Hung Fook Tong Group Holdings Limited (Stock Code: 1446) and Union Medical Healthcare Limited (Stock Code: 2138), all listed on the Main Board of the Stock Exchange. Mr. Look was appointed the chief investment officer of the asset management business of Tou Rong Chang Fu Group Limited listed on the Main Board of the Stock Exchange (Stock Code: 850) and a responsible officer of its subsidiary, China Hong Kong Link Asset Management Limited in April 2017. Mr. Look ceased to act as an independent non-executive director of TCL Communication Technology Holdings Limited (privatised in September 2016) and Man Sang Jewellery Holdings Limited (Stock Code: 1466) in September 2016 and December 2016 respectively. He was the head of Hong Kong research, strategy and product for Union Bank of Switzerland from 2000 to 2008, and an investment manager at Prudential Portfolio Managers (Asia) Limited from 1994 to 2000. Mr. Look has over 22 years' experience in equity investment analysis of the Hong Kong and China stock markets.

Senior Management – Biographies

Mr. Cha Johnathan Jen Wah, aged 52, joined in 2005 as the General Counsel of the Company and has also been the Company Secretary of the Company since April 2015. He is a solicitor admitted in Hong Kong and in England and Wales. Mr. Cha has over 27 years' experience in mergers and acquisitions, corporate finance, regulatory and commercial work.

Mr. Chung Ka Fai, Alan, aged 50, joined in 1997 as the Chief Accountant of the Company and was appointed an assistant to the Chief Executive Officer of the Company in May 2017. He is a certified practising accountant of CPA Australia. Prior to joining the Company, Mr. Chung worked for various multi-national companies. Mr. Chung has over 27 years' experience in the accounting field.

Mr. Wang Xinli, aged 47, joined in 2012 as a Vice President of the Company. He is a director of a subsidiary and several joint ventures of the Company. Mr. Wang holds a Bachelor of Accounting Degree from the Beijing Institute of Machinery. He is a qualified accountant of China. Prior to joining the Company, Mr. Wang was engaged in several subsidiaries of CITIC Group. Mr. Wang has over 24 years' experience in accounting and financial management aspects, especially in new project assessment.

Mr. Wang Yimin, aged 46, joined in 2014. He is the general manager of project management department of the Company and was appointed an assistant to the Chief Executive Officer of the Company in May 2017. Mr. Wang holds a Bachelor of Arts Degree from the Beijing Foreign Studies University. Prior to joining the Company, Mr. Wang was engaged in CITIC Group. Mr. Wang has over 24 years' experience in project management and natural resources industry.

Mr. Yang Zaiyan, aged 59, joined in 2009 as a Vice President of the Company. He is also a director of several subsidiaries of the Company. He is responsible for the management, planning and development of the Group's oil investments and portfolio. Mr. Yang holds a Bachelor of Engineering Degree from Huadong Petroleum Institute and is a senior geologist. Prior to joining the Company, Mr. Yang was engaged in the CNPC and the Sinochem group of companies. Mr. Yang has over 35 years' experience in the oil and gas industry.

Corporate Governance Report

The Company is committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of management as well as protecting the interests of all shareholders. The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

Compliance with the Corporate Governance Code

The Board is of the view that the Company has, for the year ended 31 December 2017, applied the principles and complied with the applicable code provisions, and also complied with certain recommended best practices, of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct for dealings in the securities of the Company by its directors (the “**Securities Dealings Code**”) that is based on the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules (or on terms no less exacting than the Model Code).

All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standards set out in the Securities Dealings Code throughout the year.

Board of Directors

As at 23 February 2018, the Board comprised a total of nine members, with four executive directors, two non-executive directors and three independent non-executive directors.

Executive Directors:

Mr. Kwok Peter Viem	(Chairman)
Mr. Suo Zhengang	(Vice Chairman and Chief Executive Officer)
Mr. Sun Yang	(Vice Chairman)
Ms. Li So Mui	

Non-executive Directors:

Mr. Chan Kin	(appointed on 10 March 2017)
Mr. Ma Ting Hung	

Independent Non-executive Directors:

Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji
Mr. Look Andrew

Corporate Governance Report

The Board possesses a balance of skills, experience and diversity of perspective appropriate to the requirements of the business of the Company. Directors take decisions objectively in the interests of the Company. The directors, individually and collectively, are aware of their responsibilities and accountability to shareholders and for the manner in which the affairs of the Company are managed and operated.

The Group has diversity of management expertise in the energy resources and commodities sectors, including oil, aluminium and coal, and the accounting and banking field. The Board has the required knowledge, experience and capabilities to operate and develop the Group's businesses and implement its business strategies.

On appointment, each new director is briefed by senior management on the Group's corporate goals and objectives, activities and business, strategic plans and financial situation. He/she is also provided with a package of orientation materials in respect of a director's duties and responsibilities under the Listing Rules, the bye-laws of the Company (the "**Bye-laws**"), corporate governance and financial reporting standards. The company secretary is responsible for keeping all directors updated on the Listing Rules and other regulatory and reporting requirements.

All directors are subject to re-election at regular intervals. The Bye-laws provide that any director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the general meeting of the Company or the annual general meeting of the Company (the "**AGM**"), whichever shall be the earlier, next following his/her appointment and such director shall be eligible for re-election at that meeting. In addition, every director is subject to retirement at least once every three years following his/her re-election with the result that, at each AGM, one-third of the directors shall retire from office by rotation.

To the best of the knowledge of the Company, save for Mr. Kwok Peter Viem and Mr. Ma Ting Hung who have common interests in certain private companies, there is no financial, business, family or other material or relevant relationship between board members or between the chairman and the chief executive officer.

Under the leadership of the chief executive officer, senior management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group's businesses.

The Board determines which functions are reserved to the Board and which are delegated to senior management. It delegates appropriate aspects of its management and administrative functions to senior management. It also gives clear directions as to the powers of senior management, in particular, with respect to the circumstances where senior management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. These arrangements are reviewed periodically to ensure that they remain appropriate to the needs of the Company.

Important matters are reserved to the Board for its decision, including long term objectives and strategies, extension of the Group's activities into new business areas, appointments to the Board and the board committees, annual budgets, material acquisitions and disposals, material connected transactions, material banking facilities, announcements of interim and final results and payment of dividends.

Corporate Governance Report

Chairman and Chief Executive Officer

The role of the chairman is separate from that of the chief executive officer so as to delineate their respective areas of responsibility, power and authority. The chairman focuses on the Group's strategic planning while the chief executive officer has overall executive responsibility for the Group's development and management. They receive significant support from the directors and senior management.

The chairman has a clear responsibility to ensure that the whole Board receives, in a timely manner, adequate information which must be accurate, clear, complete and reliable. The Board, led by the chairman, sets the overall direction, strategy and policies of the Company.

The chairman provides leadership for the Board to ensure that it works effectively, performs its responsibilities and acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings. He also encourages the directors to make full and active contributions to the Board's affairs, to voice their concerns or different views and ensure that the decisions fairly reflect the consensus.

Non-executive Directors

The non-executive directors (including the independent non-executive directors) are seasoned individuals from diversified backgrounds and industries and one member has appropriate accounting and related financial management expertise as required by the Listing Rules. With their expertise and experience, they serve the relevant function of bringing independent judgement and advice on the overall management of the Company. The total number of non-executive directors represented more than half of the board members so that there is a strong independent element on the Board, which can effectively exercise independent judgement. The non-executive directors take the lead where potential conflicts of interests arise. Their responsibilities include maintaining a balance between the non-controlling interests and the Company as a whole.

All independent non-executive directors are invited to participate in board meetings so that they are able to provide at such meetings their experience and judgement on matters to be discussed in the meetings.

The non-executive directors are appointed for an initial term of one year and thereafter from year to year, subject to re-election at the general meeting of the Company or the AGM, whichever shall be the earlier, next following their appointment and thereafter retirement by rotation and re-election at the AGMs in accordance with the Bye-laws.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all of the independent non-executive directors meet the guidelines for assessing independence as set out in rule 3.13 of the Listing Rules and considers them to be independent.

During the year, the chairman has held a meeting with the non-executive directors (including independent non-executive directors) without the presence of other executive directors.

Corporate Governance Report

Directors' Continuous Professional Development

During the year, to develop and refresh their knowledge and skills, all directors have participated in appropriate continuous professional development training which covered updates on laws, rules and regulations and also directors' duties and responsibilities. The following shows the training of each of the directors received during the year:

	Attending seminars / briefings	Reading materials	Viewing training webcasts
Executive Directors:			
Mr. Kwok Peter Viem	—	✓	✓
Mr. Suo Zhengang	—	✓	✓
Mr. Sun Yang	—	✓	✓
Ms. Li So Mui	✓	✓	✓
Non-executive Directors:			
Mr. Chan Kin	✓	✓	✓
Mr. Ma Ting Hung	—	✓	✓
Independent Non-executive Directors:			
Mr. Fan Ren Da, Anthony	—	✓	✓
Mr. Gao Pei Ji	✓	✓	✓
Mr. Look Andrew	✓	✓	✓

Board Meetings

Meetings of the Board are held regularly and at least four times a year at about quarterly intervals to approve, among other things, the financial results of the Company. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. All directors are invited to include matters in the agenda for regular board meetings. Directors can attend board meetings either in person or by electronic means of communication.

There was satisfactory attendance for board meetings, which evidences prompt attention of the directors to the affairs of the Company. A total of four board meetings were held in 2017.

If a substantial shareholder or a director has a material conflict of interest in a matter to be considered by the Board, the matter will be dealt with by a physical board meeting (and not by a written resolution). Independent non-executive directors who, and whose associates, have no material interest in the transaction will be present at such board meeting.

Efforts are made to ensure that queries of the directors are dealt with promptly. All directors have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed. The directors also have separate and independent access to senior management to make further enquiries or to obtain more information where necessary.

Board Committees

The Board has established a remuneration committee, a nomination committee, an audit committee and a risk management committee. They are each established with specific written terms of reference which deal clearly with their respective authority and responsibilities.

There was satisfactory attendance for meetings of the board committees during the year. The minutes of the committee meetings are circulated to all members of the relevant committee unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions.

Corporate Governance Report

Remuneration Committee

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for all directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policy on all directors and senior management and for determining remuneration packages of individual executive directors and senior management. It also makes recommendations to the Board on the remuneration of non-executive directors (including independent non-executive directors).

The committee consults the chairman and/or the chief executive officer about their remuneration proposals for other executive directors.

The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

Members of the committee are:

Mr. Gao Pei Ji	(Independent Non-executive Director) (Chairman)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)
Mr. Look Andrew	(Independent Non-executive Director)
Mr. Suo Zhengang	(Executive Director)

Two meetings were held and one written resolution was signed during the year. During the year, the committee approved a special bonus to an executive director, a director's fee payable to a newly appointed non-executive director and director's fees payable to all the directors.

Nomination Committee

The purpose of the committee is to lead the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

In order to maintain its competitive advantage and achieve a sustainable and balanced development, the Company recognises the benefits of having a diverse Board. The Board has adopted a diversity policy (the "**Policy**") which sets out the approach by the Company to achieve diversity on the Board. According to the Policy, selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background and professional experience.

The committee is responsible for reviewing the structure, size and diversity (including without limitation, gender, age, cultural and educational background, skills, knowledge and professional experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships, and considering candidates on merit and against objective criteria with due regard to the Policy. The committee is also responsible for reviewing the Policy and the measurable objectives, the progress on achieving the objectives, assessing the independence of independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular, the chairman, the vice chairmen and the chief executive officer of the Company.

Corporate Governance Report

The committee consults the chairman of the Company about his proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend a candidate for directorship include the candidate's skills, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

Members of the committee are:

Mr. Kwok Peter Viem	(Executive Director)	(Chairman)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
Mr. Gao Pei Ji	(Independent Non-executive Director)	

One meeting was held and one written resolution was signed during the year. During the year, the committee resolved to recommend to the Board the appointment of an additional non-executive director. Also, the committee reviewed the structure, size and diversity of the Board and opined that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the business of the Company.

Audit Committee

The Board has established formal and transparent arrangements to consider how it should apply financial reporting, risk management and internal control principles and maintain an appropriate relationship with the Company's external auditor and internal auditor.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor, and considering any questions of its resignation or dismissal.

The committee monitors the integrity of the Company's accounts, financial statements, interim and annual reports, and reviews significant financial reporting judgements contained in them. The committee reports to the Board any suspected fraud and irregularities and suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board.

Members of the committee are:

Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	(Chairman)
Mr. Gao Pei Ji	(Independent Non-executive Director)	
Mr. Look Andrew	(Independent Non-executive Director)	

The members of the committee possess appropriate professional qualifications and/or experience in financial matters. None of the committee members is or was a partner of the existing external auditor.

The committee meets as and when required to perform its responsibilities, and at least twice in each financial year of the Company. Two meetings were held in the year. During the year, the committee reviewed, together with senior management and the external auditor, the financial statements for the year ended 31 December 2016 and the financial statements for the six months ended 30 June 2017, the accounting principles and practices adopted by the Group, statutory compliance, other financial reporting matters, and the adequacy and effectiveness of the Group's internal audit. The committee has also considered the adequacy of resources, staff qualifications and experience of the Company's accounting, internal audit and financial reporting functions. In addition, it has considered the continuing connected transactions of the Company.

Corporate Governance Report

The committee has recommended to the Board (which endorsed the recommendation) that, subject to shareholders' approval at the forthcoming AGM, Ernst & Young be re-appointed as the Company's external auditor for 2018.

Risk Management Committee

The purpose of the committee is to assist the Board to oversee the overall risk management and internal control of the Group and to assist the Board in establishing and setting risk management and internal control policies and regulations appropriate and relevant for the Group.

The committee is responsible for, amongst others, considering the overall objective and policies of the Group's comprehensive risk management and internal control; reviewing the risk philosophy and risk tolerance and appetite of the Group; overseeing the Group's overall risk management framework to identify and deal with financial, operational, legal, regulatory, technology, business, strategic and other relevant risks faced by the Group from time to time; reviewing and assessing the effectiveness of the Group's risk control and risk mitigation tools and considering any other matters in relation to risk management and internal control responsibilities to be performed by the committee or the Board.

Members of the committee are:

Mr. Look Andrew	(Independent Non-executive Director) (Chairman)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)
Mr. Gao Pei Ji	(Independent Non-executive Director)
Mr. Kwok Peter Viem	(Executive Director)
Mr. Ma Ting Hung	(Non-executive Director)
Mr. Suo Zhengang	(Executive Director)

The committee meets at least once in each financial year of the Company and when there is any issue which requires its consideration. One meeting was held in the year. During the year, the committee reviewed the risk management policies and regulations of the Group, conducted a currency risk analysis, and reviewed the outstanding lawsuits and historical risks incidents of the Group.

Attendance at Meetings of the Board and the Board Committees, and the AGM

	Number of meetings held during the year					AGM held on 23 June 2017
	Attended / Eligible to attend					
	Board	Remuneration committee	Nomination committee	Audit management committee	Risk management committee	
Executive Directors:						
Mr. Kwok Peter Viem	4 / 4		1 / 1		1 / 1	1 / 1
Mr. Suo Zhengang	4 / 4	2 / 2			1 / 1	1 / 1
Mr. Sun Yang	3 / 4					1 / 1
Ms. Li So Mui	4 / 4					1 / 1
Non-executive Directors:						
Mr. Chan Kin (appointed on 10 March 2017)	2 / 3					1 / 1
Mr. Ma Ting Hung	3 / 4				0 / 1	1 / 1
Independent Non-executive Directors:						
Mr. Fan Ren Da, Anthony	4 / 4	2 / 2	1 / 1	2 / 2	1 / 1	1 / 1
Mr. Gao Pei Ji	4 / 4	2 / 2	1 / 1	2 / 2	1 / 1	1 / 1
Mr. Look Andrew	4 / 4	2 / 2		2 / 2	1 / 1	1 / 1

Corporate Governance Report

Corporate Governance Functions

The Board has the following responsibilities:

- (a) to develop and review the Company's policies and practices on corporate governance; and to review compliance with the CG Code and disclosures in the corporate governance report;
- (b) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (c) to review and monitor the training and continuous professional development of the directors and senior management; and
- (d) to develop, review and monitor the code of conduct applicable to the directors and employees.

Financial Reporting

The directors acknowledge their responsibilities for preparing the financial statements for the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. Senior management provides explanation and information to the directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The Board considers that, through a review made by the audit committee, the resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function are adequate.

Risk Management and Internal Control

The Board has overall responsibility for maintaining an adequate system of risk management and internal control and reviewing its effectiveness.

The Group has established a risk management and internal control system covering all the business units to monitor, assess and manage various risks in the Group's business activities. The risk management committee has reviewed the quality, integrity and effectiveness of the risk management policies and regulations of the Group and approved the relevant revisions on risk management policies under the delegation of the Board. The system identifies, evaluates and manages the significant risks through regular risk assessments, including both compliance assessment and self-assessment on risk management and internal control.

The risk management and internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. The system provides reasonable, but not absolute, assurance against material misstatement or loss, and management rather than elimination of risks associated with its business activities.

The Company has taken appropriate measures to identify inside information and preserve its confidentiality until proper dissemination via the electronic publication system operated by the Stock Exchange.

Corporate Governance Report

The Group's risk management and internal control system comprises five levels based on the corporate governance structure:

- (a) the Board, responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives;
- (b) the risk management committee, responsible for reviewing the Group's risk management;
- (c) management, responsible for the day-to-day risk management in all departments and subsidiaries of the Company;
- (d) the risk management department, responsible for supervising, monitoring and centralising the Group's risk management; and
- (e) the members of the Group, responsible for performing the daily risk management task.

During the year, the risk management department identified risk by multiple channels, including questionnaires, group discussion and scenario analysis, evaluated the risk as normal risk, significant risk and critical risk, and managed the risk with reference to the risk management policy. It also controlled the risks of subsidiaries through monthly risk management reporting and risk assessment as well as the monitoring of major projects and business. The result of the review, including health, safety and environment risk, asset impairment risk, foreign currency risk, price risk and litigation risk, has been summarised and reported to the risk management committee and the Board with recommendations and follow-up results. The Board has received from management a confirmation on the effectiveness of the risk management and internal control system. Since the last annual review, slight changes in the nature and extent of significant risks were made and reported to the risk management committee during the year.

Internal Audit

The internal audit department carries out an analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control system, and performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. Under the internal audit charter of the Company, the internal audit department has unrestricted access to all parts of the Group's businesses and direct access to any level of management including the chairman of the Company and the chairman of the audit committee as it considers necessary.

The internal audit department conducts regular and independent reviews of the effectiveness of the Group's risk management and internal control system. The audit committee reviews the findings and opinion of the internal audit department on the effectiveness of the system and reports to the Board if significant findings are noted.

During the year, the internal audit department prepared an annual internal audit plan in accordance with risk-based principles. Pursuant to the approved annual internal audit plan endorsed by the audit committee, detailed audit planning for each audit was devised, followed by field audits and discussions with management of the Company and subsidiaries. Internal audit reports were prepared after completion of the audits, informing management of the Company and subsidiaries about the identified control deficiencies together with recommendations for immediate rectification. Concerns which have been reported by the internal audit department were monitored by management by taking appropriate remedial actions. The internal audit report, which included audit findings and follow-up results, has been summarised, communicated and reported to the audit committee during the year.

Corporate Governance Report

Auditor's Remuneration

Ernst & Young were re-appointed by shareholders at the AGM held on 23 June 2017 as the Company's external auditor until the next AGM. They are primarily responsible for providing audit services in connection with the financial statements of the Group for the year ended 31 December 2017.

For the year, Ernst & Young charged the Group HK\$12,015,000 for the provision of audit services and HK\$1,667,000 for the provision of non-audit services. The non-audit services included tax advices and preparation of tax returns.

Shareholders' Rights

Procedures for shareholders to convene a special general meeting

Shareholders holding at the date of the requisition not less than 10% of the paid-up capital of the Company carrying the right to vote at general meetings shall at all times have the right, by written requisition to the Board or the company secretary, to require a general meeting to be called by the Board for the transaction of any business specified in such requisition.

The requisitionists must state the purpose of the meeting and contact details in the requisition and sign and deposit the requisition at the principal place of business of the Company for the attention of the company secretary.

The meeting shall be held within two months from the deposit of the requisition. If the Board fails to proceed to convene the meeting within 21 days of such deposit, the requisitionists, or any of them representing more than 50% of the total voting rights of all of them, may convene the meeting by themselves in accordance with the provisions of section 74(3) of the Companies Act 1981 of Bermuda (as amended), but any meeting so convened shall not be held after the expiration of three months from the deposit of the requisition.

Procedures for putting forward proposals at general meetings

Shareholders holding not less than 5% of the total voting rights of all shareholders having a right to vote at general meetings or not less than 100 shareholders can submit a written request stating a resolution to be moved at the AGM or a statement of not more than 1,000 words with respect to a matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The requisitionists must sign and deposit the written request or statement at the registered office of the Company and the principal place of business of the Company for the attention of the company secretary not less than six weeks before the AGM in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

If the written request is in order, the company secretary will ask the Board to include the resolution in the agenda for the AGM or, as the case may be, to circulate the statement for the general meeting, provided that the requisitionists have deposited a sum of money reasonably determined by the Board sufficient to meet the expenses in serving the notice of the resolution and/or circulating the statement submitted by the requisitionists in accordance with the statutory requirements to all the registered shareholders.

Corporate Governance Report

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns with sufficient contact details to the Board at the principal place of business of the Company for the attention of the Investor Relations Department or e-mail to "ir@citicresources.com".

Communication with Shareholders and Investor Relations

To enhance transparency, the Company endeavours to maintain open dialogue with shareholders through a wide array of channels such as AGMs and other general meetings. Shareholders are encouraged to participate in these meetings.

The Board will whenever it thinks fit and as required under the Bye-laws and the Listing Rules call general meetings for the purpose of asking shareholders to consider and, if thought fit, approving resolutions proposed by the Board; notably in relation to notifiable and/or connected transactions. In addition, the Company communicates with shareholders through the issue of announcements and press releases.

A separate resolution is proposed for each substantially separate issue at a general meeting by the chairman of that meeting, including the election and re-election of a director.

The chairman of the Company, the chairman or member of each of the board committees and external auditor attend and answer questions at the AGM.

The chairman of the independent board committee is available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The Company ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Bye-laws. The representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast by way of a poll. In relation to votes taken by way of a poll, their results are subsequently published on the websites of the Stock Exchange and the Company at <http://www.hkexnews.hk> and <http://irasia.com/listco/hk/citicresources> respectively.

The Company is committed to providing clear and reliable information on the performance of the Group to shareholders through interim and annual reports. The website of the Company offers timely and updated information of the Group.

The Company keeps contact with the media and holds briefings with investment analysts from time to time including following the announcement of financial results. Senior management also, whenever appropriate, participates in investor conferences, one-on-one meetings, forums, luncheons, conference calls and non-deal road shows which enable the Company to better understand investors' concerns and expectations.

The Company maintains effective two-way communications with shareholders and other investors whose feedback is invaluable to the Company in enhancing corporate governance, management and competitiveness. Comments and suggestions are welcome and can be sent to the principal place of business of the Company for the attention of the Investor Relations Department or e-mailed to "ir@citicresources.com".

Report of the Directors

The directors present their report and the audited financial statements of the Group for the year ended 31 December 2017.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 1 to the financial statements. During the year, there were no significant changes in the nature of the Group's principal activities.

Segment Information

An analysis of the Group's revenue and results by principal operating activities and the Group's revenue and non-current assets by geographical area of operations for the year ended 31 December 2017 is set out in note 4 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2017 and the state of affairs of the Group at that date are set out in the financial statements on pages 47 to 141.

The Board has recommended, subject to approval by shareholders at the forthcoming annual general meeting of the Company ("AGM"), the payment of a final dividend of HK 2.50 cents (2016: HK 1.50 cents) per ordinary share for the year ended 31 December 2017, payable on or around 17 July 2018 to shareholders whose names appear on the register of members of the Company on 3 July 2018.

Business Review

A fair review of the Company's business and a description of the principal risks and uncertainties being faced by the Company are provided in the Chairman's Statement and Management's Discussion and Analysis on pages 1 to 18. Particulars of important events affecting the Company that have occurred since the end of the year, and indication of likely future development in the Company's business can also be found in these pages and note 45 to the financial statements. An analysis of the Group's performance during the year using key financial performance indicators is set out on page 4. An account of the Company's relationship with its key stakeholders can be found on page 32.

Environmental Policies and Performance

The Group attaches importance to balancing the needs of business development and environmental protection, and endeavours to make continuous improvements through technological upgrading and performance evaluations. During the year, the Group has further developed the environmental, social and governance ("ESG") reporting system and will incorporate ESG data and information into the scope of its internal audit from 2018.

Report of the Directors

The Group integrates environmental protection across all activities and operations. It promotes clean production and alleviates as far as possible the impact of the Group's operations on the environment. In respect of the Group's oilfield operations, the Group has enhanced resource utilisation efficiency and strengthened its efforts on nature conservation through a wide range of measures. During the year, the Karazhanbas Oil and Gas Field in Mangistau Oblast in Kazakhstan has put four energy-saving boilers into operation, which can recycle and reuse the residual heat generated. The Yuedong oilfield, the principal field within the Hainan-Yuedong Block in China, has developed a 步進式自平衡井架修井機 (a step-by-step self-balancing workover rig derrick) which can improve work efficiency and reduce energy consumption. The Seram Island Non-Bula Block in Indonesia has launched a two-year afforestation program covering 450 hectares within its operation area. Details of the Group's environmental performance are disclosed in the Company's ESG reports which are available on the website of the Company at <http://resources.citic> .

Compliance with Laws and Regulations

The Company complies with the requirements under the Companies Act 1981 of Bermuda (as amended), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the Securities and Futures Ordinance (the "**SFO**") for, among other things, the disclosure of information and corporate governance.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements, is set out on page 142. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

Share Capital and Share Options

There was no movement in the Company's share capital or share options during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the bye-laws of the Company (the "**Bye-laws**") or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

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

Report of the Directors

Distributable Reserves

In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or payment of dividends to shareholders provided that, immediately following such distribution or payment, the Company is able to pay off its debts as and when they fall due. As at 31 December 2017, the Company's reserves available for distribution amounted to HK\$555,068,000, of which HK\$196,443,000 has been proposed to be distributed as a final dividend for the year. The Company's share premium account, with a balance of HK\$6,852,000 as at 31 December 2017, may be distributed in the form of fully paid bonus shares.

Charitable Contributions

During the year, the Group did not make any charitable contributions (2016: HK\$100,000).

Major Customers and Major Suppliers

In the year under review, sales to the Group's five largest customers accounted for 49.3% of the total sales for the year and sales to the largest customer amounted to 25.5%. Purchases from the Group's five largest suppliers accounted for 34.3% of the total purchases for the year and purchases from the largest supplier amounted to 13.1%.

None of the directors or any of their close associates or any shareholders (which, to the best of the knowledge of the directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers or suppliers.

Directors

The directors of the Company during the year and up to the date of this report were as follows:

Executive Directors:

Mr. Kwok Peter Viem
Mr. Suo Zhengang
Mr. Sun Yang
Ms. Li So Mui

Non-executive Directors:

Mr. Chan Kin (appointed on 10 March 2017)
Mr. Ma Ting Hung

Independent Non-executive Directors:

Mr. Fan Ren Da, Anthony
Mr. Gao Pei Ji
Mr. Look Andrew

Report of the Directors

The non-executive directors, including independent non-executive directors, of the Company are appointed for an initial term of one year and thereafter from year to year and all of the directors, including executive directors, are subject to retirement by rotation and re-election in accordance with the Bye-laws.

In accordance with Bye-laws 87(1) and 87(2), Ms. Li, Mr. Ma and Mr. Fan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming AGM.

Directors' Service Contracts

No director proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Directors' Remuneration

Directors' remuneration is determined by the remuneration committee. The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and by reference to the Group's profits and performance.

Directors' Interests in Contracts

During the year, no director had an interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

Save as disclosed herein and so far as is known to the directors, as at 31 December 2017, none of the directors or their respective associates was materially interested in any subsisting contract or arrangement which is significant in relation to the businesses of the Group taken as a whole.

Directors' Competing Interests

So far as is known to the directors, as at 31 December 2017, none of the directors or their respective associates had any interest in a business, apart from the businesses of the Group, which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Report of the Directors

Directors' and Chief Executive's Interests in Shares and Underlying Shares

As at 31 December 2017, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO), or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Long positions in shares and underlying shares of the Company

Name of director	Nature of interest	Number of ordinary shares of HK\$0.05 each held	Number of underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
Mr. Kwok Peter Viem	Directly beneficially owned	11,568,000	400,000,000	5.24
Mr. Sun Yang	Directly beneficially owned	4,000	—	—
Ms. Li So Mui	Directly beneficially owned	2,388,000	—	0.03
Mr. Chan Kin	Corporate	786,558,488 *	—	10.01

* The figure represents an attributable interest of Mr. Chan Kin ("Mr. Chan") through his interest in Argyle Street Management Holdings Limited ("ASM Holdings"). Mr. Chan is a significant shareholder of ASM Holdings.

Long positions in share options of the Company

Name of director	Number of share options directly beneficially owned
Mr. Kwok Peter Viem	400,000,000

Long positions in shares and underlying shares of associated corporations of the Company

Name of director	Name of associated corporation	Shares / equity derivatives	Number of shares / equity derivatives held	Nature of interest	Percentage of the total issued share capital of the associated corporation
Ms. Li So Mui	CITIC Dameng Holdings Limited	Ordinary shares	3,154	Directly beneficially owned	—
Mr. Gao Pei Ji	CITIC Limited	Ordinary shares	20,000	Directly beneficially owned	—

In addition to the above, one of the directors has non-beneficial shareholding interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Report of the Directors

Save as disclosed herein and in the section headed "Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares" below, and so far as is known to the directors, as at 31 December 2017:

- (a) none of the directors or the chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are deemed or taken to have under such provisions of the SFO), or which are required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which are required pursuant to the Model Code to be notified to the Company and the Stock Exchange; and
- (b) none of the directors was a director or employee of a company which had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" above and in the section headed "Share Option Scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate of the Group.

Permitted Indemnity Provision

The Bye-laws provide that every director of the Company is entitled to be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain in or about the execution of the duties of his/her office or otherwise in relation thereto.

The Company has arranged Directors & Officers Liability and Company Reimbursement Insurance for the directors and officers of the Company and its subsidiaries.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Share Option Scheme

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

To enable the Company to continue to grant share options as an incentive or reward to eligible persons, a new share option scheme was adopted by the Company on 27 June 2014 (the "**New Scheme**"). Further details of the New Scheme are set out in note 35 to the financial statements. Up to the date of this report, no share option has been granted under the New Scheme.

Report of the Directors

The following table discloses movements in the Company's outstanding share options, which were granted under the Old Scheme, during the year:

Category and name of eligible person	Number of share options		Date of grant	Exercise period	Exercise price per share HK\$
	at 1 January 2017	at 31 December 2017 ⁽¹⁾			
Director					
Mr. Kwok Peter Viem	200,000,000	200,000,000	06-11-2013	06-11-2014 to 05-11-2018	1.77
	200,000,000	200,000,000	06-11-2013	06-11-2015 to 05-11-2018	1.77
	400,000,000	400,000,000 ⁽²⁾			

Notes:

- (1) No share option was granted, exercised, lapsed or cancelled during the year.
- (2) The share options are subject to the following vesting conditions:
- 50% of the share options vest and are exercisable with effect from the first anniversary of the date of grant; and
 - the remaining 50% of the share options vest and are exercisable with effect from the second anniversary of the date of grant.

Save as disclosed herein, the Company has not entered into any equity-linked agreement during the year and no equity-linked agreement subsisted as at the end of the year.

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

As at 31 December 2017, the interests and short positions of the substantial shareholders and other persons in the shares or underlying shares of the Company, as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Name of shareholder	Nature of interest	Number of ordinary shares of HK\$0.05 each held as long positions	Percentage of the total issued share capital of the Company
中國中信集團有限公司 (CITIC Group Corporation)	Corporate	4,675,605,697 ⁽¹⁾	59.50
CITIC Limited	Corporate	4,675,605,697 ⁽²⁾	59.50
CITIC Corporation Limited	Corporate	4,675,605,697 ⁽³⁾	59.50
CITIC Projects Management (HK) Limited	Corporate	3,895,083,904 ⁽⁴⁾	49.57
Keentech Group Limited	Corporate	3,895,083,904 ⁽⁵⁾	49.57
CITIC Australia Pty Limited	Corporate	750,413,793 ⁽⁶⁾	9.55
Argyle Street Management Holdings Limited	Corporate	786,558,488 ⁽⁷⁾	10.01
Argyle Street Management Limited	Corporate	786,558,488 ⁽⁸⁾	10.01
ASM Connaught House General Partner Limited	Corporate	786,558,488 ⁽⁹⁾	10.01
ASM Connaught House General Partner II Limited	Corporate	786,558,488 ⁽¹⁰⁾	10.01
ASM Connaught House Fund LP	Corporate	786,558,488 ⁽¹¹⁾	10.01
ASM Connaught House Fund II LP	Corporate	786,558,488 ⁽¹²⁾	10.01
ASM Connaught House (Master) Fund II LP	Corporate	786,558,488 ⁽¹³⁾	10.01
Sea Cove Limited	Corporate	786,558,488 ⁽¹⁴⁾	10.01
TIHT Investment Holdings III Pte. Ltd.	Corporate	786,558,488 ⁽¹⁵⁾	10.01

Report of the Directors

Notes:

- (1) The figure represents an attributable interest of 中國中信集團有限公司 (CITIC Group Corporation) ("**CITIC Group**") through its interest in CITIC Limited. CITIC Group is a company established in China.
- (2) The figure represents an attributable interest of CITIC Limited through its interest in CITIC Corporation Limited ("**CITIC Corporation**"). CITIC Limited, a company incorporated in Hong Kong and listed on the Main Board of the Stock Exchange (Stock Code: 267), is owned as to 32.53% by CITIC Polaris Limited ("**CITIC Polaris**") and 25.60% by CITIC Glory Limited ("**CITIC Glory**"). CITIC Polaris and CITIC Glory, companies incorporated in the British Virgin Islands (the "**BVI**"), are direct wholly-owned subsidiaries of CITIC Group.
- (3) The figure represents an attributable interest of CITIC Corporation through its interest in CITIC Projects Management (HK) Limited ("**CITIC Projects**"), CITIC Australia Pty Limited ("**CA**") and Extra Yield International Ltd. ("**Extra Yield**"). Extra Yield holds 30,108,000 shares representing 0.38% of the total issued share capital of the Company. CITIC Corporation, a company established in China, is a direct wholly-owned subsidiary of CITIC Limited. Extra Yield, a company incorporated in the BVI, is an indirect wholly-owned subsidiary of CITIC Corporation.
- (4) The figure represents an attributable interest of CITIC Projects through its interest in Keentech Group Limited ("**Keentech**"). CITIC Projects, a company incorporated in the BVI, is a direct wholly-owned subsidiary of CITIC Corporation. Mr. Suo Zhengang ("**Mr. Suo**") is a director of CITIC Projects.
- (5) Keentech, a company incorporated in the BVI, is a direct wholly-owned subsidiary of CITIC Projects. Mr. Suo is a director of Keentech.
- (6) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Corporation.
- (7) The figure represents an attributable interest of ASM Holdings through its interest in Argyle Street Management Limited ("**ASM Limited**"), ASM Connaught House General Partner Limited ("**ASM General Partner**") and ASM Connaught House General Partner II Limited ("**ASM General Partner II**"). ASM Holdings is a company incorporated in the BVI.
- (8) The figure represents an attributable interest of ASM Limited through its control of, by virtue of its position as investment manager of, ASM Connaught House Fund LP ("**ASM Fund LP**"), ASM Connaught House Fund II LP ("**ASM Fund II**") and ASM Connaught House (Master) Fund II LP ("**ASM (Master) Fund II**") and shareholding in ASM General Partner and ASM General Partner II. ASM Limited, a company incorporated in the BVI, is a direct wholly-owned subsidiary of ASM Holdings.
- (9) The figure represents an attributable interest of ASM General Partner through its role as general partner of ASM Fund LP. ASM General Partner, a company incorporated in the Cayman Islands, is a direct wholly-owned subsidiary of ASM Holdings.
- (10) The figure represents an attributable interest of ASM General Partner II through its role as general partner in ASM Fund II.
- (11) The figure represents an attributable interest of ASM Fund LP through its interest in Albany Road Limited ("**Albany**"). Albany, a company incorporated in the BVI, is a direct wholly-owned subsidiary of ASM Fund LP.
- (12) The figure represents an attributable interest of ASM Fund II through its interest in ASM (Master) Fund II.
- (13) The figure represents an attributable interest of ASM (Master) Fund II through its interest in Caroline Hill Limited ("**Caroline**"). Caroline, a company incorporated in the BVI, is a direct wholly-owned subsidiary of ASM (Master) Fund II. ASM (Master) Fund II, a limited partnership established in the Cayman Islands, is a direct wholly-owned subsidiary of ASM Fund II.
- (14) The figure represents an attributable interest of Sea Cove Limited ("**Sea Cove**") through its interest in TIHT Investment Holdings III Pte. Ltd. ("**TIHT**"). Sea Cove, a company incorporated in the BVI, is owned as to more than one-third of the total issued share capital by Caroline and more than one-third of the total issued share capital by Albany.
- (15) TIHT, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Sea Cove.

Save as disclosed herein and in the section headed "Directors' and Chief Executive's Interests in Shares and Underlying Shares" (on page 37), and so far as is known to the directors, as at 31 December 2017, no person had an interest or a short position in the shares or underlying shares of the Company required to be recorded in the register to be kept under section 336 of the SFO.

Report of the Directors

Specific Performance Obligations on Controlling Shareholder of the Company

The following disclosures are made in compliance with the disclosure requirements under rule 13.21 of the Listing Rules.

In December 2016, the Company entered into a facility agreement with a syndicate of financial institutions in respect of an unsecured term loan facility of US\$310,000,000 (HK\$2,418,000,000) (the “**C Loan**”). The C Loan has a tenor of three years commencing from 30 December 2016.

In May 2017, the Company entered into a facility agreement with a bank in respect of an unsecured 3-year term loan facility of US\$40,000,000 (HK\$312,000,000) (the “**D Loan**”).

Pursuant to the provisions of the above facility agreements, if CITIC Limited ceases to remain (directly or indirectly) the single largest shareholder of the Company, then (a) in respect of the C Loan, the financial institutions holding 66-2/3% or more of the C Loan then outstanding may require mandatory prepayment of the C Loan together with all other sums due; and (b) in respect of the D Loan, the bank may require mandatory prepayment of the D Loan together with all other sums due.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company’s total number of issued shares is held by the public as at the date of this report.

Audit Committee

The Company has an audit committee which was established in compliance with rule 3.21 of the Listing Rules with responsibility for reviewing and providing supervision over the Group’s financial reporting process. The audit committee comprises the three independent non-executive directors of the Company.

The audit committee has reviewed the financial statements with senior management and the external auditor of the Company. During the review of the financial statements, senior management and the external auditor reported upon the latest status of the Group’s inventories stored in bonded warehouses at Qingdao port, China. The audit committee is aware that the matter is one of the key audit matters and to be disclosed in an emphasis of matter paragraph in the independent auditor’s report. The audit committee did not express any disagreement with management’s position concerning the status of the inventories. The status of the matter has been monitored by the audit committee through their participation in regular board meetings and at audit committee meetings.

Auditor

Ernst & Young shall retire, and a resolution for their re-appointment as auditor of the Company will be proposed, at the forthcoming AGM.

On behalf of the Board
Kwok Peter Viem
Chairman

Hong Kong, 23 February 2018

Independent Auditor's Report



To shareholders of CITIC Resources Holdings Limited

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of CITIC Resources Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 47 to 141, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of 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 this auditor’s report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 24 to the financial statements which describes the Group’s situation regarding its claim to recover certain of its inventories located at Qingdao port and the impairment provision made in the financial statements. In consideration of the above, there is material inherent uncertainty as to the carrying amount of the inventories. Should these matters be resolved, any adjustments found to be necessary may have a significant impact to the carrying amount of the respective inventories.

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 year. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of this auditor’s report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Inventories held at Qingdao port, China</i>	
<p>As disclosed in note 24 to the financial statements, since 2014, the Group has been trying to recover certain alumina and copper stored in bonded warehouses at Qingdao port (the "Inventories") by filing a claim in the Qingdao Maritime Court. Due to uncertainty over the outcome of the claim, there was a high level of uncertainty as to whether the Group can recover the Inventories in full.</p> <p>Management's judgement was involved to determine whether further provision was required for the Inventories in the current year. Such judgement was based on the updated facts and circumstances, and their ongoing communications with the Group's internal and external legal counsels. Management also considered the relevant market prices to determine if a provision for net realisable value against the Inventories was required. No further provision was made for the year.</p> <p>As at 31 December 2017, the net carrying value of the Inventories remained HK\$180,273,000, after making a cumulative full provision against the alumina, being HK\$579,277,000, and a provision of HK\$219,662,000 in respect of certain copper.</p>	<p>We evaluated management's assessment of the possibility to recover the Inventories by reviewing the legal documents and considering the opinions from the Group's internal and external legal counsels who are involved in the legal proceedings of the claim. We obtained an independent confirmation from the Group's external legal counsel to confirm the status of the claim. We also held discussion with the Group's internal legal counsel to confirm the latest development of this matter and the steps the Group has taken to recover the remaining copper. With respect to the provision to write down the carrying value of copper to net realisable value, we checked the current market price of copper to evaluate management's assessment. We also evaluated the adequacy and appropriateness of the disclosures regarding this matter in the financial statements.</p> <p>Related disclosures are included in note 24 to the financial statements.</p>
<i>Impairment of oil and gas properties of the Hainan-Yuedong Block</i>	
<p>As at 31 December 2017, the carrying value of the oil and gas properties of the Hainan-Yuedong Block amounted to HK\$3,152,979,000, net of provision for impairment of HK\$2,825,953,000. The decrease of total oil reserves was considered an impairment indicator of oil and gas properties.</p> <p>Management has performed an impairment assessment on the oil and gas properties of the Hainan-Yuedong Block by using a discounted cash flow model as at 31 December 2017. Based on the outcome of the impairment assessment, the Group recognised an impairment provision of HK\$583,353,000 for the year.</p> <p>The oil and gas properties of the Hainan-Yuedong Block are significant to the Group and significant judgement was involved in the assessment of the recoverable amount of the oil and gas properties. This assessment required management to make assumptions to be used in the discounted cash flow model. The most critical assumptions were future oil prices, oil reserves and discount rate.</p>	<p>We evaluated and challenged the assumptions and methodologies used by management to assess the recoverable amount of the assets. We compared management's oil price assumptions with the latest available market evidence, including brokers' estimates and other long term price forecasts. We also considered the independence, reputation and capabilities of management's external expert who was responsible for oil reserves estimation. We discussed the reserves revisions with management's internal expert and evaluated the revisions. We also involved our valuation expert to assist us in critically assessing the methodologies and applied discount rate. In addition, we evaluated the adequacy and appropriateness of the disclosures regarding this matter in the financial statements.</p> <p>Related disclosures are included in notes 3 and 13 to the financial statements.</p>

Independent Auditor's Report

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Investment in a joint venture</i>	
<p>As at 31 December 2017, the carrying value of the Group's investment in a joint venture amounted to HK\$915,940,000, net of provision for impairment of HK\$1,399,935,000. The joint venture is principally engaged in the exploration, development, production and sale of oil in Kazakhstan. The volatile oil prices in the past few years have heightened the risk of impairment associated with the Group's investment in the joint venture.</p> <p>Management has performed an impairment assessment on the investment in the joint venture with reference to the share of estimated future cash flows to be generated by the joint venture by using a discounted cash flow model as at 31 December 2017.</p> <p>This area was important to our audit because the investment in the joint venture is significant to the Group and significant judgement was involved in the assessment of the recoverable amount of the investment. This assessment required management to make assumptions to be used in the discounted cash flow model. The most critical assumptions were future oil prices, oil reserves, export sales volume and discount rate.</p>	<p>We evaluated and challenged the assumptions and methodologies used by management to assess the recoverable amount of the Group's investment in the joint venture. We paid specific attention to the assumptions used to forecast the revenues and operating results. We compared management's oil price assumptions with the latest available market evidence, including brokers' estimates and other long term price forecasts. We also considered the independence, reputation and capabilities of management's external expert who was responsible for oil reserves estimation. We discussed the reserves revisions with management's internal expert and evaluated the revisions. We also involved our valuation expert to assist us in critically assessing the methodologies and applied discount rate. In addition, we evaluated the adequacy and appropriateness of the disclosures regarding this matter in the financial statements.</p> <p>Related disclosures are included in notes 3 and 20 to the financial statements.</p>

Other Information included in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

Responsibilities of the Directors 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the 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 Company or to cease operations or have no realistic alternative but to do so.

The directors are assisted by the audit committee of the Company (the "Audit Committee") in discharging their responsibilities 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. This auditor's report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this auditor's 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 of the Company;

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 this 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 this 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; and
- 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 the Audit 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 the Audit 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 the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the year and are therefore the key audit matters. We describe these matters in this 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 this auditor's 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 Ms. Lau Kin Yu.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

23 February 2018

Consolidated Income Statement

	Notes	2017	2016
REVENUE	5	3,602,947	2,956,732
Cost of sales		(3,116,691)	(3,056,734)
Gross profit/(loss)		486,256	(100,002)
Other income and gains	5	542,636	1,327,438
Selling and distribution costs		(19,419)	(18,791)
General and administrative expenses		(335,005)	(338,596)
Other expenses, net		(145,205)	(79,182)
Finance costs	9	(290,361)	(276,240)
Share of profit/(loss) of:			
Associates		180,096	(29,562)
A joint venture		772,535	210,922
		1,191,533	695,987
Provision for impairment of items of property, plant and equipment	13	(583,353)	(226,200)
Provision for impairment of inventories	24	—	(125,763)
PROFIT BEFORE TAX	6	608,180	344,024
Income tax credit/(expense)	10	(123,603)	217
PROFIT FOR THE YEAR		484,577	344,241
ATTRIBUTABLE TO:			
Shareholders of the Company		518,315	362,985
Non-controlling interests		(33,738)	(18,744)
		484,577	344,241
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12	HK cents	HK cents
Basic		6.60	4.62
Diluted		6.60	4.62

Consolidated Statement of Comprehensive Income

	Notes	2017	2016
PROFIT FOR THE YEAR		484,577	344,241
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investment:			
Changes in fair value		61	(490)
Income tax effect		(18)	147
		43	(343)
Cash flow hedges:			
Effective portion of changes in fair value of hedging instruments arising during the year	26	872,300	6,646
Reclassification adjustment for losses included in the consolidated income statement	26	—	868,924
Income tax effect	26	(261,690)	(262,671)
		610,610	612,899
Exchange differences on translation of foreign operations		287,183	(371,011)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		897,836	241,545
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement gain on defined benefit plan:			
Changes in fair value	32	5,590	7,401
Income tax effect		(1,677)	(2,220)
		3,913	5,181
Share of other comprehensive loss of a joint venture		(17,798)	—
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		(13,885)	5,181
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		883,951	246,726
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,368,528	590,967
ATTRIBUTABLE TO:			
Shareholders of the Company		1,377,283	637,372
Non-controlling interests		(8,755)	(46,405)
		1,368,528	590,967

Consolidated Statement of Financial Position

	Notes	2017	2016
NON-CURRENT ASSETS			
Property, plant and equipment	13	3,860,246	4,674,326
Prepaid land lease payments	14	16,411	16,415
Goodwill	15	24,682	24,682
Other assets	16	268,600	289,988
Investments in associates	19	4,327,686	905,841
Investment in a joint venture	20	915,940	173,942
Financial asset at fair value through profit or loss	21	—	2,880,665
Derivative financial instrument	26	496,054	—
Available-for-sale investment	22	845	784
Prepayments, deposits and other receivables	23	52,910	83,260
Deferred tax assets	33	—	319,466
Total non-current assets		9,963,374	9,369,369
CURRENT ASSETS			
Inventories	24	642,719	577,698
Trade and notes receivables	25	546,212	643,767
Prepayments, deposits and other receivables	23	1,168,261	1,453,071
Financial assets at fair value through profit or loss	21	3,029	3,029
Derivative financial instruments	26	403,649	60,826
Cash and cash equivalents	27	1,405,672	1,160,989
Total current assets		4,169,542	3,899,380
CURRENT LIABILITIES			
Accounts payable	28	167,093	130,891
Tax payable		73	142
Accrued liabilities and other payables	29	604,982	565,039
Derivative financial instruments	26	9,553	10,387
Bank borrowings	30	386,206	1,371,809
Finance lease payables	31	8,970	13,102
Provisions	32	46,312	44,670
Total current liabilities		1,223,189	2,136,040
NET CURRENT ASSETS		2,946,353	1,763,340
TOTAL ASSETS LESS CURRENT LIABILITIES		12,909,727	11,132,709

Consolidated Statement of Financial Position

	Notes	2017	2016
TOTAL ASSETS LESS CURRENT LIABILITIES		12,909,727	11,132,709
NON-CURRENT LIABILITIES			
Bank and other borrowings	30	6,602,069	6,155,518
Finance lease payables	31	3,020	12,371
Deferred tax liabilities	33	67,365	—
Provisions	32	290,323	268,530
Total non-current liabilities		6,962,777	6,436,419
NET ASSETS		5,946,950	4,696,290
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	34	392,886	392,886
Reserves	36	5,671,287	4,411,872
		6,064,173	4,804,758
Non-controlling interests		(117,223)	(108,468)
TOTAL EQUITY		5,946,950	4,696,290

Suo Zhengang
Director

Li So Mui
Director

Consolidated Statement of Changes in Equity

	Notes	Issued capital	Share premium account (note 36)	Contributed surplus (note 36)	Capital reserve (note 36)
At 1 January 2016		392,886	9,706,852	71,902	(38,579)
Profit for the year		—	—	—	—
Other comprehensive income/(loss) for the year :					
Changes in fair value of available-for-sale investment, net of tax		—	—	—	—
Cash flow hedges, net of tax		—	—	—	—
Exchange differences on translation of foreign operations		—	—	—	—
Re-measurement gain on defined benefit plan, net of tax		—	—	—	—
Total comprehensive income/(loss) for the year		—	—	—	—
Share of other reserve movements of an associate		—	—	5	—
At 31 December 2016		392,886	9,706,852 *	71,907 *	(38,579) *
At 1 January 2017		392,886	9,706,852	71,907	(38,579)
Profit for the year		—	—	—	—
Other comprehensive income/(loss) for the year :					
Changes in fair value of available-for-sale investment, net of tax		—	—	—	—
Cash flow hedges, net of tax		—	—	—	—
Exchange differences on translation of foreign operations		—	—	—	—
Re-measurement gain on defined benefit plan, net of tax		—	—	—	—
Share of other comprehensive loss of a joint venture		—	—	—	—
Total comprehensive income for the year		—	—	—	—
Reduction of share premium	36	—	(9,700,000)	500,000	—
Distribution to shareholders	11	—	—	(117,866)	—
Share of other reserve movements of an associate		—	—	—	—
At 31 December 2017		392,886	6,852 *	454,041 *	(38,579) *

* These reserve accounts comprise the consolidated reserves of HK\$5,671,287,000 (2016: HK\$4,411,872,000) in the consolidated statement of financial position.

Attributable to shareholders of the Company								
Exchange fluctuation reserve	Available-for-sale investment revaluation reserve	Hedging reserve	Share option reserve	Reserve funds (note 36)	Retained profits / (accumulated losses)	Sub-total	Non-controlling interests	Total equity
(848,096)	(2,154)	(597,371)	50,015	13,450	(4,581,524)	4,167,381	(62,063)	4,105,318
—	—	—	—	—	362,985	362,985	(18,744)	344,241
—	(343)	—	—	—	—	(343)	—	(343)
—	—	612,899	—	—	—	612,899	—	612,899
(343,350)	—	—	—	—	—	(343,350)	(27,661)	(371,011)
—	—	—	—	—	5,181	5,181	—	5,181
(343,350)	(343)	612,899	—	—	368,166	637,372	(46,405)	590,967
—	—	—	(19,452)	(251)	19,703	5	—	5
(1,191,446) *	(2,497) *	15,528 *	30,563 *	13,199 *	(4,193,655) *	4,804,758	(108,468)	4,696,290
(1,191,446)	(2,497)	15,528	30,563	13,199	(4,193,655)	4,804,758	(108,468)	4,696,290
—	—	—	—	—	518,315	518,315	(33,738)	484,577
—	43	—	—	—	—	43	—	43
—	—	610,610	—	—	—	610,610	—	610,610
262,200	—	—	—	—	—	262,200	24,983	287,183
—	—	—	—	—	3,913	3,913	—	3,913
—	—	—	—	—	(17,798)	(17,798)	—	(17,798)
262,200	43	610,610	—	—	504,430	1,377,283	(8,755)	1,368,528
—	—	—	—	—	9,200,000	—	—	—
—	—	—	—	—	—	(117,866)	—	(117,866)
—	—	—	—	4,395	(4,397)	(2)	—	(2)
(929,246) *	(2,454) *	626,138 *	30,563 *	17,594 *	5,506,378 *	6,064,173	(117,223)	5,946,950

Consolidated Statement of Cash Flows

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		608,180	344,024
Adjustments for:			
Interest income	5	(19,767)	(19,651)
Dividend income from a financial asset at fair value through profit or loss	5	(67,438)	(102,245)
Depreciation	6	538,581	806,776
Amortisation of other assets	6	24,884	48,109
Amortisation of prepaid land lease payments	6	1,195	1,143
Provision for/(reversal of) long term employee benefits	6	10,236	(7,290)
Loss on disposal of items of property, plant and equipment, net	6	6,086	16,669
Gain on disposal of other assets	5	—	(49,688)
Write-down of inventories to net realisable value, net	6	935	31,569
Provision for impairment of items of property, plant and equipment	6	583,353	226,200
Provision for impairment of inventories	6	—	125,763
Provision for/(reversal of) impairment of trade receivables	6	6,574	(1,168)
Impairment/(reversal of impairment) of other receivables, net	6	29,781	(24,536)
Fair value losses/(gains) on derivative financial instruments	5, 6	29,535	(84,309)
Fair value loss on cash flow hedges (transferred from equity)	6	—	868,924
Gain on derecognition of a derivative financial liability	6	—	(868,924)
Fair value gain on a financial asset at fair value through profit or loss	5	(411,278)	(1,044,952)
Finance costs	9	290,361	276,240
Share of loss/(profit) of associates		(180,096)	29,562
Share of profit of a joint venture		(772,535)	(210,922)
		678,587	361,294
Increase in inventories		(81,152)	(52,147)
Decrease/(increase) in trade and notes receivables		90,981	(159,649)
Decrease in prepayments, deposits and other receivables		11,975	63,314
Increase/(decrease) in accounts payable		31,378	(314,341)
Increase in accrued liabilities and other payables		7,140	357,415
Decrease in provisions		(2,177)	(22,322)
Cash generated from operations		736,732	233,564
Income tax paid		(274)	(917)
Net cash flows from operating activities		736,458	232,647

Consolidated Statement of Cash Flows

	Notes	2017	2016
Net cash flows from operating activities		736,458	232,647
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		19,744	21,707
Dividend income from a financial asset at fair value through profit or loss	5	67,438	102,245
Dividend income from an associate	19	91,368	—
Purchases of items of property, plant and equipment		(36,056)	(109,154)
Additions to other assets		(3,689)	(3,640)
Proceeds from disposal of items of property, plant and equipment		88	1,651
Proceeds from disposal of other assets		—	74,590
Net proceeds from disposal of partial investment in the Codrilla project		—	(23,452)
Repayment of loans from a joint venture		277,418	135,447
Net cash flows from investing activities		416,311	199,394
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		4,906,524	2,969,955
Repayment of bank borrowings		(5,523,798)	(3,257,419)
Receipt of a loan from government	29	57,385	—
Capital element of finance lease payables		(15,159)	(12,707)
Interest paid		(226,633)	(209,032)
Dividend paid to shareholders		(117,861)	—
Finance charges paid		(40)	(45,202)
Net cash flows used in financing activities		(919,582)	(554,405)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		233,187	(122,364)
Cash and cash equivalents at beginning of year		1,160,989	1,300,197
Effect of foreign exchange rate changes, net		11,496	(16,844)
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,405,672	1,160,989
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	498,376	402,546
Time deposits	27	907,296	758,443
Cash and cash equivalents as stated in the consolidated statement of financial position		1,405,672	1,160,989

Notes to Financial Statements

1. Corporate and Group Information

CITIC Resources Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

During the year, the Group was principally engaged in the following businesses:

- (a) the operation of the Portland Aluminium Smelter (the "**PAS**") which sources alumina and produces aluminium ingots in Australia;
- (b) the operation of coal mines and the sale of coal in Australia;
- (c) the export of various commodity products such as aluminium ingots, coal, iron ore, alumina and copper; and the import of other commodity products and manufactured goods such as steel, and vehicle and industrial batteries and tyres into Australia;
- (d) the exploration, development, production and sale of oil from the Seram Island Non-Bula Block, Indonesia (the "**Seram Block**"); and
- (e) the exploration, development, production and sale of oil from the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, China (the "**Hainan-Yuedong Block**").

In the opinion of the directors, the ultimate holding company of the Company is 中國中信集團有限公司 (CITIC Group Corporation), a company established in China.

Notes to Financial Statements

1. Corporate and Group Information (continued)

Information about subsidiaries

Particulars of the Company's principal subsidiaries were as follows:

Name	Place of incorporation / operation	Issued ordinary share capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands ("BVI") / Hong Kong	US\$10,000	100	Investment holding
Starbest Venture Limited	BVI / Hong Kong	US\$1	100	Investment holding
Star Elite Venture Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC Resources Finance (2007) Limited	BVI / Hong Kong	US\$1	100	Dormant
Star Choice Venture Limited	BVI / Hong Kong	US\$1	100	Financing
Indirectly held				
Feston Manufacturing Limited	BVI / Hong Kong	US\$10,000	100	Dormant
Nusoil Manufacturing Limited	BVI / Hong Kong	US\$100	100	Investment holding
Wing Lam (International) Timber Limited	Hong Kong	HK\$60,000,000	100	Dormant
Global Enterprises (HK) Limited	Hong Kong	HK\$2	100	Provision of management services
Maxpower Resources Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC New Highland Petroleum Limited	BVI / Hong Kong	US\$1	100	Investment holding
Toplight Resources Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC Resources Australia Pty Limited	State of Victoria, Australia	A\$430,298,351	100	Investment holding
CITIC Portland Holdings Pty Limited	State of Victoria, Australia	A\$196,791,454	100	Investment holding
CITIC Australia (Portland) Pty Limited	State of Victoria, Australia	A\$45,675,119	100	Aluminium smelting

Notes to Financial Statements

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place of incorporation / operation	Issued ordinary share capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Portland Surety Pty Limited	State of Victoria, Australia	A\$1	100	Investment holding
CITIC Nominees Pty Limited	State of Victoria, Australia	A\$2	100	Investment holding
CITIC Portland Finance 1 Pty Limited	State of Victoria, Australia	A\$2	100	Financing
CITIC (Portland) Nominees I Pty Limited *	State of Victoria, Australia	A\$2	100	Investment holding
CITIC (Portland) Nominees II Pty Limited *	State of Victoria, Australia	A\$2	100	Investment holding
CITIC Nominees Pty Limited Partnership	State of Victoria, Australia	A\$6,693,943	100	Investment holding
CITIC Australia Coal Pty Limited	State of Victoria, Australia	A\$220,605,959	100	Investment holding
CITIC Australia Coppabella Pty Limited	State of Victoria, Australia	A\$5,000,002	100	Mining and production of coal
CITIC Australia Coal Exploration Pty Limited	State of Victoria, Australia	A\$2,845,375	100	Exploration, development of coal mines and mining of coal
CITIC Bowen Basin Pty Limited	State of Victoria, Australia	A\$378,353	100	Exploration and development of coal mines
CITIC West Rolleston Pty Limited	State of Victoria, Australia	A\$196,390	100	Exploration and development of coal mines

Notes to Financial Statements

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place of incorporation / operation	Issued ordinary share capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Moorvale West Pty Limited	State of Victoria, Australia	A\$108,333	100	Exploration and development of coal mines
CITIC Olive Downs Pty Limited	State of Victoria, Australia	A\$99,958	100	Exploration and development of coal mines
CITIC West Walker Pty Limited	State of Victoria, Australia	A\$91,812	100	Exploration and development of coal mines
CITIC West / North Burton Pty Limited	State of Victoria, Australia	A\$34,238	100	Exploration and development of coal mines
CITIC Capricorn Pty Limited	State of Victoria, Australia	A\$9,549	100	Exploration and development of coal mines
CITIC Mining Equipment Pty Limited	State of Victoria, Australia	A\$1	100	Equipment lease holding
CITIC Australia Trading Pty Limited ("CATL")	State of Victoria, Australia	A\$4,710,647	100	Investment holding
CATL Sub-holdings Pty Limited	State of Victoria, Australia	A\$1	100	Investment holding
CITIC Australia Commodity Trading Pty Limited ("CACT")	State of Victoria, Australia	A\$500,002	100	Import and export of commodities and manufactured goods
CITIC Autoparts Pty Limited	State of Victoria, Australia	A\$100	100	Import of tyres and batteries
Tyre Choice Pty Limited	State of Victoria, Australia	A\$1	100	Dormant

Notes to Financial Statements

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place of incorporation / operation	Issued ordinary share capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Batteries Pty Limited	State of Victoria, Australia	A\$2	100	Dormant
CITIC Nickel Pty Limited	State of Victoria, Australia	A\$2	100	Investment holding
CITIC Australia Materials Pty Limited	State of Victoria, Australia	A\$2	100	Import of construction and building materials
CITIC Nickel International Pty Limited	State of Victoria, Australia	A\$2	100	Exploration and development of nickel mines
CITIC Australia Steels Products Pty Limited	State of Victoria, Australia	A\$2	100	Import of steel
北京千泉投資顧問有限公司 # (Beijing Springs Investment Consultants Co. Limited)	China	RMB1,243,173	100	Consulting
北京怡信美城商務信息諮詢有限公司 # (Beijing Yi Xin Mei Cheng Commercial Information Consulting Co. Ltd.)	China	RMB500,000	100	Consulting
Cogent Assets Limited	BVI / Hong Kong	US\$2	100	Investment holding
CITIC Petrochemical Holdings Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC Petrochemical Investments Limited	BVI / Hong Kong	US\$1	100	Investment holding
Group Smart Resources Limited	BVI / Hong Kong	US\$1	100	Investment holding
Highkeen Resources Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC Indonesia Energy Limited	BVI / Hong Kong	US\$1	100	Investment holding

Notes to Financial Statements

1. Corporate and Group Information (continued)

Information about subsidiaries (continued)

Name	Place of incorporation / operation	Issued ordinary share capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Seram Energy Limited ("CITIC Seram")	BVI / Indonesia	US\$1	100	Exploration, development and operation of oilfields
CITIC Haiyue Energy Limited	BVI / Hong Kong	US\$1	100	Investment holding
Tincy Group Energy Resources Limited ("Tincy Group")	Hong Kong / China	HK\$10,000,000	90	Exploration, development and operation of oilfields
CITIC Liaobin Investments Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC Liaobin Energy (HK) Limited	Hong Kong	HK\$1	100	Investment holding
CITIC Oil & Gas Holdings Limited	BVI / Hong Kong	US\$100	100	Investment holding
Renowned Nation Limited	BVI / Hong Kong	US\$1	100	Investment holding
KBM Energy Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC Netherlands Energy Coöperatief U.A.	Netherlands / Hong Kong	EUR100	100	Investment holding
Perfect Vision Investments Limited	BVI / Hong Kong	US\$1	100	Investment holding
KAZCITIC Investment LLP	Kazakhstan	KZT682,705,099	100	Property holding
Ample Idea Investments Limited	BVI / Hong Kong	US\$1	100	Investment holding
中信石油技術開發(北京)有限公司 # (CITIC Petroleum Technology Development (Beijing) Limited)	China	US\$100,000	100	Oil technology development
CITIC PNG Investments Limited	BVI / Hong Kong	US\$1	100	Investment holding
CITIC PNG Energy Limited	BVI / Hong Kong	US\$1	100	Investment holding
Splendor Venture Limited	BVI / Hong Kong	US\$1	100	Investment holding

* These two companies jointly own CITIC Nominees Pty Limited Partnership which owns the interest in the Portland Aluminium Smelter joint venture in Australia (the "PAS JV").

The statutory financial statements of these companies were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

Notes to Financial Statements

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments which have been measured at fair value. These financial statements are presented in Hong Kong dollar (“**HK\$**”) and all values are rounded to the nearest thousand (HK\$’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to shareholders of the Company and also to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (a) the assets (including goodwill) and liabilities of the subsidiary; (b) the carrying amount of any non-controlling interests; and (c) the cumulative translation differences recorded in equity; and recognises (a) the fair value of the consideration received; (b) the fair value of any investment retained; and (c) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to Financial Statements

2.2 Changes in Accounting Policies and Disclosures

The Group has adopted the following revised HKFRSs for the first time for the year's financial statements.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014 – 2016 Cycle	Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

Disclosure has been made in note 40 to the financial statements upon the adoption of amendments to HKAS 7 which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
HKFRS 9	Financial Instruments ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendment to HKAS 40	Transfers of Investment Property ¹
HK (IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments ²
Annual Improvements 2014 – 2016 Cycle	Amendments to HKFRS 1 and HKAS 28 ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

Notes to Financial Statements

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas:

- (a) the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction;
- (b) the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and
- (c) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.

The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During the year, the Group has performed an assessment of the impact of the adoption of HKFRS 9. The expected impacts related to the classification and measurement and the impairment requirements are summarised as follows.

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investment currently held as available for sale will be measured at fair value through other comprehensive income as the investment is intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gain and loss recorded in other comprehensive income for the equity investment cannot be recycled to profit or loss when the investment is derecognised.

Notes to Financial Statements

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income. Lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9 are recorded based on an expected credit loss model either on a 12-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record 12-month expected credit losses that are estimated based on the possible default events on its other receivables within the next 12 months.

The Group expects that the adoption of HKFRS 9 will not have a material impact on the Group's financial statements.

(c) Hedge accounting

As HKFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of HKFRS 9 will not have a significant impact on the Group's financial statements.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. During the year, the Group has performed an assessment on the impact of the adoption of HKFRS 15.

Notes to Financial Statements

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

The Group's principal activities consist of (a) the operation of the PAS which sources alumina and produces aluminium ingots in Australia; (b) the operation of coal mines and the sale of coal in Australia; (c) the import and export of commodity products in Australia; and (d) the exploration, development, production and sale of oil from the Seram Block in Indonesia and the Hainan-Yuedong Block in China.

The Group is required to deliver oil, aluminium ingots, coal and other commodities according to the contract terms, which is expected to be the only performance obligation in the contract. The Group enters into contracts with its customers with specified terms and each party's rights and payment terms are identifiable. Pricing for individual commodities are stated in the contracts with the customers. There is no market-based or index-based pricing, and hence no variable consideration. Generally, no transaction price should be allocated as the sale of oil, aluminium ingots, coal and other commodities is the only performance obligation within a contract. Therefore, the Group expects that the adoption of HKFRS 15 will not have a material impact on the Group's financial statements upon initial adoption and from 2018 onwards except for the presentation and disclosures.

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. As required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease, HK(SIC) – Int 15 Operating Leases – Incentives and HK(SIC) – Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to re-measure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17.

Notes to Financial Statements

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 38 to the financial statements, as at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK\$95,252,000. Upon adoption of HKAS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

HK(IFRIC) – Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC) – Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies

Investments in associates and a joint venture

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The Group's equity voting rights in Alumina Limited ("**AWC**") is less than 20% during the year. However, the Group is able to exercise significant influence over AWC and therefore its investment in AWC has been accounted as an associate of the Group.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and a joint venture are stated in the consolidated statement of financial position at the Group's share of net assets using the equity method, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and a joint venture is included in the consolidated income statement and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of its associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate or joint venture are eliminated to the extent of its investment in the associate or joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or a joint venture is included as part of the Group's investments in associates or a joint venture.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not re-measured. Instead, the investment continues to be accounted for using the equity method. In all other cases, upon loss of significant influence over its associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of its associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

Contractual arrangements that do not give rise to joint control or control

The Group has interests in certain contractual arrangements that do not give rise to joint control or control. Despite not having joint control or control, the Group has rights to, and obligations for, the underlying assets and obligations of these arrangements. Therefore, the Group accounts for its rights and obligations arising from these contracts by applying each HKFRSs as appropriate.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- (a) its assets, including its share of any assets held jointly;
- (b) its liabilities, including its share of any liabilities incurred jointly;
- (c) its revenue from the sale of its share of the output arising from the joint operation;
- (d) its share of the revenue from the sale of the output by the joint operation; and
- (e) its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at fair value at the acquisition date, which is the sum of the fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree at the acquisition date. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is re-measured at fair value at its acquisition date and any resulting gain or loss is recognised in the consolidated income statement.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration that is classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after assessment, recognised in the consolidated income statement as a gain on bargain purchase.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its derivative financial instruments and financial assets at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Fair value measurement (continued)

All assets and liabilities for which the fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole.

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the recoverable amount of the asset or cash-generating unit is estimated. The recoverable amount is the higher of its value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the reporting period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the reporting period in which it arises.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or a joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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;
 - (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); and
 - (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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than oil and gas properties, capital works and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Plant and machinery used in the PAS, which include the furnace, water system, pot room and ingot mill, and buildings and structures, are estimated to have a useful life up to 2030.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Other property, plant and equipment are estimated to have the following useful lives:

Leasehold improvements	10 to 12 years or over the unexpired lease terms, whichever is shorter
Motor vehicles, plant, machinery, tools and equipment	5 to 19 years
Furniture and fixtures	4 to 5 years
Buildings and structures	10 to 30 years

Freehold land is not depreciated.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment, including any significant part initially recognised, is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and structures under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Oil and gas properties

For oil and gas properties, the successful effort method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterment which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Expenditure incurred in respect of the exploratory wells that discover potential economic reserves in areas where major capital expenditure will be required before production could begin and the major capital expenditure depends upon successful completion of further exploratory work remains capitalised, and are reviewed periodically for impairment.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Oil and gas properties (continued)

Oil and gas properties are stated at cost less accumulated depreciation and depletion, and any impairment losses. The depreciation and depletion of oil and gas properties with a life longer than or equal to the licence life is estimated on a unit-of-production basis, in the proportion of actual production for the period to the total estimated remaining reserves of the oilfield. The remaining reserves figure is the amount estimated up to the licence expiration date plus the production for the period. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

Capitalised acquisition costs of proved properties are amortised by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved reserves.

The Group estimates future dismantlement costs for oil and gas properties with reference to the estimates provided by either internal or external engineers after taking into consideration the anticipated method of dismantlement required in accordance with the current legislation and industry practices. The associated cost is capitalised and the liability is discounted. An accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised. No market-risk premium has been included in the calculation of asset retirement obligation balances since no reliable estimate can be made.

Capital works

Capital works represent development expenditure in relation to the Group's mining activities, which are carried forward to the extent that such costs are expected to be recouped through successful development and production of the areas or by their sale.

Other assets

Other assets represent the Group's interest in the electricity supply agreement signed between the Group and the State Electricity Commission of Victoria, Australia (the "ESA"), exploration and evaluation assets, mining assets and stripping costs.

The ESA

The ESA provided steady electricity supply at a fixed tariff to the PAS for a period to 31 October 2016. The ESA was stated at cost less accumulated amortisation, provided on a straight-line basis over the term of the base power contract, and any impairment losses. The ESA expired in October 2016.

Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less any impairment losses. Exploration and evaluation assets include costs that are directly attributable to conducting topographical and geological surveys, exploratory drilling, sampling and trenching, and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Exploration expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. When the technical feasibility and commercial viability of extracting the ore are demonstrable, exploration and evaluation assets are amortised using the unit-of-production method.

If any project is abandoned during the evaluation stage, the total expenditures thereon are written off when the event occurs. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Other assets (continued)

Mining assets

Mining assets represent mining rights, which are stated at cost less accumulated amortisation and any impairment losses. Mining assets are amortised over the estimated useful lives of the mines in accordance with the production plan of the entities concerned and the proven and probable reserves of the mines using the unit-of-production method.

Stripping costs

As part of its mining operations, the Group incurs stripping (waste removal) costs both during the development phase and production phase of its operations. Stripping costs incurred during the development phase of a mine are capitalised and subsequently amortised over its useful life using the unit-of-production method. The capitalisation of development stripping costs ceases when the mine/component is commissioned and ready for production as intended by management.

Stripping costs incurred during the production phase of a mine are generally considered to create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where the benefits are realised in the form of improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a stripping activity asset, if the following criteria are met:

- (a) future economic benefits (being improved access to the ore body) are probable;
- (b) the component of the ore body to which access will be improved can be accurately identified; and
- (c) the costs associated with the improved access can be reliably measured.

If all of the criteria are not met, the production stripping costs are charged to the consolidated income statement as operating costs as incurred.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments, or derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus attributable transaction costs on acquisition, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value recognised in the consolidated income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement. Reassessment only occurs if there is either a change in the terms of the host contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the consolidated income statement. The loss arising from impairment is charged to the consolidated income statement as finance costs for loans and as other expenses for receivables.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised in the consolidated statement of comprehensive income as the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the consolidated income statement as other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated income statement in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the consolidated income statement as other income in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over its remaining life using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the consolidated statement of financial position) when:

- (a) the rights to receive cash flows from the asset have expired; or
- (b) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset; or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognises the associated liability of the transferred asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (without taking into account any future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the original effective interest rate in financing the financial asset (that is, the rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is charged to the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is subsequently recovered, the recovery is credited to other expenses in the consolidated income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is any objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously charged to the consolidated income statement, is removed from the consolidated statement of comprehensive income and recognised in the consolidated income statement.

In the case of investments in equity instruments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously charged to the consolidated income statement – is removed from the consolidated statement of comprehensive income and recognised in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Increases in their fair value after impairment are recognised directly in the consolidated statement of comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another one from the same lender but on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amount is recognised in the consolidated income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivatives and an electricity hedge agreement to manage its foreign currency risk, price risk, interest rate risk and inflation risk. These derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity purchase contracts that meet the definition of a derivative as defined by HKAS 39 is charged to the consolidated income statement as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in the consolidated statement of comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges of the Group are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting periods for which they are designated.

Hedges which meet the strict criteria for cash flow hedges are accounted for as follows.

- (a) The effective portion of the gain or loss on the hedging instrument is recognised directly in the consolidated statement of comprehensive income as the hedging reserve, while any ineffective portion is recognised immediately in the consolidated income statement.
- (b) Amounts recognised in the consolidated statement of comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in the consolidated statement of comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

- (c) If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in the consolidated statement of comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are separated into current and non-current portions based on an assessment of the facts and circumstances, including the underlying contracted cash flows.

- (a) Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current or separated into current and non-current portions consistently with the classification of the underlying hedged item.
- (b) Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

Derivative instruments that are designated as effective hedging instruments are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Except for the costs of exported goods held for re-sale which are determined on the first-in first-out basis, costs are determined on the weighted average basis. In the case of work in progress and finished goods, costs comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash subject to an insignificant risk of changes in value and having a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Provision for long term employee benefits represents the estimated future payments in respect of past services provided by employees. Consideration is given to expected future wages and salary levels, past record of employee departure and period of service. Expected future payments are discounted using market yields at the reporting date and currency that match, as closely as possible, the estimated future cash flows.

Provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the PAS and the coal mines in Australia. The Group is required to return the sites to the Australian authorities in their original condition. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

Provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. The provision for abandonment cost has been classified as non-current liabilities. The associated cost is capitalised and the liability is discounted. An accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration the interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (a) when the deferred tax liability arises from initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- (a) when the deferred tax asset relating to the deductible temporary differences arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Dividend income derived from the Group's subsidiaries in China is subject to withholding tax under the prevailing tax rules and regulations.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated income statement by way of a reduced depreciation charge.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instruments or a shorter period, when appropriate, to the net carrying amount of the financial assets;
- (c) handling service fee, when the services have been rendered; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the consolidated income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (the "equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the binomial model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award substitutes a cancelled award and is designated as a replacement award on the date of grant, the cancelled and new awards are treated as if they were a modification of the original award as described in the previous paragraph.

When the share options lapsed after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve is transferred to the retained profits.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Pension schemes

The Group operates a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the “**MPF Scheme**”) for those employees in Hong Kong who are eligible to participate. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Group provides employee benefits on retirement, disability or death to its employees in the PAS located in Australia. The benefit has a defined benefit plan and defined contribution plan. The defined benefit plan provides defined lump sum benefits based on years of service and final average salary. The defined contribution plan receives fixed contributions from the joint venture manager, and joint venture manager’s legal or constructive obligation is limited to these contributions. A liability in respect of defined benefit plan is recognised in the consolidated statement of financial position, and is measured as the present value of the superannuation fund’s assets at that date and any unrecognised past service cost. The present value of the defined benefit obligations is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Contributions to defined contribution plan are recognised as an expense as they become payable.

In addition, the Group also operates a defined benefit plan for those employees in Indonesia who are eligible to participate. The Group uses an actuarial technique, the projected unit credit method, to determine the present value of its defined benefit obligations. The discount rate is determined by reference to market yields at the end of the reporting period based on local government bonds that have maturity dates approximating the terms of the Group’s defined benefit obligations. The calculation is performed by a qualified actuary.

Re-measurements arising from defined benefit plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained profits through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Paid leave carried forward

The Group provides paid leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, any paid leave that remains untaken as at the end of the reporting period is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the end of the reporting period for the expected future cost of such paid leave earned during the year by the employees of the Group and carried forward.

Notes to Financial Statements

2.4 Summary of Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets (being those that necessarily take a substantial period of time to get ready for their intended use or sale) are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when 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 capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividends are recognised as liabilities when they are approved by shareholders in a general meeting. Proposed final dividend is disclosed in note 11 to the financial statements.

Foreign currencies

The financial statements are presented in HK\$ which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially translated using their respective functional currency rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item. In other words, the translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively.

The functional currencies of certain overseas subsidiaries, joint venture, joint operations and associate are currencies other than HK\$. As at the end of the reporting period, the assets and liabilities of these entities are translated into HK\$ at the exchange rates prevailing at the end of the reporting period and their income statements are translated into HK\$ at the weighted average exchange rates for the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component in the consolidated statement of comprehensive income relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries and joint operations are translated into HK\$ at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and joint operations which arise throughout the year are translated into HK\$ at the weighted average exchange rates for the year.

Notes to Financial Statements

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Tax

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatment of certain transactions and also assessment on the probability that adequate future taxable profits will be available to recover the deferred tax assets.

Employee benefits – share-based payments

The valuation of the fair value of share options granted requires judgement in determining the dividends expected on the shares, the expected volatility of the share price, the risk-free interest rate during the life of the options and the number of share options that are expected to become exercisable. Where the actual outcome of the number of exercisable options is different from the previously estimated number of exercisable options, such difference will have an impact on the consolidated income statement in the remaining vesting period of the relevant share options.

Fair value of financial instruments

Where fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using valuation techniques. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Equity accounting applied to AWC in which the Group holds less than 20% of equity voting rights

The Group considers that it has significant influence over AWC even though it owns less than 20% of the equity voting rights. This is because the Group is the single largest shareholder of AWC and has, together with the assignments of the equity voting rights by the other subsidiaries of CITIC Limited, 19.0621% of the equity voting rights in AWC. Additionally, the Group has a board seat on the board of directors of AWC.

Notes to Financial Statements

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also a suitable discount rate to calculate the present value of those cash flows. Further details are set out in note 15 to the financial statements.

Oil and gas reserves and mining reserves

The most significant estimates in the oil and gas and mining operations pertain to the volumes of oil and gas reserves and mining reserves and the future development, purchase price allocation, provisions for rehabilitation cost and abandonment cost, as well as estimates relating to certain oil and gas and mining revenues and expenses. Actual amounts could differ from those estimates and assumptions. Further details are set out in notes 13 and 32 to the financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses at the end of each reporting period whether there are any indicators of impairment for all non-financial assets. The non-financial assets (other than goodwill) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions at arm's length of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate to calculate the present values of those cash flows. Further details are set out in note 13 to the financial statements.

Impairment of loans and receivables

The Group assesses at the end of each reporting period whether there is any objective evidence that a loan/receivable is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments. Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on past experience in the assets with similar credit risk characteristics. Further details are set out in notes 23 and 25 to the financial statements.

Notes to Financial Statements

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Net realisable value of inventories

The Group performs regular review of the carrying amounts of its inventories with reference to aged analyses of the inventories and projections of expected future saleability of goods, and also based on management's experience and judgement. Based on the review, write-down of inventories is made when the estimated net realisable values of inventories decline below their carrying amounts. Due to changes in the technological, market and economic environment and customers' preference, actual saleability of goods may be different from estimation, and profit or loss could be affected accordingly.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profits will be available against which the losses can be utilised. Management's judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are set out in notes 10 and 33 to the financial statements.

4. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the aluminium smelting segment comprises the operation of the PAS which sources alumina and produces aluminium ingots in Australia;
- (b) the coal segment comprises the operation of coal mines and the sale of coal in Australia;
- (c) the import and export of commodities segment comprises the export of various commodity products such as aluminium ingots, coal, iron ore, alumina and copper; and the import of other commodity products and manufactured goods such as steel, and vehicle and industrial batteries and tyres into Australia; and
- (d) the crude oil segment comprises the operation of oilfields and the sale of oil in Indonesia and China.

Management monitors the results of the Group's operating segments separately for the purposes of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, fair value gain on a financial asset at fair value through profit or loss, dividend income, finance costs, share of profit/(loss) of associates and a joint venture, and provision for impairment of assets as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude investments in associates, investment in a joint venture, financial assets at fair value through profit or loss, available-for-sale investment, deferred tax assets, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude bank and other borrowings, finance lease payables, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

4. Operating Segment Information (continued)

2017	Aluminium smelting	Coal	Import and export of commodities	Crude oil	Total
Segment revenue:					
Sales to external customers	707,504	828,649	978,663	1,088,131	3,602,947
Other income	1,946	27	4,350	31,270	37,593
	709,450	828,676	983,013	1,119,401	3,640,540
Segment results	(169,085)	91,995	42,142	277,873	242,925
<i>Reconciliation:</i>					
Interest income and unallocated gains					437,605
Dividend income					67,438
Provision for impairment of items of property, plant and equipment					(583,353) ¹
Unallocated expenses					(218,705)
Unallocated finance costs					(290,361)
Share of profit of:					
Associates					180,096
A joint venture					772,535
Profit before tax					608,180
Segment assets	1,499,505	769,864	641,366	3,469,620	6,380,355
<i>Reconciliation:</i>					
Investments in associates					4,327,686
Investment in a joint venture					915,940
Unallocated assets					2,508,935
Total assets					14,132,916
Segment liabilities	346,647	240,463	64,551	310,858	962,519
<i>Reconciliation:</i>					
Unallocated liabilities					7,223,447
Total liabilities					8,185,966
Other segment information:					
Depreciation and amortisation	28,929	110,637	540	420,611	560,717
Unallocated amounts					3,943
					564,660
Impairment losses recognised in the consolidated income statement	—	27,441	6,574	26,422	60,437
Impairment losses reversed in the consolidated income statement	—	—	—	(24,082)	(24,082)
Capital expenditure	(1,012)	36,083	96	6,157	41,324
Unallocated amounts					1,615
					42,939 ²

¹ in respect of the crude oil segment

² Capital expenditure consists of additions to property, plant and equipment and other assets.

Notes to Financial Statements

4. Operating Segment Information (continued)

2016	Aluminium smelting	Coal	Import and export of commodities	Crude oil	Total
Segment revenue:					
Sales to external customers	858,258	514,866	697,270	886,338	2,956,732
Other income	89,962	5,718	3,876	5,316	104,872
	948,220	520,584	701,146	891,654	3,061,604
Segment results	3,791	29,107	6,937	(266,652)	(226,817)
<i>Reconciliation:</i>					
Interest income and unallocated gains					1,070,633
Dividend income					102,245
Gain on disposal of other assets					49,688 ¹
Provision for impairment of items of property, plant and equipment					(226,200) ²
Provision for impairment of inventories					(125,763) ³
Unallocated expenses					(204,882)
Unallocated finance costs					(276,240)
Share of profit/(loss) of:					
An associate					(29,562)
A joint venture					210,922
Profit before tax					344,024
Segment assets	615,525	966,013	605,641	4,248,980	6,436,159
<i>Reconciliation:</i>					
Investment in an associate					905,841
Investment in a joint venture					173,942
Unallocated assets					5,752,807
Total assets					13,268,749
Segment liabilities	265,254	203,889	108,731	293,879	871,753
<i>Reconciliation:</i>					
Unallocated liabilities					7,700,706
Total liabilities					8,572,459
Other segment information:					
Depreciation and amortisation	88,980	47,204	585	714,844	851,613
Unallocated amounts					4,415
					856,028
Impairment losses reversed in the consolidated income statement	—	—	(1,168)	—	(1,168)
Capital expenditure	2,136	9,960	351	34,986	47,433
Unallocated amounts					2,443
					49,876 ⁴

¹ in respect of the coal segment

² in respect of the aluminium smelting segment

³ in respect of the import and export of commodities segment and the crude oil segment

⁴ Capital expenditure consists of additions to property, plant and equipment and other assets.

Notes to Financial Statements

4. Operating Segment Information (continued)

Geographical information

(a) Revenue from external customers

	2017	2016
China	1,328,021	907,651
Australia	802,895	671,311
Europe	275,919	406,148
Other Asian countries	1,188,905	929,693
Others	7,207	41,929
	3,602,947	2,956,732

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2017	2016
Hong Kong	2,265	3,577
China	4,169,892	4,739,340
Australia	4,544,686	3,716,645
Kazakhstan	918,284	177,991
Other Asian countries	58,802	121,578
	9,693,929	8,759,131

The non-current assets information above is based on the location of the assets which exclude other assets, available-for-sale investment and deferred tax assets.

Information about major customers

During the year, revenue of HK\$920,045,000 was derived from sales to a customer of the crude oil segment and HK\$474,090,000 was derived from sales to a customer of the aluminium smelting segment. Revenue from each of these two customers amounted to 10% or more of the Group's revenue for the year.

In 2016, revenue of HK\$705,989,000 was derived from sales to a customer of the crude oil segment and HK\$666,108,000 was derived from sales to two customers of the aluminium smelting segment. Revenue from each of these three customers amounted to 10% or more of the Group's revenue for 2016.

Notes to Financial Statements

5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts.

An analysis of the Group's revenue, other income and gains is as follows:

	Notes	2017	2016
Revenue			
Sale of goods:			
Aluminium smelting		707,504	858,258
Coal		828,649	514,866
Import and export of commodities		978,663	697,270
Crude oil		1,088,131	886,338
		3,602,947	2,956,732
Other income and gains			
Interest income		19,767	19,651
Dividend income from a financial asset at fair value through profit or loss		67,438	102,245
Handling service fees		3,916	3,473
Fair value gains on:			
Derivative financial instruments		—	84,309
A financial asset at fair value through profit or loss	21	411,278	1,044,952
Sale of scrap		6,077	3,456
Reversal of impairment of other receivables	23	24,082	—
Gain on disposal of other assets		—	49,688
Others		10,078	19,664
		542,636	1,327,438
		4,145,583	4,284,170

Notes to Financial Statements

6. Profit before Tax

The Group's profit before tax was arrived at after charging/(crediting):

	Notes	2017	2016
Cost of inventories sold *		3,116,691	3,056,734
Depreciation		538,581	806,776
Amortisation of other assets		24,884	48,109
Amortisation of prepaid land lease payments		1,195	1,143
Minimum lease payments under operating leases on land and buildings		26,607	27,840
Auditor's remuneration		12,015	9,973
Employee benefit expenses (including directors' remuneration (note 7)):			
Wages and salaries		403,229	411,137
Pension scheme contributions		4,446	10,213
Provision for/(reversal of) long term employee benefits	32	10,236	(7,290)
		417,911	414,060
Loss on disposal of items of property, plant and equipment, net		6,086	16,669
Fair value losses on derivative financial instruments **		29,535	—
Exchange losses, net **		33,564	65,773
Write-down of inventories to net realisable value, net		935	31,569
Provision for/(reversal of) impairment of trade receivables	25	6,574	(1,168)
Impairment/(reversal of impairment) of other receivables, net	23	29,781	(24,536) **
Fair value loss on cash flow hedges (transferred from equity)	26	—	868,924
Gain on derecognition of a derivative financial liability	26	—	(868,924)
Provision for impairment of items of property, plant and equipment	13	583,353	226,200
Provision for impairment of inventories	24	—	125,763

* Cost of inventories sold for the year included an aggregate amount of HK\$750,091,000 (2016: HK\$1,031,816,000) which comprised employee benefit expenses, provision for inventories, depreciation, and amortisation. This amount was also included in the respective expense items disclosed above.

** These amounts were included in "Other expenses, net" in the consolidated income statement.

Notes to Financial Statements

7. Directors' Remuneration

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, was as follows:

	2017	2016
Fees:		
Executive directors and non-executive directors	490	325
Independent non-executive directors	1,635	1,541
	2,125	1,866
Other emoluments of executive directors:		
Salaries	13,507	13,114
Housing allowances	1,320	1,320
Bonuses	21,700	19,600
Pension scheme contributions	636	240
	37,163	34,274
	39,288	36,140

(a) Independent non-executive directors

The fees paid to the independent non-executive directors during the year were as follows:

	2017	2016
Fan Ren Da, Anthony	575	546
Gao Pei Ji	545	516
Look Andrew	515	479
	1,635	1,541

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

Notes to Financial Statements

7. Directors' Remuneration (continued)

(b) Executive directors and non-executive directors

	Fees	Salaries	Housing allowances	Bonuses	Pension scheme contributions	Total remuneration
2017						
Executive directors:						
Kwok Peter Viem	—	1,385	—	3,000	57	4,442
Suo Zhengang	—	4,856	720	7,000	282	12,858
Sun Yang	—	4,201	600	8,500	237	13,538
Li So Mui	—	3,065	—	3,200	60	6,325
	—	13,507	1,320	21,700	636	37,163
Non-executive directors:						
Ma Ting Hung	270	—	—	—	—	270
Chan Kin ²	220	—	—	—	—	220
	490	—	—	—	—	490
	490	13,507	1,320	21,700	636	37,653
2016						
Executive directors:						
Kwok Peter Viem	—	1,332	—	2,000	55	3,387
Suo Zhengang	—	4,670	720	6,600	60	12,050
Sun Yang	—	4,040	600	8,000	60	12,700
Li So Mui	—	3,072	—	3,000	60	6,132
	—	13,114	1,320	19,600	235	34,269
Non-executive directors:						
Ma Ting Hung	260	—	—	—	—	260
Qiu Yiyong ¹	65	—	—	—	5	70
	325	—	—	—	5	330
	325	13,114	1,320	19,600	240	34,599

¹ resigned on 1 April 2016

² appointed on 10 March 2017

There was no arrangement under which a director waived or agreed to waive any remuneration in 2016 and 2017.

8. Five Highest Paid Employees

The five highest paid employees during the year included three (2016: three) directors and two (2016: two) members of senior management personnel. Details of the remuneration of these directors are set out in note 7 to the financial statements while details of the remuneration of these senior management personnel are set out below and in note 41(c) to the financial statements:

	2017	2016
Salaries	5,671	5,293
Housing allowances	300	—
Bonuses	5,367	5,278
Pension scheme contributions	334	290
	11,672	10,861

Notes to Financial Statements

9. Finance Costs

An analysis of finance costs is as follows:

	2017	2016
Interest expense on bank and other borrowings	281,421	260,711
Interest expense on a finance lease	1,481	2,268
Total interest expense on financial liabilities not at fair value through profit or loss	282,902	262,979
Other finance charges:		
Increase in discounted amounts of provisions arising from the passage of time (note 32)	7,419	4,329
Others	40	8,932
	290,361	276,240

10. Income Tax

	2017	2016
Current – Hong Kong	—	—
Current – Elsewhere		
Charge for the year	168	139
Underprovision in prior years	35	66
Deferred (note 33)	123,400	(422)
Total tax expense/(credit) for the year	123,603	(217)

The statutory rate of Hong Kong profits tax was 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the year (2016: Nil).

Taxes on profits assessable elsewhere were calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Australia: The Group's subsidiaries incorporated in Australia were subject to Australian income tax at a rate of 30% (2016: 30%).

Indonesia: The corporate tax rate applicable to the subsidiary which is operating in Indonesia was 30% (2016: 30%). The Group's subsidiary owning a participating interest in the oil and gas properties in Indonesia was subject to branch tax at the effective tax rate of 14% (2016: 14%).

China: The Group's subsidiaries registered in China were subject to corporate income tax at a rate of 25% (2016: 25%).

According to HKAS 12 Income Taxes, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Notes to Financial Statements

10. Income Tax (continued)

A reconciliation of the tax expense/(credit) applicable to profit before tax at the Hong Kong statutory tax rate to the tax expense/(credit) at the Group's effective tax rate is as follows:

	2017	2016
Profit before tax	608,180	344,024
Tax at the Hong Kong statutory tax rate of 16.5% (2016: 16.5%)	100,350	56,764
Higher tax rates on profits arising elsewhere	33,217	90,531
Adjustments in respect of current tax of previous periods	35	66
Profits and losses attributable to associates and a joint venture	(157,184)	(29,924)
Income not subject to tax	(25,293)	(295,215)
Expenses not deductible for tax	76,722	72,585
Tax losses not recognised	16,101	106,770
Temporary differences not recognised	79,655	(1,794)
Tax expense/(credit) at the Group's effective rate	123,603	(217)

The share of tax expense attributable to associates and a joint venture, amounting to HK\$1,802,000 (2016: share of tax credit HK\$1,349,000) and HK\$309,113,000 (2016: HK\$7,791,000) respectively, was included in "Share of profit/(loss) of associates and a joint venture" in the consolidated income statement.

The Group has unrecognised deferred tax assets from tax losses arising in Australia, Indonesia and China in an aggregate amount of HK\$274,437,000 (2016: HK\$389,893,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. The Group has unrecognised deferred tax assets from deductible temporary differences in an aggregate amount of HK\$272,573,000 (2016: HK\$190,105,000). In respect of tax losses arising in China, the losses are available for offsetting against future taxable profits for a maximum period of five years. Deferred tax assets have not been recognised in respect of these tax losses and deductible temporary differences because they have arisen in companies that have been loss-making for some years and it is considered improbable that taxable profits will be available against which the tax losses can be utilised.

11. Dividend

	2017	2016
Proposed final dividend of HK 2.50 cents (2016: HK 1.50 cents) per ordinary share	196,443	117,866

The proposed final dividend for the year is subject to the approval of shareholders at the forthcoming annual general meeting of the Company. The proposed final dividend of HK 1.50 cents per ordinary share for the year ended 31 December 2016, totalling HK\$117,866,000, was approved by shareholders at the annual general meeting of the Company held on 23 June 2017 and was paid during the year.

Notes to Financial Statements

12. Earnings per Share attributable to Ordinary Shareholders of the Company

The calculation of the basic earnings per share amount was based on the profit for the year attributable to ordinary shareholders of the Company of HK\$518,315,000 (2016: HK\$362,985,000) and the weighted average number of ordinary shares in issue during the year, which was 7,857,727,149 (2016: 7,857,727,149) shares.

The calculation of the diluted earnings per share amount was based on the profit for the year attributable to ordinary shareholders of the Company. The weighted average number of ordinary shares used in the calculation was the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment was made to the basic earnings per share amount presented for the years ended 31 December 2017 and 2016 in respect of a dilution. There were no dilutive potential ordinary shares arising from share options as the respective average share price of the Company during the years ended 31 December 2017 and 2016 did not exceed the exercise price of the then outstanding share options.

13. Property, Plant and Equipment

2017										
	Notes	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Furniture and fixtures	Buildings and structures	Capital works	Construction in progress	Total
Cost :										
At 1 January		9,093,074	42,893	4,337	1,819,688	21,330	754,696	130,268	149,821	12,016,107
Change in provision for rehabilitation cost	32	—	—	—	(4,224)	—	17,771	—	—	13,547
Additions		(4,983)	—	51	14,003	52	3,022	2,611	11,140	25,896
Disposals/write-off		—	—	—	(25,663)	(6)	(640)	—	—	(26,309)
Transfers		62,189	—	—	6,234	—	10,437	(15,346)	(63,514)	—
Exchange realignment		432,252	—	91	1,382	—	684	—	9,180	443,589
At 31 December		9,582,532	42,893	4,479	1,811,420	21,376	785,970	117,533	106,627	12,472,830
Accumulated depreciation and impairment :										
At 1 January		5,218,905	—	4,306	1,492,472	19,287	503,971	11,700	91,140	7,341,781
Depreciation provided during the year		393,740	—	25	71,028	715	49,919	—	—	515,427
Disposals/write-off		—	—	—	(19,681)	(5)	(449)	—	—	(20,135)
Provision for impairment	6	583,353	—	—	—	—	—	—	—	583,353
Exchange realignment		183,526	—	91	1,107	—	535	—	6,899	192,158
At 31 December		6,379,524	—	4,422	1,544,926	19,997	553,976	11,700	98,039	8,612,584
Net carrying amount :										
At 31 December		3,203,008	42,893	57	266,494	1,379	231,994	105,833	8,588	3,860,246

Notes to Financial Statements

13. Property, Plant and Equipment (continued)

2016		Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Furniture and fixtures	Buildings and structures	Capital works	Construction in progress	Total
	Note									
Cost:										
At 1 January		9,450,400	42,893	4,420	1,854,149	19,495	742,083	137,702	164,653	12,415,795
Change in provision for abandonment cost		988	—	—	—	—	—	—	—	988
Change in provision for rehabilitation cost		—	—	—	707	—	4,550	—	—	5,257
Additions		12,476	—	—	2,957	1,852	4,468	2,345	21,146	45,244
Disposals/write-off		—	—	—	(41,974)	(17)	(1,403)	—	(4,823)	(48,217)
Transfers		20,326	—	—	5,087	—	5,098	(9,784)	(20,727)	—
Exchange realignment		(391,116)	—	(83)	(1,238)	—	(100)	5	(10,428)	(402,960)
At 31 December		9,093,074	42,893	4,337	1,819,688	21,330	754,696	130,268	149,821	12,016,107
Accumulated depreciation and impairment:										
At 1 January		4,589,684	—	4,331	1,232,434	18,068	473,568	11,700	97,427	6,427,212
Depreciation provided during the year		749,463	—	58	63,178	1,236	31,799	—	—	845,734
Disposals/write-off		—	—	—	(28,397)	(17)	(1,363)	—	—	(29,777)
Provision for impairment	6	—	—	—	226,200	—	—	—	—	226,200
Exchange realignment		(120,242)	—	(83)	(943)	—	(33)	—	(6,287)	(127,588)
At 31 December		5,218,905	—	4,306	1,492,472	19,287	503,971	11,700	91,140	7,341,781
Net carrying amount:										
At 31 December		3,874,169	42,893	31	327,216	2,043	250,725	118,568	58,681	4,674,326

As at 31 December 2017, the net carrying amount of the Group's property, plant and equipment included plant and machinery of HK\$11,746,000 (2016: HK\$51,217,000) held under a finance lease.

Freehold land of the Group is located in Australia.

During the year, an impairment of HK\$583,353,000 to oil and gas properties of the Hainan-Yuedong Block was provided to reduce their carrying amount to their recoverable amount. The impairment arose primarily due to a decrease in total oil reserves estimate for the Hainan-Yuedong Block.

In 2016, an impairment of HK\$226,200,000 to plant, machinery and equipment of the PAS was provided to reduce their carrying amount to their recoverable amount. The impairment arose primarily due to the power outage in late 2016 at the PAS, which disrupted operations and caused a reduction in production capacity of the PAS and higher production costs.

The estimate of the recoverable amount of these assets was determined based on a value in use calculation, using a discounted cash flow model. Future cash flows were adjusted for risks specific to these assets and discounted using a pre-tax discount rate of 13.22% in respect of the Hainan-Yuedong Block for the year, and 11.90% in respect of the PAS for 2016.

Notes to Financial Statements

13. Property, Plant and Equipment (continued)

In assessing whether an impairment is required for the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. Assets are tested for impairment either individually or as part of a cash-generating unit. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described above is value in use.

14. Prepaid Land Lease Payments

	2017	2016
Carrying amount at 1 January	17,574	20,025
Amortisation provided during the year	(1,197)	(1,213)
Exchange realignment	1,281	(1,238)
Carrying amount at 31 December	17,658	17,574
Current portion included in prepayments, deposits and other receivables (note 23)	(1,247)	(1,159)
Non-current portion	16,411	16,415

15. Goodwill

	2017	2016
Cost:		
At 1 January and 31 December	341,512	341,512
Accumulated impairment:		
At 1 January and 31 December	316,830	316,830
Net carrying amount:		
At 31 December	24,682	24,682

Impairment testing of goodwill

As at 31 December 2017 and 2016, the net carrying amount of the Group's goodwill related to its import and export of commodities cash-generating unit which is a reportable segment.

The recoverable amount of the Group's import and export of commodities cash-generating unit was determined based on a value in use calculation, using cash flow projection based on financial budgets covering a 5-year period approved by management. The cash flows beyond the 5-year period were extrapolated using a growth rate of 2% which was determined with reference to the long term Customer Price Index of Australia and the nature of the business. The pre-tax discount rate applied to the cash flow projection was 20.82% (2016: 17.18%).

Notes to Financial Statements

16. Other Assets

Non-current assets

2017	Mining assets and stripping costs	Exploration and evaluation assets	Total
Cost:			
At 1 January	841,902	195,610	1,037,512
Additions	2,676	820	3,496
Transfers	16,779	(16,779)	—
At 31 December	861,357	179,651	1,041,008
Accumulated amortisation and impairment:			
At 1 January	708,022	39,502	747,524
Amortisation provided during the year	24,884	—	24,884
At 31 December	732,906	39,502	772,408
Net carrying amount:			
At 31 December	128,451	140,149	268,600

2016	ESA	Mining assets and stripping costs	Exploration and evaluation assets	Total
Cost:				
At 1 January	1,039,777	792,822	219,738	2,052,337
Additions	—	49,080	774	49,854
Disposals	—	—	(24,902)	(24,902)
At 31 December	1,039,777	841,902	195,610	2,077,289
Accumulated amortisation and impairment:				
At 1 January	996,781	702,909	39,502	1,739,192
Amortisation provided during the year	42,996	5,113	—	48,109
At 31 December	1,039,777	708,022	39,502	1,787,301
Net carrying amount:				
At 31 December	—	133,880	156,108	289,988

Notes to Financial Statements

17. Investments in Joint Operations

As at 31 December 2017, the Group had interests in the following joint operations:

- (a) 51% participating interest in the production sharing contract which grants the right to explore, develop and produce petroleum from the Seram Block until October 2019 (the "PSC"); and
- (b) the petroleum contract (as supplemented) for the exploration, development and production of petroleum from the Hainan-Yuedong Block.

18. Interests in Other Contractual Arrangements

As at 31 December 2017, the Group had interests in the following contractual arrangements:

- (a) 22.5% participating interest in the PAS operations, the principal activity of which is aluminium smelting;
- (b) 14% participating interest in the Coppabella and Moorvale coal mines joint venture operations, the principal activities of which are the mining and sale of coal;
- (c) 50% participating interest in the CB Exploration operations;
- (d) 15% participating interest in the Bowen Basin Coal operations;
- (e) 10% participating interest in the West Rolleston operations;
- (f) 10% participating interest in the Moorvale West operations;
- (g) 10% participating interest in the Olive Downs operations;
- (h) 15% participating interest in the West Walker operations;
- (i) 13.335% participating interest in the West / North Burton operations; and
- (j) 15% participating interest in the Capricorn operations.

The principal activity of each of the contractual arrangements stated in (c) to (j) is the exploration of coal.

The contractual arrangements stated in (a) and (c) above were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's interest in the assets and liabilities employed in the PAS JV was included in the consolidated statement of financial position under the classification shown below:

	2017	2016
Non-current assets	467,838	474,881
Current assets	100,898	86,878
Current liabilities	(114,607)	(94,817)
Non-current liabilities	(136,813)	(138,789)

Notes to Financial Statements

18. Interests in Other Contractual Arrangements (continued)

The Group's interests in the combined net assets employed in the remaining contractual arrangements were included in the consolidated statement of financial position under the classification shown below:

	2017	2016
Non-current assets	803,670	776,449
Current assets	104,982	292,495
Current liabilities	(114,186)	(238,916)
Non-current liabilities	(102,555)	(72,512)
Proportionate share of combined net assets employed in the remaining contractual arrangements	691,911	757,516

19. Investments in Associates

	2017	2016
Share of net assets	5,069,918	1,648,073
Goodwill on acquisition	1,089,808	1,089,808
	6,159,726	2,737,881
Impairment *	(1,832,040)	(1,832,040)
	4,327,686	905,841

* The impairment related to the Group's investment in CITIC Dameng Holdings Limited ("CDH").

Particulars of the Group's associates as at 31 December 2017 were as follows:

Name	Place of incorporation / operation	Issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activity
AWC #	Australia / Australia	A\$3,312,184,263	9.6846	Investment holding
CDH	Bermuda / Hong Kong	HK\$342,845,900	34.39	Investment holding

Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The Group's investments in AWC and CDH are indirectly held by the Company.

Notes to Financial Statements

19. Investments in Associates (continued)

AWC, a leading Australian company listed on the Australian Securities Exchange (the "ASX") (Stock Code: AWC), has significant global interests in bauxite mining, alumina refining and selected aluminium smelting operations. AWC is considered an associate of the Group and is accounted for using the equity method from 30 June 2017.

During the year, the voting rights of AWC shares owned by the other subsidiaries of CITIC Limited have been duly assigned to the Group and as a result, effective 30 June 2017, the Group's voting rights in AWC increased to 19.0621%. The Group reassessed and concluded that significant influence over AWC has been demonstrated by the Group effective 30 June 2017. Consequently, the investment was reclassified from a financial asset at fair value through profit or loss to an investment in an associate on 30 June 2017. Prior to the reclassification, the investment in AWC was measured at its fair value based on the closing price of AWC shares on 29 June 2017. As a result, a pre-tax fair value gain of HK\$411,278,000 (2016: HK\$1,044,952,000) was recorded in respect of the Group's interest in AWC (note 5).

The following table summarises the financial information of AWC and its subsidiaries and also illustrates the reconciliation to the carrying amount of the Group's investment in AWC in the consolidated financial statements:

	2017
Current assets	326,040
Non-current assets	34,940,664
Current liabilities	(13,260)
Non-current financial liabilities, excluding accounts payable, other payables and provisions	(767,520)
Other non-current liabilities	(68,640)
Net assets	34,417,284
Reconciliation to the Group's investment in an associate:	
Proportion of ownership	9.6846%
Proportionate share of net assets and carrying amount	3,333,176
Fair value of the Group's investment	4,123,080

The following table shows the operating result of AWC and its subsidiaries for the period from the date on which the Group could exercise significant influence on AWC to 31 December 2017 ("Relevant Period"):

	Relevant Period
Revenue	3,900
Profit	1,369,185
Dividend received by the Group	91,368

Notes to Financial Statements

19. Investments in Associates (continued)

CDH, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 1091), is principally engaged in (a) manganese mining, ore processing and manganese downstream processing operations in China; (b) manganese mining and ore processing operations in Gabon, West Africa; and (c) trading of manganese products. CDH is considered an associate of the Group and is accounted for using the equity method.

The following tables summarise the financial information of CDH and its subsidiaries and also illustrate the reconciliation to the carrying amount of the Group's investment in CDH in the consolidated financial statements:

	2017	2016
Current assets	3,338,535	3,757,878
Non-current assets	5,413,627	5,168,425
Current liabilities	(4,732,153)	(4,681,008)
Non-current financial liabilities, excluding accounts payable, other payables and provisions	(744,845)	(1,251,054)
Other non-current liabilities	(313,962)	(291,555)
Net assets	2,961,202	2,702,686
Non-controlling interests	(69,344)	(68,663)
	2,891,858	2,634,023
Reconciliation to the Group's investment in an associate:		
Proportion of ownership	34.39%	34.39%
Proportionate share of net assets and carrying amount	994,510	905,841
Fair value of the Group's investment	560,025	601,290

	Year ended 31 December	
	2017	2016
Revenue	5,991,436	3,248,108
Profit/(loss) for the year attributable to:		
Shareholders of CDH	138,109	(85,960)
Non-controlling interests of CDH	531	(40,508)
Other comprehensive income/(loss) attributable to:		
Shareholders of CDH	119,726	(170,464)
Non-controlling interests of CDH	(3,295)	(41)

Notes to Financial Statements

20. Investment in a Joint Venture

	2017	2016
Share of net assets	2,315,875	1,573,877
Impairment	(1,399,935)	(1,399,935)
	915,940	173,942

Particulars of the Group's joint venture as at 31 December 2017 were as follows:

Name	Place of incorporation and operation	Issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activity
CITIC Canada Energy Limited ("CCEL")	Canada	US\$1	50	Investment holding

CCEL is an investment holding company and its operating subsidiaries are principally engaged in the exploration, development, production and sale of oil and provision of oilfield related services in Kazakhstan.

Previously, JSC Karazhanbasmunai ("**KBM**"), a subsidiary of CCEL, was committed to selling certain amounts of crude oil to a bitumen plant in Kazakhstan (the "**Plant**") to support production of bitumen. Crude oil sold to the Plant was charged at prices much lower than international prices.

During the year, KBM entered into an agreement with the government authorities in Kazakhstan pursuant to which KBM is, instead, allowed to deliver crude oil to the Plant for production of bitumen and paying a refining fee to the Plant. After refining, the bitumen together with residual crude oil is taken back and sold by KBM. The residual crude oil can be sold in international markets. As a result, KBM is able to significantly increase its export sales volume going forward and hence, significantly increase its revenue, operating results and cash flows. Accordingly, at the end of the year, a write-back of a prior year provision for impairment loss was made in respect of certain oil and gas properties of KBM and credited to "Reversal of impairment of items of property, plant and equipment" in CCEL's consolidated income statement. The Group's share was HK\$549,983,000 (after tax expense) and the amount was credited to "Share of profit of a joint venture" in the consolidated income statement.

Notes to Financial Statements

20. Investment in a Joint Venture (continued)

The following tables summarise the financial information of CCEL and its subsidiaries and also illustrate the reconciliation to the carrying amount of the Group's investment in CCEL in the consolidated financial statements:

	2017	2016
Cash and cash equivalents	626,684	902,182
Other current assets	1,161,114	955,540
Current assets	1,787,798	1,857,722
Non-current assets	7,396,180	6,069,828
Financial liabilities, excluding accounts payable and other payables	(2,511,764)	(5,170,614)
Other current liabilities	(624,465)	(739,167)
Current liabilities	(3,136,229)	(5,909,781)
Non-current financial liabilities, excluding accounts payable, other payables and provisions	(1,943,242)	—
Other non-current liabilities	(2,030,241)	(1,493,991)
Non-current liabilities	(3,973,483)	(1,493,991)
Net assets	2,074,266	523,778
Non-controlling interests	(242,386)	(175,894)
	1,831,880	347,884
Reconciliation to the Group's investment in a joint venture:		
Proportion of ownership	50%	50%
Proportionate share of net assets and carrying amount	915,940	173,942

	Year ended 31 December	
	2017	2016
Revenue	5,655,500	4,387,219
Interest income	8,657	18,832
Depreciation and amortisation	(526,801)	(524,015)
Interest expense	(95,395)	(104,870)
Income tax expense	(618,226)	(15,582)
Profit for the year attributable to:		
Shareholders of CCEL	1,545,070	421,844
Non-controlling interests of CCEL	102,589	20,291
Other comprehensive income/(loss) attributable to:		
Shareholders of CCEL	(61,074)	(73,960)
Non-controlling interests of CCEL	(2,074)	488

Notes to Financial Statements

21. Financial Assets at Fair Value through Profit or Loss

Designated as such upon initial recognition

	2017	2016
Non-current investment:		
Listed equity investment in Australia, at fair value	—	2,880,665

The fair value of the above investment was based on the quoted market price of the equity investment's shares on the ASX.

As at 31 December 2017 and 2016, the Group held a 9.6846% equity interest in AWC. The investment was reclassified to an investment in an associate on 30 June 2017. Further details are set out in note 19 to the financial statements.

During the year, the Group recorded a pre-tax fair value gain of HK\$411,278,000 (2016: HK\$1,044,952,000) in respect of its interest in AWC (note 5).

Held for trading

	2017	2016
Current investments:		
Unlisted investments in Australia and China, at fair value	3,029	3,029

22. Available-for-sale Investment

	2017	2016
Non-current investment:		
Listed equity investment in Australia, at fair value	845	784

The fair value of the above investment was based on the quoted market price of the equity investment's shares on the ASX.

Notes to Financial Statements

23. Prepayments, Deposits and Other Receivables

	2017	2016
Prepayments	20,442	13,591
Current portion of prepaid land lease payments (note 14)	1,247	1,159
Deposits and other receivables	1,199,482	1,521,581
	1,221,171	1,536,331
Portion classified as current assets	(1,168,261)	(1,453,071)
Non-current portion	52,910	83,260

Included in the Group's other receivables was an amount due from CCEL of HK\$1,071,837,000 (2016: HK\$1,339,921,000), which was interest free and repayable on demand. In 2015, an impairment of HK\$24,536,000 was provided in respect of the amount due from CCEL. However, such amount was reversed in 2016 (note 6).

A tax regulation in Indonesia, effective in the first half of 2015, limited value added tax ("VAT") reimbursements to equity oil distributed to the government under the PSC. At the end of 2015, as it was uncertain whether any equity oil would be available for distribution to the government prior to the expiry of the PSC, an impairment of other receivables of HK\$105,664,000 was made in respect of the potentially unrecoverable VAT reimbursement. Following an amendment to this tax regulation in October 2016, VAT reimbursements can now be claimed after each delivery of the first tranche production to the government. Accordingly, a reversal of impairment of other receivables of HK\$24,082,000 (note 5) was made during the year.

At the end of the year, an impairment of HK\$53,863,000 (2016: Nil) was provided in respect of certain other receivables which were considered potentially unrecoverable.

As at 31 December 2017, except for the impairment of other receivables mentioned above, none of the above assets was either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

24. Inventories

	2017	2016
Raw materials	153,385	116,761
Work in progress	12,051	10,824
Finished goods	477,283	450,113
	642,719	577,698

Notes to Financial Statements

24. Inventories (continued)

In 2014, the Chinese authorities commenced an investigation into the allegedly fraudulent multiple use of warehouse receipts in respect of certain aluminium and copper products stored at Qingdao port, China (the “**Investigation**”). The Group is not involved in the Investigation and up to the date of this report, the Group is not aware of the status or result of the Investigation.

The Group has certain alumina and copper stored in bonded warehouses at Qingdao port (the “**Inventories**”) with a gross carrying amount of HK\$979,212,000. In light of the Investigation, the Group applied to the Qingdao Maritime Court (the “**Qingdao Court**”) in June 2014 for asset protection orders in respect of the Inventories. The Group also claimed against the operator of the bonded warehouses at Qingdao port and related parties (the “**Claim**”).

Pursuant to the decisions of the Qingdao Court in September 2016, the Claim was transferred to the Southern Branch of the Qingdao Public Security Bureau (the “**Public Security Bureau**”) for determination in accordance with China’s criminal procedures. As a result, the Claim terminated.

In prior years, in respect of the Inventories, a cumulative full provision was made on all the alumina of HK\$579,277,000 and provisions totalling HK\$219,662,000 were made on copper leaving the remaining copper inventory (the “**Remaining Copper**”) with a net carrying amount of HK\$180,273,000 as at 31 December 2016.

In February 2017, 山西省高級人民法院 (the Shanxi High People’s Court) (the “**Shanxi Court**”) ordered the lifting of the asset protection order obtained by 山煤煤炭進出口有限公司 (Shanxi Coal Import & Export Co., Ltd.) (“**Shanxi Coal I/E**”) over a certain quantity of the Inventories (note 37(b)). Following lifting of the asset protection order, the Group has been in discussions with relevant parties and working to recover the Remaining Copper.

The Group remains confident in being able to recover the Remaining Copper having considered the evidence in hand, the progress of the recovery and the advice from its legal counsels. Therefore, no further provision was made for the year (2016: HK\$89,435,000) and the net carrying amount of the Remaining Copper remained HK\$180,273,000 as at 31 December 2017.

In 2016, an impairment of HK\$36,328,000 was provided in respect of the obsolete and slow-moving raw materials in the Seram Block.

Other than the above impairment provisions (totalling HK\$125,763,000) made in 2016, an impairment of HK\$33,928,000 was provided to write down the carrying amount of the inventories in the Hainan-Yuedong Block to their estimated net realisable value. Such amount was charged to “Cost of sales” in the consolidated income statement for the year ended 31 December 2016.

25. Trade and Notes Receivables

	2017	2016
Trade receivables	555,308	621,733
Notes receivables	—	24,556
Impairment	(9,096)	(2,522)
	546,212	643,767

The Group normally offers credit terms of 30 to 120 days to its established customers.

Notes to Financial Statements

25. Trade and Notes Receivables (continued)

An aged analysis of the trade and notes receivables, based on the invoice date and net of provisions, was as follows:

	2017	2016
Within one month	324,727	442,976
One to two months	74,532	37,390
Two to three months	45,716	80,326
Over three months	101,237	83,075
	546,212	643,767

The movements in the provision for impairment of trade and notes receivables were as follows:

	2017	2016
At 1 January	2,522	3,690
Provision for/(reversal of) impairment (note 6)	6,574	(1,168)
At 31 December	9,096	2,522

Included in the above provision for impairment of trade and notes receivables was a provision for individually impaired trade receivables of HK\$9,096,000 (2016: HK\$2,522,000) with an aggregate carrying amount (before provision) of HK\$9,096,000 (2016: HK\$2,522,000). The individually impaired trade receivables related to customers that were in financial difficulties and the receivables were not expected to be recovered.

An aged analysis of the trade and notes receivables that were not considered to be impaired was as follows:

	2017	2016
Neither past due nor impaired	530,270	599,553
Less than one month past due	4,978	42,058
One to three months past due	10,964	2,156
	546,212	643,767

Receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to independent customers that have a good track record with the Group. Based on past experience, no provision for impairment is considered necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Notes to Financial Statements

26. Derivative Financial Instruments

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Forward currency contracts	2,324	—	5,786	902
Forward commodity contracts	22,518	9,553	882	9,485
EHA1 (as defined on page 115)	—	—	54,158	—
EHA2 (as defined on page 116)	874,861	—	—	—
	899,703	9,553	60,826	10,387
Portion classified as non-current portion:				
EHA2	(496,054)	—	—	—
Non-current portion	(496,054)	—	—	—
Current portion	403,649	9,553	60,826	10,387

Certain members of the Group enter into derivative financial instruments in the normal course of business in order to hedge their exposure to fluctuations in foreign exchange rates, commodity prices and inflation.

Forward currency contracts – cash flow hedges

The Group has transactional currency exposures. Such exposures primarily arise from sales or purchases by the Group's import and export of commodities segment in currencies other than the functional currencies of the related entities in that segment. Therefore, to enable the Group to manage such business operations, forward currency contracts are entered into to hedge current and anticipated future sales and purchases.

Forward currency contracts described above are considered to be cash flow hedges and are accounted for in accordance with the accounting policies set out in note 2.4 to the financial statements.

The terms of the outstanding forward currency contracts held by the Group were as follows:

	2017		2016	
	Weighted average exchange rate	Contractual amount	Weighted average exchange rate	Contractual amount
Forward currency contracts:				
(a) Sell A\$ / Buy US\$				
Within three months	0.7720	129,893	0.7549	136,302
Three to twelve months	0.7648	42,011	—	—
(b) Buy A\$ / Sell US\$				
Within three months	0.7570	82,665	0.7345	51,565
(c) Sell A\$ / Buy Euro				
Within three months	—	—	0.6690	1,490

The terms of the forward currency contracts were negotiated to match the terms of related purchases and sales commitments. The amounts disclosed above were measured at the contracted rates.

Notes to Financial Statements

26. Derivative Financial Instruments (continued)

Forward currency contracts – cash flow hedges (continued)

The portion of gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in the consolidated statement of changes in equity. When a cash flow occurs, the Group adjusts the initial measurement of the component recognised in the consolidated statement of financial position by the related amount in the consolidated statement of changes in equity.

Forward commodity contracts – cash flow hedges

The Group commits to the forward contracts in order to protect itself from adverse movements in aluminium prices.

Forward commodity contracts are normally settled other than by physical delivery of the underlying commodities and hence are classified as financial instruments. On maturity, the forward price is compared to the spot price and the difference is applied to the contracted quantity in calculating the gain or loss of the Group under such contract.

Aluminium forward contracts are entered into for the purpose of hedging the volatility of future aluminium prices. The contracts are considered to be cash flow hedges and are accounted for in accordance with the accounting policies set out in note 2.4 to the financial statements.

The terms of the outstanding forward commodity contracts held by the Group were as follows:

	2017			2016		
	Quantity hedged tonnes	Average price per tonne HK\$	Contractual amount	Quantity hedged tonnes	Average price per tonne HK\$	Contractual amount
Aluminium forward contracts (sold):						
Within three months	8,800	16,907	148,785	4,000	13,428	53,712
Three to twelve months	6,000	17,459	104,754	—	—	—

The terms of the forward commodity contracts were negotiated to match those of the underlying commitments.

Electricity hedge agreements – cash flow hedges

In March 2010, a base load electricity contract was signed between the Group and an independent electricity supplier (the "EHA1"). The EHA1 effectively allowed the PAS to hedge the spot price for electricity for a specific load from November 2016 to December 2036.

Notes to Financial Statements

26. Derivative Financial Instruments (continued)

Electricity hedge agreements – cash flow hedges (continued)

In August 2016, as the hedged price agreed under the EHA1 was considerably higher than the then prevailing spot price of electricity, the Group served a notice to terminate the EHA1 effective August 2017. Since the date notice of termination of the EHA1 was served (the “**Notice Date**”), the EHA1 no longer qualified for hedge accounting. The accumulated hedging reserve on the Notice Date was reclassified from the consolidated statement of comprehensive income and recognised in the consolidated income statement. The derivative financial liability of HK\$868,924,000 associated with the EHA1 was derecognised accordingly.

In January 2017, the Group entered into a new hedging agreement with several subsidiaries of AGL Energy Limited, an integrated renewable energy company listed on the ASX (Stock Code: AGL), in relation to the supply of electricity from August 2017 to July 2021 (the “**EHA2**”).

The cash flow hedges in relation to (a) the expected future sales and purchases; (b) the EHA1 (prior to the Notice Date); and (c) the EHA2 were assessed to be highly effective and a net gain of HK\$610,610,000 (2016: HK\$612,899,000), net of deferred tax, was included in the hedging reserve as follows:

	Year ended 31 December 2017
Total fair value gain included in the hedging reserve	872,300
Reclassification from the consolidated statement of comprehensive income and recognised in the consolidated income statement	—
Deferred tax	(261,690)
Net gain on cash flow hedges	610,610

Forward commodity contracts – provisional pricing arrangements

The Group enters into pricing arrangements in relation to its aluminium sales. The aluminium sale agreements provide for provisional pricing of sales at the time of or after shipment, with final pricing based on the monthly average aluminium price of the London Metal Exchange (the “**LME**”) for specified future periods. This normally ranges from one month to five months after shipment.

The mark to market gains or losses of open sales are recognised through adjustments in the consolidated income statement and to trade receivables or payables in the consolidated statement of financial position. The Group determines the mark to market prices using forward prices at the end of each reporting period. As at 31 December 2017, there were 24,719 (2016: 9,096) tonnes of aluminium which had been shipped and remained open as to price. The embedded derivative arising from these open sales was recognised as a derivative financial instrument as at 31 December 2017.

The Group also enters into aluminium forward contracts to swap a floating selling price of its aluminium sold under the provisional pricing arrangements (described above) to a fixed selling price. For aluminium forward contracts that are entered into prior to the physical shipments of the aluminium, they are treated as cash flow hedges from the dates of entering into these contracts until the respective shipment dates. Thereafter, any gains or losses from these contracts (if not settled in the month of each shipment) are recognised in the consolidated income statement. For aluminium forward contracts that are entered into after the physical shipments of the aluminium, any gains or losses from these contracts are recognised directly in the consolidated income statement.

Notes to Financial Statements

27. Cash and Cash Equivalents

	2017	2016
Cash and bank balances	498,376	402,546
Time deposits	907,296	758,443
Cash and cash equivalents *	1,405,672	1,160,989

* As at 31 December 2017, the Group had a balance of HK\$2,447,000 (2016: HK\$2,405,000) at China CITIC Bank International Limited and HK\$1,512,000 (2016: HK\$682,000) at China CITIC Bank Corporation Limited.

Cash at banks earns interest at the rates quoted by banks. Time deposits are placed for periods ranging from one day to three months depending on the cash requirements of the Group, and earn interest at rates prevailing from time to time. The bank balances and time deposits are placed with creditworthy banks with no recent history of default.

At the end of the reporting period, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") and Kazakhstan Tenge ("KZT") were equivalent to HK\$134,655,000 and HK\$83,000 (2016: HK\$82,133,000 and HK\$405,000), respectively. Although RMB and KZT are not freely convertible into other currencies, the Group is permitted to exchange RMB and KZT for other currencies through banks which are authorised to conduct foreign exchange business under the foreign exchange control regulations of China and Kazakhstan, respectively.

28. Accounts Payable

An aged analysis of the accounts payable, based on the invoice date, was as follows:

	2017	2016
Within one month	148,125	130,891
One to three months	—	—
Over three months	18,968	—
	167,093	130,891

The accounts payable are non-interest-bearing and are normally settled on terms of 30 to 90 days.

Notes to Financial Statements

29. Accrued Liabilities and Other Payables

	2017	2016
Other payables	185,211	206,060
Accruals	419,771	358,979
	604,982	565,039

During the year, the Group received a loan of HK\$57,385,000 from the State Government of Victoria to assist in funding the restart and restoration of the PAS's production capacity and ongoing operations, which is interest free and repayable when the PAS reaches certain level of free cash flows.

Other payables are non-interest-bearing and have an average term of three months.

30. Bank and Other Borrowings

	Notes	2017	2016
Bank borrowings – unsecured	(a)	3,088,275	7,527,327
Other borrowing – unsecured	(b)	3,900,000	—
		6,988,275	7,527,327

Notes:

- (a) As at 31 December 2017, the bank borrowings included:
- (i) trade finance totalling A\$37,838,000 (HK\$230,206,000), which was interest-bearing at the Bank Bill Swap Bid Rate (or cost of funds) plus margin; and
 - (ii) bank loans totalling US\$366,419,000 (HK\$2,858,069,000), which were interest-bearing at the London interbank offered rates ("LIBOR") plus margin.
- (b) The other borrowing is a loan obtained from a subsidiary of the Company's ultimate holding company, which is interest-bearing at LIBOR plus margin.

	2017	2016
Bank borrowings repayable:		
Within one year or on demand	386,206	1,371,809
In the second year	2,393,825	3,773,788
In the third to fifth years, inclusive	308,244	2,381,730
	3,088,275	7,527,327
Other borrowing repayable:		
In the third to fifth years, inclusive	3,900,000	—
Total bank and other borrowings	6,988,275	7,527,327
Portion classified as current liabilities	(386,206)	(1,371,809)
Non-current portion	6,602,069	6,155,518

Notes to Financial Statements

31. Finance Lease Payables

The Group leases certain plant and machinery for its coal mine operations. The lease is classified as a finance lease and expires in June 2021.

The total future minimum lease payments under the finance lease and their present values were as follows:

	Minimum lease payments		Present values of minimum lease payments	
	2017	2016	2017	2016
Amounts payable:				
Within one year	9,499	14,454	8,970	13,102
In the second year	2,569	9,965	2,480	9,425
In the third to fifth years, inclusive	569	3,053	540	2,946
Total minimum finance lease payments	12,637	27,472	11,990	25,473
Future finance charges	(647)	(1,999)		
Total net finance lease payables	11,990	25,473		
Portion classified as current liabilities	(8,970)	(13,102)		
Non-current portion	3,020	12,371		

Notes to Financial Statements

32. Provisions

	Notes	Provision for long term employee benefits	Provision for rehabilitation cost	Provision for abandonment cost	Total
At 1 January 2017		77,648	201,423	34,129	313,200
Provisions	6, 13	10,236	13,547	—	23,783
Amounts utilised during the year		(11,895)	(10,372)	—	(22,267)
Re-measurement gain on defined benefit plan		(5,590)	—	—	(5,590)
Increase in discounted amounts of provisions arising from the passage of time	9	—	5,558	1,861	7,419
Exchange realignment		4,404	15,686	—	20,090
At 31 December 2017		74,803	225,842	35,990	336,635
Portion classified as current liabilities		(44,105)	(2,207)	—	(46,312)
Non-current portion		30,698	223,635	35,990	290,323

The provisions were based on estimates of future payments by management and discounted at rates between 2.04% and 2.67%. Changes in assumptions could significantly affect these estimates.

The provision for long term employee benefits represents the estimated future payments in respect of past services provided by employees. Consideration was given to expected future wages and salary levels, past record of employee departures and period of service. Expected future payments were discounted using market yields at the reporting date and currency that matched, as closely as possible, the estimated future cash flows.

The provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the PAS and the coal mines in Australia at the end of their useful lives up to 2030. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

The provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. These costs are expected to be incurred upon abandoning wells and removal of equipment and facilities, as the case may be.

Notes to Financial Statements

33. Deferred Tax

The movements in the Group's deferred tax during the year were as follows:

2017				
Deferred tax liabilities				
	Provision for impairment of assets	Tax losses available for offsetting against future taxable profits	Change in fair value of financial instruments and defined benefit plan	Total
At 1 January	(309,750)	(93,449)	83,733	(319,466)
Deferred tax charged to the consolidated income statement during the year (note 10)	—	8,877	114,523	123,400
Deferred tax charged to equity during the year	—	—	263,385	263,385
Exchange realignment	—	46	—	46
At 31 December	(309,750)	(84,526)	461,641	67,365

2016				
Deferred tax assets				
	Provision for impairment of assets	Tax losses available for offsetting against future taxable profits	Change in fair value of financial instruments and defined benefit plan	Total
At 1 January	241,890	79,484	259,511	580,885
Deferred tax credited/(charged) to the consolidated income statement during the year (note 10)	67,860	11,062	(78,500)	422
Deferred tax charged to equity during the year	—	—	(264,744)	(264,744)
Exchange realignment	—	2,903	—	2,903
At 31 December	309,750	93,449	(83,733)	319,466

Pursuant to China Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors by foreign investment enterprises established in China. The requirement, effective 1 January 2008, is applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is an applicable tax treaty between China and the jurisdiction of the foreign investors. The Group is therefore liable for withholding tax on dividends declared by its subsidiaries established in China in respect of earnings generated from 1 January 2008 onwards. As at 31 December 2017, no deferred tax has been recognised for withholding tax (2016: Nil) as the Group's subsidiaries registered in China recorded accumulated losses.

There are no income tax consequences attaching to the payment of dividends of the Company to its shareholders.

Notes to Financial Statements

34. Share Capital

Shares

	2017	2016
Authorised:		
10,000,000,000 (2016: 10,000,000,000) ordinary shares of HK\$0.05 each	500,000	500,000
Issued and fully paid:		
7,857,727,149 (2016: 7,857,727,149) ordinary shares of HK\$0.05 each	392,886	392,886

Share options

Details of the new share option scheme adopted by the Company on 27 June 2014 (the “**New Scheme**”) and the share options that have been granted under the share option scheme adopted by the Company on 30 June 2004 (the “**Old Scheme**”) and remained outstanding as at the end of the reporting period are set out in note 35 to the financial statements.

35. Share Option Scheme

Pursuant to the New Scheme, the Company may grant options to eligible persons to subscribe for shares of the Company subject to the terms and conditions stipulated therein. A summary of some of the principal terms of the New Scheme is as follows.

- (a) **Purpose:** To allow the Company (i) to be competitive and to be able to attract, retain and motivate appropriate personnel to assist the Group attain its strategic objectives by offering share options to enhance general remuneration packages; (ii) to align the interests of the directors and employees of the Group with the performance of the Company and the value of the shares; and (iii) to align the commercial interests of business associates, customers and suppliers of the Group with the interests and success of the Group.
- (b) **Eligible persons:** The eligible persons include employees and directors of the Company and any of its subsidiaries (including their respective executive and non-executive directors), business associates and advisers who will provide or have provided services to the Group.
- (c) **Total number of shares available for issue:** The total number of shares which may be issued upon the exercise of all outstanding options granted under the New Scheme and any other schemes of the Company shall not exceed 10% of the total number of shares of the Company in issue as at the date of adoption of the New Scheme.
- (d) **Maximum entitlement of each eligible person:** The total number of shares issued and to be issued upon the exercise of the options granted to an eligible person (including any exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue at the date of grant.
- (e) **Exercise period:** The period during which an option may be exercised is determined by the Board at its absolute discretion, except that no option may be exercised after 10 years from the date of grant.

Notes to Financial Statements

35. Share Option Scheme (continued)

- (f) **Vesting period:** The minimum period for which an option must be held before it can be exercised is one year.
- (g) **Exercise price:** The exercise price payable in respect of each share of the Company shall be not less than the greater of (i) the closing price of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the date of grant (which must be a business day); (ii) the average closing price of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.
- (h) **Remaining life:** The New Scheme remains in force until 26 June 2024 unless otherwise terminated in accordance with the terms stipulated therein.

Share options do not confer rights on the holders to dividends or to vote at general meetings.

The movement of the share options, which were granted under the Old Scheme, was as follows:

	2017		2016	
	Weighted average exercise price per share HK\$	Number of share options	Weighted average exercise price per share HK\$	Number of share options
At 1 January and 31 December	1.77	400,000,000	1.77	400,000,000

The particulars of the share options, which were granted under the Old Scheme and remained outstanding as at the end of the reporting period, were as follows:

	Number of share options	Exercise price per share* HK\$	Vesting period	Exercise period
2017	200,000,000	1.77	06-11-2013 to 05-11-2014	06-11-2014 to 05-11-2018
	200,000,000	1.77	06-11-2013 to 05-11-2015	06-11-2015 to 05-11-2018
	400,000,000			
2016	200,000,000	1.77	06-11-2013 to 05-11-2014	06-11-2014 to 05-11-2018
	200,000,000	1.77	06-11-2013 to 05-11-2015	06-11-2015 to 05-11-2018
	400,000,000			

* The exercise price of the share options is subject to adjustment in case of a rights issue or bonus issue, or other similar changes in the share capital of the Company.

The above share options were granted on 6 November 2013 under the Old Scheme. Their fair values were HK\$2,400,000 (HK\$0.012 each) and HK\$9,600,000 (HK\$0.048 each), respectively, based on different vesting periods.

Notes to Financial Statements

35. Share Option Scheme (continued)

The fair values were estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Dividend yield (%)	—
Expected volatility (%)	29.84
Historical volatility (%)	29.84
Risk-free interest rate (%)	2.10 – 2.63
Expected life of share options (year)	1 – 2
Weighted average share price (HK\$ per share)	1.07

The expected life of the share options is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 400,000,000 share options outstanding. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 400,000,000 additional ordinary shares of the Company, additional share capital of HK\$20,000,000 and share premium of HK\$688,000,000 (before expenses).

At the date of approval of the financial statements, the Company had 400,000,000 share options outstanding under the Old Scheme, which represented 5.09% of the Company's shares in issue as at that date. No share options were issued under the New Scheme.

36. Reserves

Movements in the Group's reserves for the year and the prior year are presented in the consolidated statement of changes in equity on pages 51 and 52 of the financial statements.

The share premium account had been reduced and cancelled by HK\$9,700,000,000, pursuant to a special resolution passed by shareholders at the annual general meeting of the Company held on 23 June 2017. Out of the credit amount arising from such reduction and cancellation, HK\$9,200,000,000 was applied to offset the entire amount of the accumulated losses as at 1 January 2017 while the remaining HK\$500,000,000 was transferred to the contributed surplus account.

The contributed surplus represents (a) the excess of the nominal value of the share capital of the former holding company of the Group, which was acquired by the Company pursuant to the group reorganisation prior to the listing of the Company's shares, over the nominal value of the share capital of the Company issued in exchange therefor; (b) the Group's share of the reserve movement of CDH; (c) the transfer of HK\$500,000,000 from the share premium account as mentioned above; and (d) net of distribution to shareholders.

The capital reserve arose from the acquisition of shares from non-controlling shareholders of CATL.

Reserve funds represent the Group's share of the statutory reserve and safety fund of the subsidiaries of CDH which are registered in China.

Notes to Financial Statements

37. Litigation and Contingent Liabilities

- (a) In 2014, the Kazakhstan tax authorities (the “**Tax Authorities**”) completed an integrated tax inspection on KBM for the four years from 2009 to 2012. As a result, the Tax Authorities issued a tax assessment for KZT4,492,047,000 (HK\$105,455,000) on KBM and the Group’s share was HK\$49,895,000. KBM made a provision for the amount of the tax assessment it had agreed with the Tax Authorities, being KZT633,851,000 (HK\$14,880,000), of which the Group’s share was HK\$7,040,000. Meanwhile, KBM applied to the State Revenue Committee of the Ministry of Finance of Kazakhstan requesting a reconsideration of the remaining amount under the tax assessment (the “**Remaining Amount**”).

In 2015, KBM made a further provision of KZT2,069,789,000 (HK\$48,590,000), of which the Group’s share was HK\$22,990,000.

In 2016, in respect of the Remaining Amount, the Tax Authorities issued a revised tax assessment for KZT2,146,970,000 (HK\$50,402,000). Based on the advice from KBM’s legal counsel, KBM has justifiable arguments for its tax position. Therefore, following the receipt of the revised tax assessment, KBM made a couple of appeals but failed. KBM then lodged an appeal to the Judicial Board of the Civil Cases in the Supreme Court of Kazakhstan (formerly known as the Supervisory Board of the Supreme Court of Kazakhstan) (the “**Supreme Court**”) but the Supreme Court declined to review the appeal.

During the year, KBM made an appeal to the General Prosecutor’s Office of Kazakhstan to protest the decision of the Supreme Court but the appeal was rejected. KBM is considering making a final appeal.

- (b) In August 2014, Shanxi Coal I/E, a wholly-owned subsidiary of 山煤國際能源集團股份有限公司 (Shanxi Coal International Energy Group Co., Ltd.), commenced a claim in the Shanxi Court against, amongst others, CACT, an indirect wholly-owned subsidiary of the Company (“**Shanxi Claim A**”). In connection with Shanxi Claim A, Shanxi Coal I/E obtained an asset protection order from the Shanxi Court over a certain quantity of the Inventories (the “**Shanxi APO**”).

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

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

- (c) In the second half of 2015, CACT received an arbitration request notice from the International Court of Arbitration of the International Chamber of Commerce (the “**ICC**”) in respect of an arbitration application by Shanxi Coal I/E (“**Shanxi Claim B**”).

In November 2016, a hearing was held in Singapore to determine the jurisdiction of Shanxi Claim B. Pursuant to the final award of the ICC of 28 September 2017, the ICC determined that it did not have jurisdiction over CACT and Shanxi Coal I/E for the purposes of arbitrating Shanxi Claim B.

Notes to Financial Statements

37. Litigation and Contingent Liabilities (continued)

- (d) During the year, 勝利油田科爾工程建設有限公司 (Shengli Oilfield KEER Engineering and Construction Co., Ltd.) (“**Shengli KEER**”) commenced a legal claim in the Dalian Maritime Court (the “**Dalian Court**”) against Tincy Group (the “**Shengli Oilfield Claim**”). Pursuant to the Shengli Oilfield Claim, Shengli KEER is seeking compensation from Tincy Group of RMB29,535,000 (HK\$35,462,000) for, among other things, standby costs and expenses of labour and equipment, work slowdown losses, staying expenses and losses for overtime construction and loss of profits plus interest in respect of work it was sub-contracted to perform at the Hainan-Yuedong Block.

In July 2017, Shengli KEER applied to the Dalian Court to increase the compensation to RMB30,928,000 (HK\$37,135,000). Court hearings in respect of the Shengli Oilfield Claim were held in the second half of 2017 to determine any contractual relationship between Tincy Group and Shengli KEER, any rights and obligations thereunder and whether the Shengli Oilfield Claim had already lapsed. Up to the date of this report, no decision has been issued by the Dalian Court.

- (e) In August 2017, Kuwait Foreign Petroleum Exploration Company (“**KUFPEC**”), which owns a 30% participating interest in the PSC, filed a claim in the Supreme Court of Queensland (the “**Queensland Court**”) against CITIC Seram for US\$1,576,000 (HK\$12,293,000) in respect of certain expenditure alleged by KUFPEC as unauthorised under the PSC. In December 2017, CITIC Seram filed its defence with the Queensland Court and in January 2018, KUFPEC filed its reply to the Queensland Court. Up to the date of this report, no hearing has been held.

38. Operating Lease Commitments

The Group had total future minimum lease payments under non-cancellable operating leases in respect of plant and machinery, and land and buildings falling due as follows:

	2017	2016
Within one year	40,050	72,582
In the second to fifth years, inclusive	46,768	106,409
Beyond five years	8,434	47,481
	95,252	226,472

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group’s capital expenditure commitments was as follows:

	2017	2016
Contracted, but not provided for:		
Capital expenditure in respect of infrastructure and acquisition of items of property, plant and equipment	6,993	35,496

In addition, the Group’s share of a joint venture’s capital expenditure commitments was as follows:

	2017	2016
Contracted, but not provided for:		
Capital expenditure in respect of infrastructure and acquisition of items of property, plant and equipment	52,900	13,483

Notes to Financial Statements

40. Notes to the Consolidated Statement of Cash Flows

Changes in liabilities arising from financing activities:

	Bank and other borrowings	Finance lease payables	Dividend payable	Loan from government
At 1 January 2017	7,527,327	25,473	9	—
Changes from financing cash flows	(617,274)	(15,159)	(117,861)	57,385
Foreign exchange movement	21,214	1,676	—	—
2016 final dividend payable during the year	—	—	117,866	—
Interest expense	57,008	—	—	—
At 31 December 2017	6,988,275	11,990	14	57,385

41. Related Party Transactions and Connected Transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had the following material transactions with its related parties:

(a)	Year ended 31 December	
	2017	2016
Ultimate holding company:		
Rental expense	2,358	2,239
Subsidiaries of the ultimate holding company:		
Rental expense	2,718	3,060
Interest expense	71,793	—
Commission income	3,592	1,686
Management fee income	1,833	1,729
A joint venture:		
Rental income	3,896	3,462
Service fee income	334	780

The above transactions were made based on mutually agreed terms.

(b) The Group has a borrowing from a related party:

	2017	2016
A subsidiary of the ultimate holding company:		
Other borrowing (note 30)	3,900,000	—

The above borrowing is an unsecured loan having a tenor of five years commencing from 29 June 2017. The loan is interest-bearing at LIBOR plus margin.

Notes to Financial Statements

41. Related Party Transactions and Connected Transactions (continued)

(c) Details of directors' remuneration are set out in note 7 to the financial statements.

Compensation paid to senior management personnel of the Group was as follows:

	Year ended 31 December	
	2017	2016
Salaries	8,641	8,738
Housing allowances	588	288
Bonuses	9,223	7,428
Pension scheme contributions	679	433
	19,131	16,887
Number of executives by remuneration bands:		
Nil to HK\$1,000,000	—	1
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,000,001 – HK\$2,500,000	—	1
HK\$2,500,001 – HK\$3,000,000	2	—
HK\$3,000,001 – HK\$3,500,000	—	1
HK\$4,500,001 – HK\$5,000,000	—	1*
HK\$5,000,001 – HK\$5,500,000	1*	—
HK\$5,500,001 – HK\$6,000,000	—	1*
HK\$6,000,001 – HK\$6,500,000	1*	—
	5	5

* included in the five highest paid employees as set out in note 8 to the financial statements

(d) In October 2016, the Group entered into a 7-year lease agreement with CITIC House Pty Limited, a subsidiary of the Company's ultimate holding company, for the leasing of office premises.

The Group had total future minimum lease payments under non-cancellable operating leases with related parties falling due as follows:

	2017	2016
Within one year	2,493	2,197
In the second to fifth years, inclusive	11,207	9,892
Beyond five years	2,323	4,924
	16,023	17,013

Except for the rental income and service fee income from a joint venture of the Group, the related party transactions disclosed above also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions were fully exempt connected transactions or fully exempt continuing connected transactions.

Notes to Financial Statements

42. Financial Instruments by Category

The carrying amount of each of the categories of financial instruments was as follows:

2017 Financial assets	Financial assets at fair value through profit or loss				Available- for-sale financial assets	Total
	designated as such upon initial recognition	held for trading	Loans and receivables			
Financial assets at fair value through profit or loss	—	3,029	—	—	—	3,029
Available-for-sale investment	—	—	—	845	845	845
Financial assets included in prepayments, deposits and other receivables	—	—	1,171,982	—	—	1,171,982
Derivative financial instruments	899,703	—	—	—	—	899,703
Trade receivables	—	—	546,212	—	—	546,212
Cash and cash equivalents	—	—	1,405,672	—	—	1,405,672
	899,703	3,029	3,123,866	845	—	4,027,443

2017 Financial liabilities	Financial liabilities at fair value through profit or loss – designated as such upon initial recognition		Financial liabilities at amortised cost	Total
Accounts payable	—	—	167,093	167,093
Financial liabilities included in accrued liabilities and other payables	—	—	344,581	344,581
Derivative financial instruments	9,553	—	—	9,553
Bank and other borrowings	—	—	6,988,275	6,988,275
Finance lease payables	—	—	11,990	11,990
	9,553	—	7,511,939	7,521,492

2016 Financial assets	Financial assets at fair value through profit or loss				Available- for-sale financial assets	Total
	designated as such upon initial recognition	held for trading	Loans and receivables			
Financial assets at fair value through profit or loss	2,880,665	3,029	—	—	—	2,883,694
Available-for-sale investment	—	—	—	784	784	784
Financial assets included in prepayments, deposits and other receivables	—	—	1,384,912	—	—	1,384,912
Derivative financial instruments	—	60,826	—	—	—	60,826
Trade and notes receivables	—	—	643,767	—	—	643,767
Cash and cash equivalents	—	—	1,160,989	—	—	1,160,989
	2,880,665	63,855	3,189,668	784	—	6,134,972

Notes to Financial Statements

42. Financial Instruments by Category (continued)

2016 Financial liabilities	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Accounts payable	—	130,891	130,891
Financial liabilities included in accrued liabilities and other payables	—	309,703	309,703
Derivative financial instruments	10,387	—	10,387
Bank borrowings	—	7,527,327	7,527,327
Finance lease payables	—	25,473	25,473
	10,387	7,993,394	8,003,781

43. Fair Value and Fair Value Hierarchy of Financial Instruments

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

	Carrying amounts		Fair values	
	2017	2016	2017	2016
Financial assets				
Financial assets at fair value through profit or loss	3,029	2,883,694	3,029	2,883,694
Available-for-sale investment	845	784	845	784
Derivative financial instruments	899,703	60,826	899,703	60,826
	903,577	2,945,304	903,577	2,945,304
Financial liabilities				
Derivative financial instruments	9,553	10,387	9,553	10,387
Bank and other borrowings	6,988,275	7,527,327	6,988,275	7,578,058
Finance lease payables	11,990	25,473	11,990	25,473
	7,009,818	7,563,187	7,009,818	7,613,918

The fair values of trade and notes receivables, financial assets included in prepayments, deposits and other receivables, cash and cash equivalents, accounts payable, and financial liabilities included in accrued liabilities and other payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

Each principal subsidiary of the Company is responsible for its own fair value measurement of financial instruments. The finance team of the Company is responsible for the review and calibration of the parameters of the valuation processes. The valuation processes and results are discussed with the chief financial officer twice a year for interim and annual financial reporting purposes.

Notes to Financial Statements

43. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

The fair values of the financial assets and liabilities are stated in the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

- (a) The fair values of listed equity investments were determined based on quoted prices in active markets as at the end of the reporting period without any deduction of transaction costs.
- (b) The fair values of bank and other borrowings as well as finance lease payables were calculated by discounting the expected future cash flows using rates currently available for instruments which had similar terms, credit risk and remaining maturities. The Group's own non-performance risk for bank and other borrowings as well as finance lease payables as at the end of the reporting period was assessed to be insignificant.
- (c) The Group enters into derivative financial instruments with various counterparties, principally financial institutions with high credit quality. Derivative financial instruments, including forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivatives in provisional pricing arrangements and the ESA (expired in October 2016), the EHA1 (terminated in July 2017) and the EHA2, were measured using valuation techniques similar to forward pricing and discounted cash flow models, which means using present value calculations. The fair values of forward currency contracts, forward commodity contracts, embedded derivative in provisional pricing arrangements, the EHA1 and the EHA2 were the same as their carrying amounts.
 - (i) The fair values of forward currency contracts, forward commodity contracts, embedded derivative in provisional pricing arrangements, and the EHA1 (on the Notice Date) were based on valuation techniques using significant observable market inputs and insignificant unobservable market inputs.
 - (ii) The fair value of the EHA2 was based on valuation techniques using significant unobservable market inputs.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis:

Derivative financial instrument		Range		Sensitivity of fair value to the changes in input
Valuation technique	Significant unobservable inputs	2017	2016	
EHA2				
Discounted cash flow method	Electricity price (per Mwh)	A\$ 78 to A\$155	not applicable	1% increase (decrease) in the electricity price would result in an increase (a decrease) in fair value by HK\$20,484,000 (HK\$20,484,000)
	Discount rate	1.67% to 2.67%	not applicable	1% increase (decrease) in the discount rate would result in a decrease (an increase) in fair value by HK\$12,431,000 (HK\$12,823,000)

Notes to Financial Statements

43. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments.

Assets measured at fair value:

	Fair value measurement using			Total
	quoted prices in active markets (Level 1)	significant observable inputs (Level 2)	significant unobservable inputs (Level 3)	
2017				
Financial assets at fair value through profit or loss	3,029	—	—	3,029
Available-for-sale investment:				
Listed equity investment	845	—	—	845
Derivative financial instruments	—	24,842	874,861	899,703
	3,874	24,842	874,861	903,577
2016				
Financial assets at fair value through profit or loss	2,883,694	—	—	2,883,694
Available-for-sale investment:				
Listed equity investment	784	—	—	784
Derivative financial instruments	—	60,826	—	60,826
	2,884,478	60,826	—	2,945,304

Liabilities measured at fair value:

	Fair value measurement using			Total
	quoted prices in active markets (Level 1)	significant observable inputs (Level 2)	significant unobservable inputs (Level 3)	
2017				
Derivative financial instruments	—	9,553	—	9,553
2016				
Derivative financial instruments	—	10,387	—	10,387

Notes to Financial Statements

43. Fair Value and Fair Value Hierarchy of Financial Instruments (continued)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the year were as follows:

Derivative financial instrument – asset	2017
At 1 January	—
Gain recognised in the consolidated statement of comprehensive income	874,861
At 31 December	874,861

Derivative financial instruments – liabilities	2016
At 1 January	904,024
Gain recognised in the consolidated income statement	(35,100)
Gain recognised in the consolidated statement of comprehensive income	(868,924)
At 31 December	—

During the year, the Group did not have any transfer of fair value measurements between Level 1 and Level 2 nor any transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

Liabilities for which fair values are disclosed:

	Fair value measurement using			Total
	quoted prices in active markets (Level 1)	significant observable inputs (Level 2)	significant unobservable inputs (Level 3)	
2017				
Bank and other borrowings	—	6,988,275	—	6,988,275
Finance lease payables	—	11,990	—	11,990
	—	7,000,265	—	7,000,265
2016				
Bank borrowings	—	7,578,058	—	7,578,058
Finance lease payables	—	25,473	—	25,473
	—	7,603,531	—	7,603,531

Notes to Financial Statements

44. Financial Risk Management Objectives and Policies

The Group's principal financial instruments, other than derivatives, comprise bank and other borrowings, finance lease payables, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial assets and liabilities, such as trade and notes receivables and accounts payable, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts, forward commodity contracts, interest rate swap contracts, embedded derivatives and an electricity hedge agreement. Their purpose is to manage the foreign currency risk, price risk, interest rate risk and inflation risk arising from the Group's operations and sources of finance. Details of the derivative financial instruments are set out in note 26 to the financial statements.

It is, and has been throughout the year, the Group's policy that trading in financial instruments shall be undertaken with due care.

The main risks arising from the Group's financial instruments are foreign currency risk, price risk, interest rate risk, inflation risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group assesses the respective exposures of each of its operating units and enters into forward currency contracts of appropriate amounts to hedge those exposures. The forward currency contracts must be in the same currency as that of the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of hedge derivatives to match the terms of the hedged item to maximise the effectiveness of the hedge.

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in exchange rates to which the Group had significant exposure (with all other variables held constant).

	Increase / (decrease) in US\$ rate %	Increase / (decrease) in profit before tax	Increase / (decrease) in equity
2017			
If US\$ weakens against A\$	(10)	(2,808)	191,630
If US\$ strengthens against A\$	10	2,808	(193,713)
2016			
If US\$ weakens against A\$	(10)	149,136	142,280
If US\$ strengthens against A\$	10	(149,136)	(141,843)

Notes to Financial Statements

44. Financial Risk Management Objectives and Policies (continued)

Price risk

The Group is exposed to share price risk and commodity price risk.

Listed investment

As at 31 December 2017, the Group had an equity interest in Toro Energy Limited (“Toro”) listed on the ASX (Stock Code: TOE). At the end of each reporting period, the listed investment is required to be marked to fair value.

As at 31 December 2016, besides Toro, the Group had an equity interest in AWC.

The following table demonstrates the sensitivity of the Group’s profit before tax and equity in response to changes in share price of the Group’s listed investment (with all other variables held constant).

	Increase / (decrease) in listed share price %	Increase / (decrease) in profit before tax	Increase / (decrease) in equity
2017			
Available-for-sale investment	(10)	—	(85)
Available-for-sale investment	10	—	85
2016			
Available-for-sale investment	(10)	—	(78)
Available-for-sale investment	10	—	78
Financial asset at fair value through profit or loss	(10)	(288,067)	(288,067)
Financial asset at fair value through profit or loss	10	288,067	288,067

Aluminium

Aluminium is a globally traded base metal. The Group enters into sale and supply contracts with its customers where the prices are negotiated by referencing and linking to the aluminium prices traded on the LME. Aluminium prices quoted on the LME are determined by market forces. The Group is therefore exposed to price risk influenced by changing market conditions. The Group mitigates such risk by entering into commodity derivatives to hedge against future adverse price changes. These financial instruments are considered to be cash flow hedges.

Besides, the Group also enters into aluminium sales agreements with provisional pricing arrangements from which arise embedded derivatives that are required to be separated from the host contracts. The host contract is the sale of aluminium at the provisional invoice price and the embedded derivative is the forward contract for which the provisional invoice price is subsequently adjusted.

Management actively reviews the market sentiment and trend with references to expert views and forecasts. At management’s discretion and judgement, derivatives are entered into to lock in favourable prices to hedge portions of the Group’s future sales and thus to mitigate adverse price risks.

Notes to Financial Statements

44. Financial Risk Management Objectives and Policies (continued)

Price risk (continued)

Aluminium (continued)

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in market prices of aluminium (with all other variables held constant).

	Increase / (decrease) in LME aluminium price %	Increase / (decrease) in profit before tax	Increase / (decrease) in equity
2017			
Forward commodity contracts	(10)	(26,224)	(26,224)
Forward commodity contracts	10	26,224	26,224
2016			
Forward commodity contracts	(10)	(11,443)	(11,443)
Forward commodity contracts	10	10,780	10,780

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to the Group's floating rate United States dollar ("US\$") debts.

The Group's policy is to manage its interest expenses using a mix of fixed and floating rate debts with respect to the prevailing interest rate environment. To manage this mix in a cost-effective manner, the Group may enter into interest rate swap contracts in which it agrees to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap contracts are designated to hedge against the interest rate exposure of the underlying debt obligations.

The following table demonstrates the sensitivity of the Group's profit before tax and equity in response to changes in interest rates of the Group's floating rate US\$ debts (with all other variables held constant).

	Increase / (decrease) in interest rate basis points	Increase / (decrease) in profit before tax	Increase / (decrease) in equity
2017			
US\$ debts	(100)	67,860	67,860
US\$ debts	100	(67,860)	(67,860)
2016			
US\$ debts	(100)	74,100	74,100
US\$ debts	100	(74,100)	(74,100)

Notes to Financial Statements

44. Financial Risk Management Objectives and Policies (continued)

Inflation risk

In March 2010, the Group entered into the EHA1 to hedge the spot price for electricity for a specific load from November 2016 to December 2036. The pricing mechanism used in the EHA1 included a component that was subject to certain escalation factors which, in turn, were affected by the consumer price index, producer price index and labour costs.

In August 2016, the Group served a notice to terminate the EHA1 effective August 2017. Since the Notice Date, the EHA1 no longer qualified for hedge accounting and the Group was not exposed to any inflation risk.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, an available-for-sale investment, certain other receivables and derivative financial instruments, arises from default of the counterparties with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, collateral is usually not required. Concentrations of credit risk are managed by customer/counterparty, geographical region and industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade and notes receivables are dispersed in different sectors and industries.

Quantitative data in respect of the Group's exposure to credit risk arising from trade and notes receivables is set out in note 25 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade and notes receivables) and projected cash flows from operations.

The Group's objectives are to maintain an optimal balance of cash holding and funding through the use of bank and other borrowings, to preserve liquidity and to maximise return to shareholders. As at 31 December 2017, 5.6% (2016: 18.3%) of the Group's debts would mature within one year based on the carrying values of the debts reflected in the financial statements.

Notes to Financial Statements

44. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	On demand	Less than 3 months	3 to 12 months	Over 1 year	Total
2017					
Accounts payable	—	148,125	18,968	—	167,093
Financial liabilities included in accrued liabilities and other payables	21	—	344,560	—	344,581
Derivative financial instruments	—	7,443	2,110	—	9,553
Bank and other borrowings	—	312,406	333,870	7,343,524	7,989,800
Finance lease payables	—	2,934	6,565	3,138	12,637
	21	470,908	706,073	7,346,662	8,523,664
2016					
Accounts payable	—	130,891	—	—	130,891
Financial liabilities included in accrued liabilities and other payables	21	—	309,134	—	309,155
Derivative financial instruments	—	10,387	—	—	10,387
Bank borrowings	—	—	1,602,784	6,471,383	8,074,167
Finance lease payables	—	3,546	10,908	13,018	27,472
	21	144,824	1,922,826	6,484,401	8,552,072

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its businesses and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital with the inclusion of the parameter of liquidity by using the ratio of net debt to net total capital. Net debt is total debt less cash and cash equivalents while net total capital is equity attributable to shareholders of the Company plus net debt. The Group's current objective is to maintain this ratio at a reasonable level.

Notes to Financial Statements

44. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Capital management (continued)

The ratio of net debt to net total capital as at the end of the reporting period was as follows:

	2017	2016
Bank and other borrowings	6,988,275	7,527,327
Finance lease payables	11,990	25,473
Less: Cash and cash equivalents	(1,405,672)	(1,160,989)
Net debt	5,594,593	6,391,811
Equity attributable to shareholders of the Company	6,064,173	4,804,758
Add: Net debt	5,594,593	6,391,811
Net total capital	11,658,766	11,196,569
Net debt to net total capital	48.0%	57.1%

45. Events after the Reporting Period

On 7 February 2018, CITIC Seram entered into an agreement to sell all of its rights, interests and obligations in respect of a 10% participating interest (the "Sale Interest") in the PSC to an independent third party (the "Buyer"). The purchase price payable by the Buyer for the Sale Interest is, subject to adjustment, US\$3,800,000 (HK\$29,640,000). Completion of the sale of the Sale Interest is subject to certain conditions including applicable governmental approvals and the requisite approval of other participants in the PSC. Assuming completion of the sale of the Sale Interest, CITIC Seram will retain a 41% participating interest in the PSC. Up to the date of this report, the transaction has not completed. Details of the transaction are set out in the announcement of the Company dated 7 February 2018.

Notes to Financial Statements

46. Statement of Financial Position of the Company

The financial position of the Company as at the end of the reporting period is as follows:

	2017	2016
NON-CURRENT ASSETS		
Property, plant and equipment	371	568
Investments in subsidiaries	5,954,222	7,137,938
Total non-current assets	5,954,593	7,138,506
CURRENT ASSETS		
Prepayments, deposits and other receivables	1,071,358	873,603
Cash and cash equivalents	468,048	432,747
Total current assets	1,539,406	1,306,350
CURRENT LIABILITIES		
Accrued liabilities and other payables	1,240	1,836
Bank borrowings	156,000	1,169,543
Total current liabilities	157,240	1,171,379
NET CURRENT ASSETS	1,382,166	134,971
TOTAL ASSETS LESS CURRENT LIABILITIES	7,336,759	7,273,477
NON-CURRENT LIABILITIES		
Bank borrowings	2,702,069	6,155,518
Due to a subsidiary	3,833,522	—
Total non-current liabilities	6,535,591	6,155,518
NET ASSETS	801,168	1,117,959
EQUITY		
Issued capital	392,886	392,886
Reserves	408,282	725,073
TOTAL EQUITY	801,168	1,117,959

Notes to Financial Statements

46. Statement of Financial Position of the Company (continued)

Note:

A summary of the Company's reserves is as follows:

	Notes	Share premium account	Contributed surplus	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total
At 1 January 2016		9,706,852	172,934	1,190	12,000	(8,885,110)	1,007,866
Loss for the year		—	—	—	—	(282,245)	(282,245)
Other comprehensive loss for the year :							
Exchange differences on translation of foreign operations		—	—	(548)	—	—	(548)
Total comprehensive loss for the year		—	—	(548)	—	(282,245)	(282,793)
At 31 December 2016		9,706,852	172,934	642	12,000	(9,167,355)	725,073
At 1 January 2017		9,706,852	172,934	642	12,000	(9,167,355)	725,073
Loss for the year		—	—	—	—	(199,566)	(199,566)
Other comprehensive income for the year :							
Exchange differences on translation of foreign operations		—	—	641	—	—	641
Total comprehensive income/(loss) for the year		—	—	641	—	(199,566)	(198,925)
Reduction of share premium	36	(9,700,000)	500,000	—	—	9,200,000	—
Distribution to shareholders	11	—	(117,866)	—	—	—	(117,866)
At 31 December 2017		6,852	555,068	1,283	12,000	(166,921)	408,282

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board on 23 February 2018.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the past five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

Results

HK\$'000

	Year ended 31 December				
	2017	2016	2015	2014	2013
Revenue	3,602,947	2,956,732	3,713,127	17,805,124	39,319,183
Profit/(loss) before tax	608,180	344,024	(6,503,373)	384,149	(2,130,724)
Income tax credit/(expense)	(123,603)	217	331,453	(113,734)	527,870
Profit/(loss) for the year	484,577	344,241	(6,171,920)	270,415	(1,602,854)
Attributable to:					
Shareholders of the Company	518,315	362,985	(6,104,909)	223,830	(1,465,436)
Non-controlling interests	(33,738)	(18,744)	(67,011)	46,585	(137,418)
	484,577	344,241	(6,171,920)	270,415	(1,602,854)

Assets, Liabilities and Non-controlling Interests

HK\$'000

	31 December				
	2017	2016	2015	2014	2013
Non-current assets	9,963,374	9,369,369	9,895,024	15,400,648	14,682,606
Current assets	4,169,542	3,899,380	4,171,502	7,379,527	13,203,375
Total assets	14,132,916	13,268,749	14,066,526	22,780,175	27,885,981
Current liabilities	1,223,189	2,136,040	2,322,553	4,908,958	8,947,341
Non-current liabilities	6,962,777	6,436,419	7,638,655	6,976,845	7,277,258
Total liabilities	8,185,966	8,572,459	9,961,208	11,885,803	16,224,599
Non-controlling interests	(117,223)	(108,468)	(62,063)	27,255	(6,310)
Equity attributable to shareholders of the Company	6,064,173	4,804,758	4,167,381	10,867,117	11,667,692

Reserve Quantities Information

Proved Oil Reserves Estimates (unaudited)

million barrels

2017	Indonesia (51%)	China (100%)	Kazakhstan (50%)	Total
At 1 January	1.5	19.2	120.7	141.4
Revision	(0.4)	13.9	(9.0)	4.5
Production	(0.5)	(2.9)	(7.2)	(10.6)
At 31 December	0.6	30.2	104.5	135.3

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