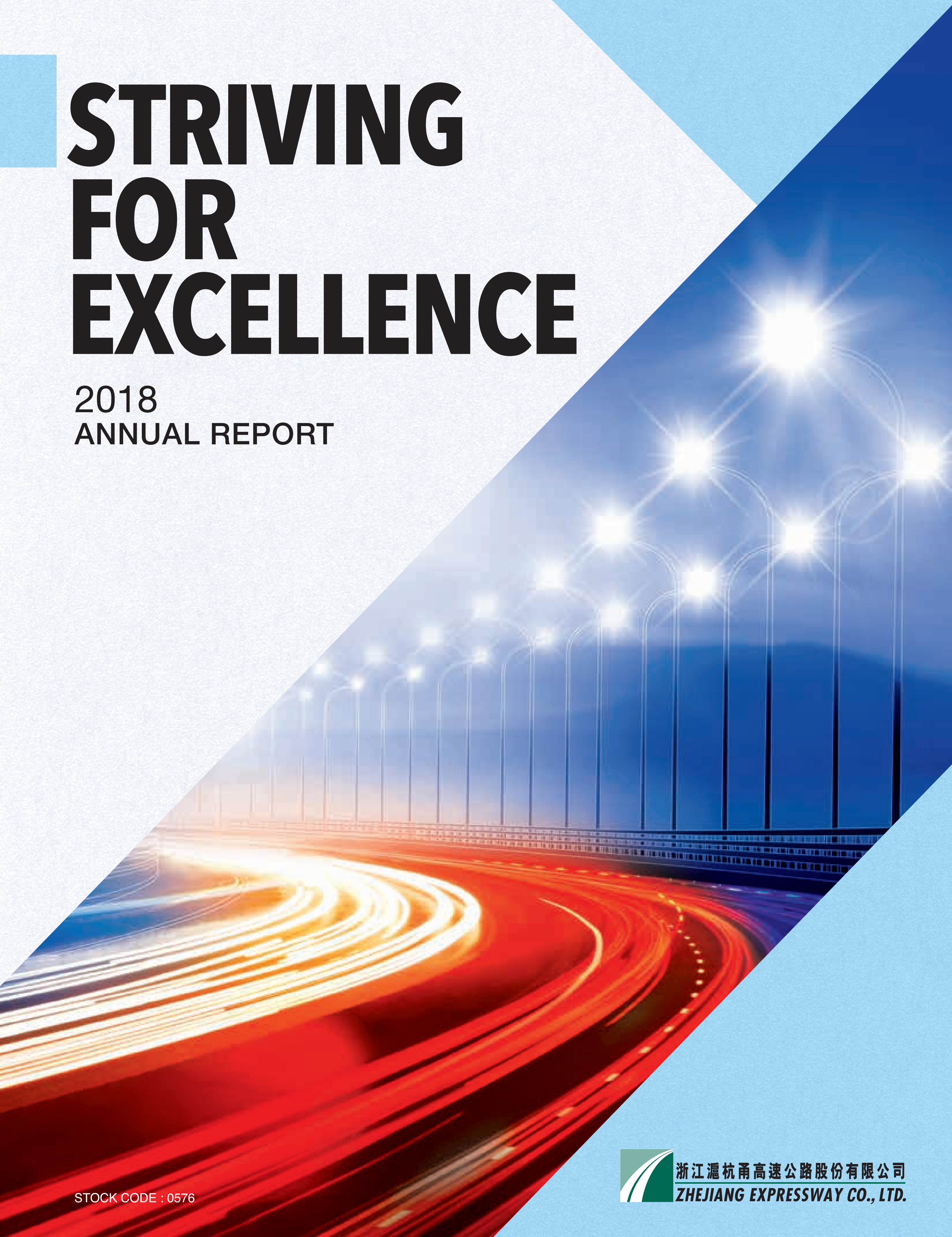
STRIVING FOR EXCELLENCE

2018
ANNUAL REPORT



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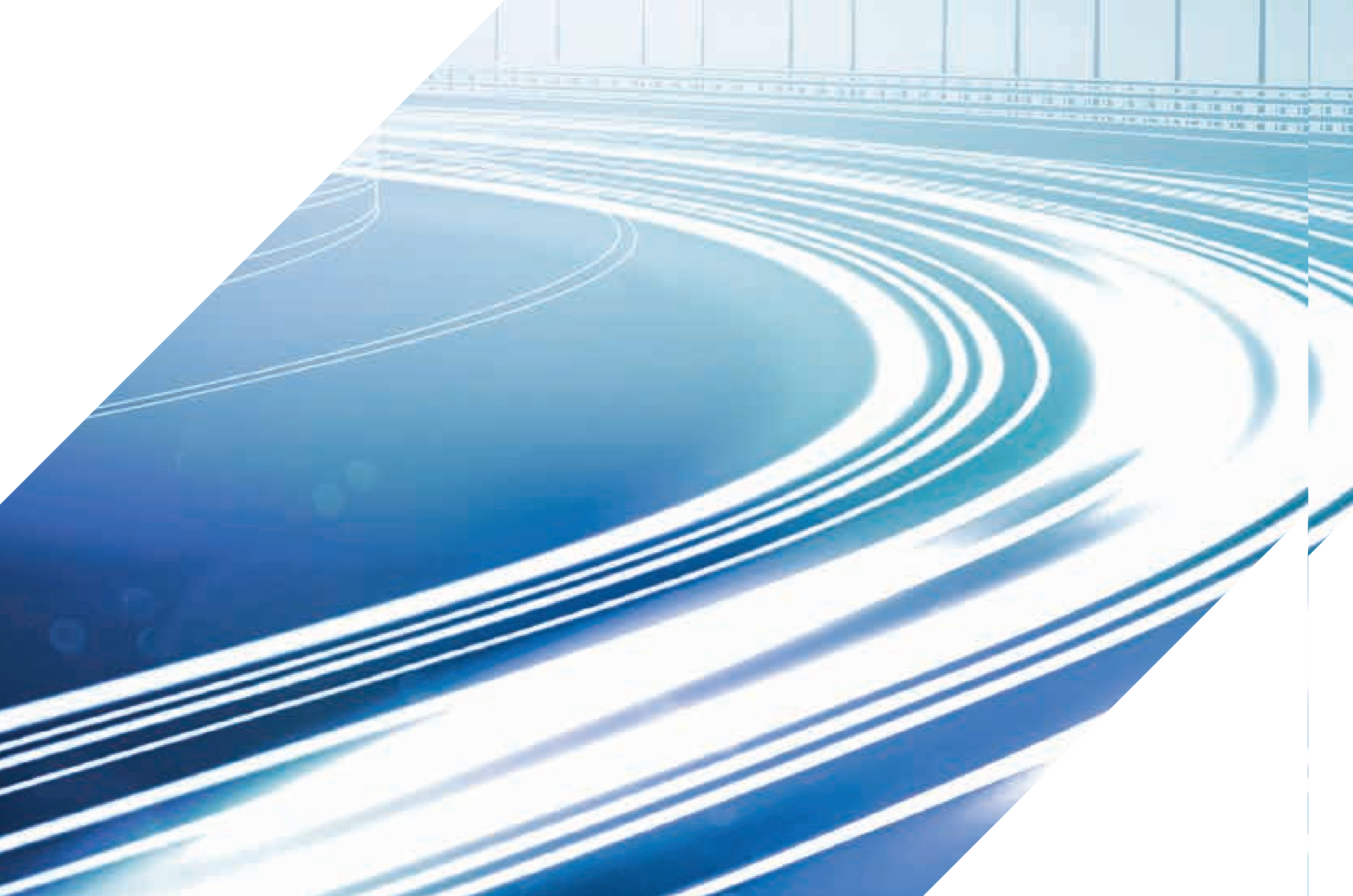
浙江滬杭甬高速公路股份有限公司
ZHEJIANG EXPRESSWAY CO., LTD.

STRIVING FOR EXCELLENCE

Building a renowned brand for expressway operations and service in China



CONTENTS

Definition of Terms

Audit Committee	the audit committee of the Company
Board	the board of directors of the Company
Company or Zhejiang Expressway	Zhejiang Expressway Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability on March 1, 1997
Communications Group	Zhejiang Communications Investment Group Co., Ltd. (浙江省交通投資集團有限公司), a wholly State-owned enterprise established in the PRC, on December 29, 2001 and the controlling shareholder of the Company
Connected Person	has the meaning ascribed to it under the Listing Rules
Controlling Shareholder	has the meaning ascribed to it under the Listing Rules
Directors	the directors of the Company
Expressway Mechanical and Electrical Engineering Agreements	the various expressway mechanical and electrical engineering agreements dated August 7, 2018 entered into between Zhejiang Information (Zhejiang Expressway Information Engineering Technology Co., Ltd.) on the one hand and the Company and relevant subsidiaries of the Company (namely Shangsan Co, Hanghui Co, Jiaxing Co, Jinhua Co and Huihang Co) on the other hand, pursuant to which the Company and certain of its subsidiaries agreed to purchase expressway mechanical and electrical engineering services from Zhejiang Information
Expressway Monitoring System Software Maintenance Agreements	the various expressway monitoring system software maintenance agreements dated August 7, 2018 entered into between Zhejiang Information on the one hand and the Company and relevant subsidiaries of the Company (namely Shangsan Co, Hanghui Co, Jiaxing Co and Jinhua Co) on the other hand, pursuant to which the Company and certain of its subsidiaries agreed to purchase expressway monitoring system software maintenance services from Zhejiang Information
GDP	gross domestic product
Group	the Company and its subsidiaries
H Shares	the overseas listed foreign shares of Rmb1.00 each in the share capital of the Company which are primarily listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars since May 15, 1997
Hanghui Co	Zhejiang Hanghui Expressway Co., Ltd. (浙江杭徽高速公路有限公司), a 88.674% owned subsidiary of the Company
Huihang Co	Huangshan Yangtze Huihang Expressway Co., Ltd (黃山長江徽杭高速公路有限責任公司), a wholly-owned subsidiary of the Company
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Jiaxing Co	Zhejiang Jiaxing Expressway Co., Ltd. (浙江嘉興高速公路有限責任公司), a 99.9995% owned subsidiary of the Company
Jinhua Co	Zhejiang Jinhua Yongjin Expressway Co., Ltd. (浙江金華甬金高速公路有限公司), a wholly-owned subsidiary of the Company
Listing Rules	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Period	the period from January 1, 2018 to December 31, 2018
PRC	the People's Republic of China

Previous Transactions I	the agreements entered into within a 12-month period prior to the date of the Expressway Services Agreements between or among the Group and Communications Group's associates in relation to various information technology services, mechanical and electrical engineering services. For details, please refer to the announcements issued by the Company dated December 22, 2017, January 4, 2018, April 17, 2018 and August 7, 2018, respectively
Previous Transactions II	the agreements entered into between or among the Group and Communications Group's associates within a 12-month period prior to the date of the Dedicated Road Maintenance Agreement between or among the Group and Communications Group's associates in relation to highway operations and maintenance services. For details, please refer to the announcements issued by the Company dated April 8, 2016 and June 23, 2017 respectively
Previous Transactions III	the agreements entered into within a 12-month period prior to the date of Asphalt Pavement On-site Thermal Regeneration Engineering Agreement for the year of 2018 between or among the Group and Communications Group's associates in relation to highway operations and maintenance services. For details, please refer to the announcements issued by the Company dated April 8, 2016, June 23 and 26, 2017 and May 28, 2018 respectively
Previous Transactions IV	the agreements entered into within a 12-month period prior to the date of the Expressway Monitoring System Software Maintenance Agreements and the Expressway Mechanical and Electrical Engineering Agreements between or among the Group and Communications Group's associates in relation to information technology service and mechanical and electrical engineering services. For details, please refer to the announcements issued by the Company dated December 22, 2017, January 4 and April 17, 2018, respectively
Rmb	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong)
Shangsan Co	Zhejiang Shangsan Expressway Co., Ltd. (浙江上三高速公路有限公司), a 73.625% owned subsidiary of the Company
Shareholders	the shareholders of the Company
Shengxin Co	Shengxin Expressway Co., Ltd. (浙江紹興嵊新高速公路有限公司), a 50% owned joint venture of the Company
Shenjiahuhang Co	Zhejiang Shenjiahuhang Expressway Co., Ltd.(浙江申嘉湖杭高速公路有限公司), a wholly-owned subsidiary of the Company
SRCB	Shanghai Rural Commercial Bank Co., Ltd. (上海農村商業銀行股份有限公司) a 5.36% owned associate of the Company
Supervisory Committee	the supervisory committee of the Company
Yangtze Financial Leasing	Yangtze United Financial Leasing Co., Ltd. (長江聯合金融租賃有限公司), a 13% owned associate of the Company
Yuhang Co	Zhejiang Yuhang Expressway Co., Ltd. (浙江余杭高速公路有限責任公司), a 51% owned subsidiary of the Company
Zheshang Securities	Zheshang Securities Co., Ltd. (浙商證券股份有限公司), a 63.74475% owned subsidiary of the Shangsan Co
Zhejiang Communications Finance	Zhejiang Communications Investment Group Finance Co., Ltd. (浙江省交通投資集團財務有限責任公司), a 35% owned associate of the Company
Zhoushan Co	Zhejiang Zhoushan Bay Bridge Co., Ltd.(浙江舟山跨海大橋有限公司), a 51% owned subsidiary of Shenjiahuhang Co

Company Profile

Zhejiang Expressway is an infrastructure company principally engaged in investing in, developing and operating of high-grade roads. The Company and its subsidiaries are also engaged in the expressway related development and operation, as well as securities business.

Major assets under management of the Group include the 248 km Shanghai-Hangzhou-Ningbo Expressway, the 141 km Shangsan Expressway, the 70 km Jinhua section of Ningbo-Jinhua Expressway, the 122 km Hanghui Expressway and the 82 km Huihang Expressway, ancillary facilities along the five expressways, and Zheshang Securities which was listed on Shanghai Stock Exchange(Stock Code: 601878). Among which, apart from Huihang Expressway which is situated within Anhui Province in the PRC, the rest of the four expressways are situated within Zhejiang Province in the PRC. As at December 31, 2018, total assets of the Company and its subsidiaries amounted to Rmb79,513.15 million.

The Company was incorporated on March 1, 1997 as the main vehicle of the Zhejiang Provincial Government for investing in, developing and operating expressways and Class 1 roads in Zhejiang Province.

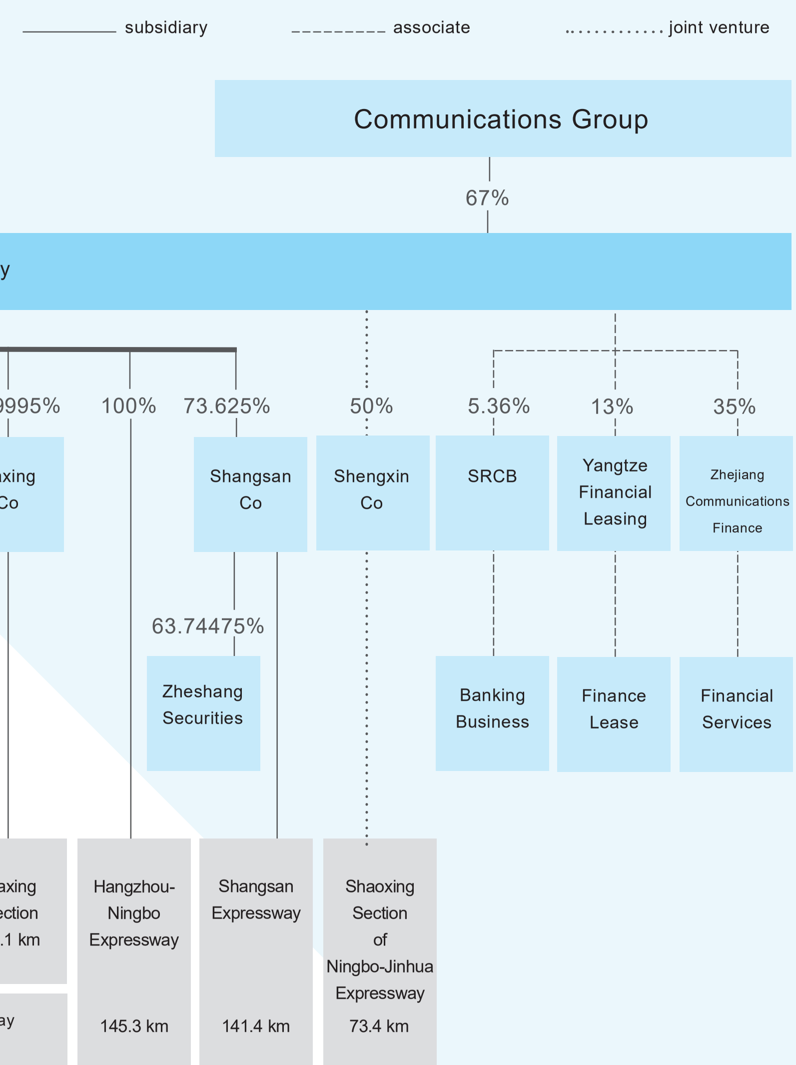
Incorporated on December 29, 2001, Communications Group, the controlling shareholder of the Company, is a provincial-level communications company which is wholly-owned by the State and established by the Zhejiang Provincial Government. It mainly operates a diversity of businesses, such as investment, operations, maintenance, toll collection and ancillary services of expressways; construction and building of transportation project, ocean and coastal transport; as well as real estates. On July 11, 2016, Zhejiang Provincial Party Committee and Zhejiang Provincial Government carried out a merger and restructuring of Communications Group and Zhejiang Railroad Investment Group Co., Ltd. In July 2018, Zhejiang Provincial Party Committee and Zhejiang Provincial Government carried out a merger and restructuring of Communication Group and Zhejiang Commercial Group Co., Ltd. Upon merger and restructuring, Communications Group will be responsible for the investment and financing, construction, operation and management of transport related fundamental facilities including expressways, railroads, key cross-region mass transit railways and integrated transport hubs.

The H Shares of the Company, which represent approximately 33% of the issued share capital of the Company, were listed on the Hong Kong Stock Exchange on May 15, 1997, and the Company subsequently obtained a secondary listing on the London Stock Exchange on May 5, 2000.

With a solid foundation built on the Group's expressway business, the Company will expand its main businesses scale, enhance its core competitiveness, and grow its financial and securities business so as to increase its profit contribution to the Group. Looking ahead, the Company will seize sound investment opportunities to acquire new projects, and strive to develop the Company into an international investment holdings company with a primary focus on transportation infrastructure investment and operation.

Corporate Structure of the Group

Set out below is the corporate and business structure of the Group as at March 29, 2019:



Review of Major Corporate Events

1. On February 8, 2018, the Company and Zhejiang Hongtu Transportation Construction Company* (浙江交工宏途交通建設有限公司) received the notification of award regarding a tender by Deqing County Department of Transportation to engage in the PPP Project of Zhenhai-Anji Highway (Duihekou-Aibuli section) in Deqing County.

2. On March 19, 2018, the Company announced its 2017 annual results in Hong Kong and thereafter conducted its annual results presentation in Hong Kong, Australia and the United States.

3. On April 2, 2018, the Company held its Extraordinary General Meeting to elect Mr. YU Zhihong, Mr. YU Qunli and Mr. YU Ji as non-executive Directors and Mr. CHEN Bin as independent non-executive Director.

4. On April 12, 2018, the Company held the first meeting of the union member representatives and employee representatives of the sixth session to elect Mr. ZHAN Huagang and Mr. WANG Yubing as the Supervisors representing the employees.

5. On April 27, 2018, the Company published its 2018 first quarterly results.

6. On May 2, 2018, the Company and Rizhao Steel Holdings Group Company Ltd. (日照鋼鐵控股集團有限公司) entered into the Share Transfer Agreement to acquire 4.9% shares of Shanghai Rural Commercial Bank Co., Ltd. at the consideration of approximately Rmb2,712 million.

7. At midnight on June 27, 2018, the nation's first weight-based tolling ETC lane for goods vehicles commenced trial operation at Jiufeng toll station on Hanghui Expressway which allows goods vehicles installed with the electronic tag to go through the toll station without stopping.

8. On June 29, 2018, the Company held its 2017 Annual General Meeting to elect members of the Board and Supervisory Committee of the eighth session and to approve, inter alia, the resolutions regarding the payment of a final dividend of Rmb0.300 per share, the reappointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the international auditors of the Company, the re-appointment of Pan-China Certified Public Accountants LLP as the PRC auditors of the Company, and the grant of general mandate to the Board to issue, allot and deal in new H shares of no more than 20% of the issued H shares of the Company.

On the same date, the Company held the first meeting of the Board of the eighth session to elect the chairman of the Board of the eighth session, appoint the chairman for each of the committees, senior management officers and authorized representatives; approve the engagement of the Company by Communications Group to manage 46 km of Zhejiang Zhoushan Bay Bridge, 71 km of Ningbo Section of Zhejiang Ningbo-Taizhou-Wenzhou Expressway, 43 km of Taizhou Section of Zhejiang Ningbo-Taizhou-Wenzhou Expressway and 158 km of Taijin Expressway.

9. On July 18, 2018, the Company and Shanghai Rural Commercial Bank Co., Ltd. entered into the Capital Increase Agreement and made capital contributions amounting to approximately Rmb512 million to Shanghai Rural Commercial Bank Co., Ltd. on December 12, 2018 to acquire 73.50 million additional shares. Upon completion of the capital increase, the shareholding percentage of the Company in Shanghai Rural Commercial Bank Co., Ltd. was 5.36%.

10. On August 24, 2018, the Company published its 2018 interim results and thereafter conducted its interim results presentation in Hong Kong.

11. On October 31, 2018, the Company announced its 2018 third quarterly results.

    On the same date, the Board approved the engagement of the Company by Communications Group to manage 38 km section of Leqingwan Expressway.

12. On December 13, 2018, the Board approved the Share Transfer Agreement entered into between the Company and Communications Group to conditionally acquire the 100% equity interests of Shenjiahuhang Co. at the consideration of RMB2,943 million; approved the issuance of medium-term notes of no more than RMB3,000 million with a term not exceeding five years. These two resolutions were resolved at the Extraordinary General Meeting held on March 4, 2019.

13. On December 28, 2018, the Company and Hangzhou Municipal Bureau of Transportation (杭州市交通局) entered into a toll adjustment compensation agreement, pursuant to which the Company will not collect tolls on the Hangzhou urban section of Shanghai-Hangzhou and Hangzhou-Ningbo Expressway tentatively starting from the second half of 2019 until the expiration of the Company's toll collection right on respective sections and Hangzhou Municipal Bureau of Transportation will compensate for such toll adjustment on an annual basis. At the same time, Hangzhou Municipal Bureau of Transportation shall be responsible for the roadbed lifting upgrading construction, as well as the subsequent maintenance, operation and management of the Hangzhou Section.

Particulars of Major Road Projects

Expressway	Percentage of Ownership	Length in Kilometers	Number of Lanes	Number of Toll Roads	Number of Service Areas	Start of Operation	Remaining Years of Operation
Shanghai-Hangzhou Expressway							
– Jiaxing Section	99.9995%	88.1	8	7	2	1998	10
– Yuhang Section	51%	11.1	6	1	0	1995-1998	10
– Hangzhou Section	100%	3.4	4	2	0	1995	10
Hangzhou-Ningbo Expressway							
– Hangzhou to Hongken section	100%	15.7	4	1	0	1992	9
– Hongken to Duantang section	100%	123.4	8	9	2	1995	9
– Duantang to Dazhujia section	100%	6.2	4	1	0	1996	9
Shangsan Expressway	73.625%	141.4	4	11	3	2000	12
Ningbo-Jinhua Expressway							
– Jinhua Section	100%	69.7	4	7	1	2005	12
Hanghui Expressway							
– Changyu Section	88.674%	36.7	4	5	1	2004	11
– Changhang Section	88.674%	85.6	4	8	1	2006	13
Huihang Expressway	100%	81.6	4	5	2	2004	15
Shenjiahuhang Expressway							
– Huzhou Section	100%	42.0	4	3	1	2008	15
– Lianhang Section	100%	50.9	4	7	1	2010	17
Zhoushan Bay Bridge	51%	46.3	4	8	1	2009	16

Current Toll rates on the Expressways under the Group

1. Passenger vehicle classification and toll rates

Vehicle Class	Classification Standard	Shanghai-Hangzhou-Ningbo Expressway Entrance Fee (Rmb/vehicle)	Shanghai-Hangzhou-Ningbo Expressway Mileage Fee (Rmb/vehicle/km)	Huihang Expressway Mileage Fee (No entrance fee) (Rmb/vehicle/km)
1	Passenger vehicle with up to 7 seats	5	0.45	0.45
	Truck with tonnage of 2 tons or below	5	0.45	0.45
2	Passenger vehicle with seats 8 to 19	5	0.45	0.80
	Truck with tonnage of above 2 tons and up to 5 tons	10	0.80	0.80
3	Passenger vehicle with seats 20 to 39	10	0.80	1.10
	Truck with tonnage of above 5 tons and up to 10 tons	15	1.20	1.10
4	Passenger vehicle with seats above 40	15	1.20	1.30
	Truck with tonnage above 10 tons and up to 15 tons	15	1.40	1.30
5	Truck with tonnage above 15 tons	20	1.60	1.50

2. Toll by weight on goods vehicles

Load	Toll standards	
Legally loaded	Up to 5 tons	Rmb0.09/ton per km
	Above 5 tons and up to 15 tons	Rmb0.09/ton per km
	Above 15 tons and up to 30 tons	Rmb0.09/ton per km is reduced in a linear manner to Rmb0.06/ton per km
	Over 30 tons	Rmb0.06/ton per km, based on 30 tons calculation
Overloaded vehicle	Overloaded below 10%	Calculation based on the basic fee standard for legally loaded
	Overloaded up to 30%	The overloaded portion over 10% is calculated based on Rmb0.09/ton per km x 1.2; the remaining portion is calculated based on the fee standard of "Overloaded below 10%"
	Overloaded above 30% and up to 50%	The legally loaded portion and the overloaded portion up to 30% is calculated based on the fee standard of "Overloaded up to 30%"; the remaining portion is calculated based on Rmb0.09/ton per km x 2
	Overloaded above 50% and up to 100%	The legally loaded portion and the overloaded portion up to 30% is calculated based on the fee standard of "Overloaded up to 30%"; the remaining portion is calculated based on Rmb0.09/ton per km x 3
	Overloaded over 100%	The legally loaded portion and the overloaded portion up to 30% is calculated based on the fee standard of "Overloaded up to 30%"; the remaining portion is calculated based on Rmb0.09/ton per km x 4

* The mileage fee for Class 1 vehicle on the Shangsan Expressway, Ningbo-Jinhua Expressway, Hanghui Expressway and Shenjiahuhang Expressway is Rmb0.40/vehicle per km. The toll rates for other passenger vehicles and trucks are the same as those for the Shanghai-Hangzhou-Ningbo Expressway.

* The passenger vehicles and trucks on Zhoushan Bay Bridge Expressway are charged by vehicle class. The mileage fee for Class 1 vehicle is Rmb0.40/vehicle/km. The toll rates for other passenger vehicles and trucks are the same as those for the Shanghai-Hangzhou-Ningbo Expressway. In addition, a bridge overlapping fee is charged on the Zhoushan Bay Bridge section by vehicle class: Rmb1.82 per km, Rmb3.64 per km, Rmb5.46, Rmb6.37 and Rmb7.28 for vehicle classes 1 to 5, respectively.

3. Toll by weight on goods vehicles on the Huihang Expressway

Load	Toll standards	
Legally loaded	Up to 10 tons	Rmb0.09/ton per km
	Above 10 tons and up to 40 tons	Rmb0.09/ton per km is reduced in a linear manner to Rmb0.05/ton per km
	Over 40 tons	Rmb0.05/ton per km
Overloaded vehicle	Overloaded up to 30%	Calculation based on the basic fee standard for legally loaded
	Overloaded above 30% and up to 100%	Calculation based on the fee standard X 3 is increased in a linear manner to fee standard X 6
	Overloaded over 100%	Calculation based on the fee standard X 6

* The basic toll rate for goods vehicles on Huihang Expressway is Rmb0.09/ton per km.

Financial and Operating Highlights

Results

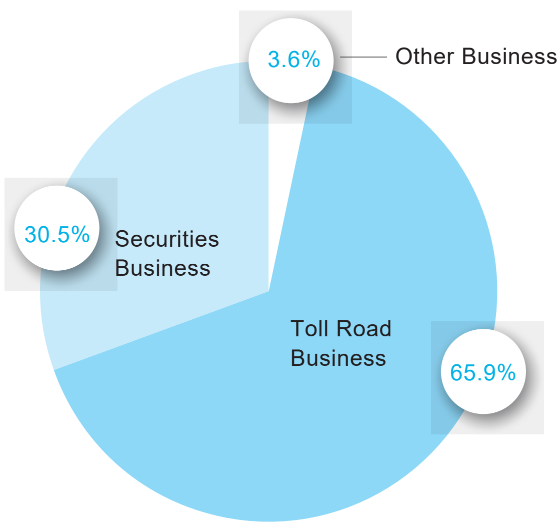
	Year ended December 31,				
	2014 Rmb'000 (Restated)	2015 Rmb'000 (Restated)	2016 Rmb'000	2017 Rmb'000	**2018 Rmb'000**
Continuing operations:					
Revenue	7,171,810	10,724,781	9,735,347	9,626,340	**9,568,321**
Profit Before Tax	3,564,510	5,365,724	4,888,585	5,183,301	**5,135,331**
Income Tax Expense	(882,625)	(1,396,774)	(1,161,570)	(1,192,269)	**(1,142,988)**
Profit for the year from continuing operations	2,681,885	3,968,950	3,727,015	3,991,032	**3,992,343**
Discontinued operations:					
Profit for the year from discontinued operations	64,087	60,830	81,594	–	**–**
Profit for the year (from continuing and discontinued operations) attributable to:					
Owners of the Company	2,264,994	2,989,680	3,037,405	3,202,130	**3,480,537**
Non-controlling interests	480,978	1,040,100	771,204	788,902	**511,806**
Basic Earnings Per Share (EPS) (From continuing and discontinued operations)	52.15 cents	68.84 cents	69.94 cents	73.73 cents	**80.14 cents**
Diluted EPS(From continuing and discontinued operations)	52.15 cents	68.84 cents	69.94 cents	71.36 cents	**75.52 cents**

RETURN ON EQUITY (ROE)

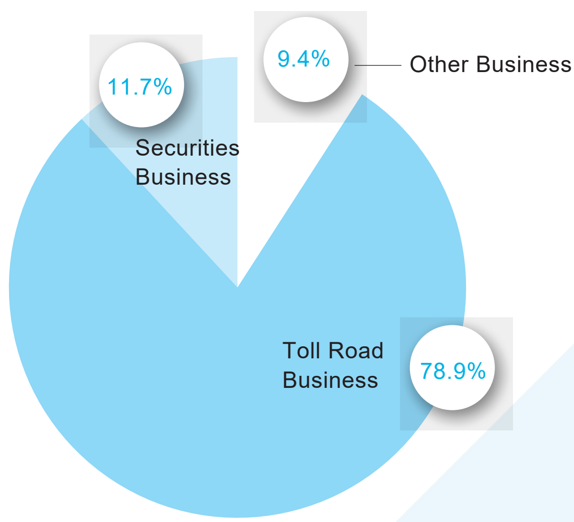
	2014	2015	2016	2017	**2018**
ROE	13.3%	17.9%	16.6%	15.5%	**15.2%**

SEGMENTAL REVENUE / 2018

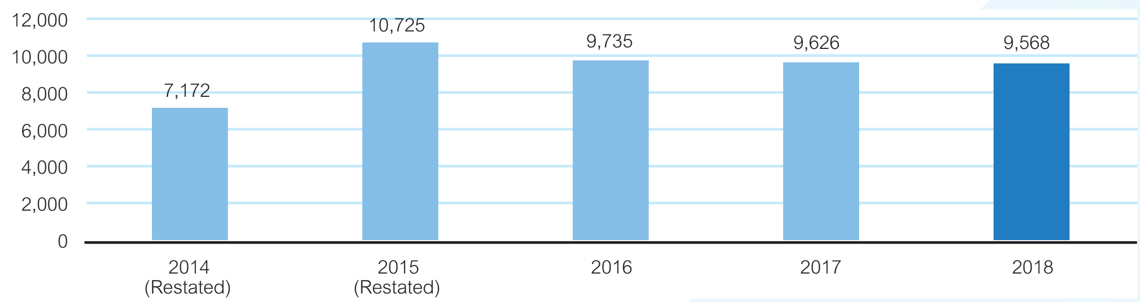
(continuing operations)



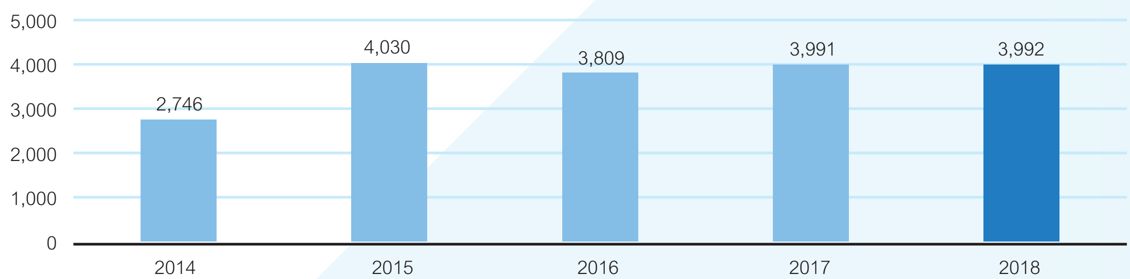
SEGMENTAL NET PROFIT / 2018



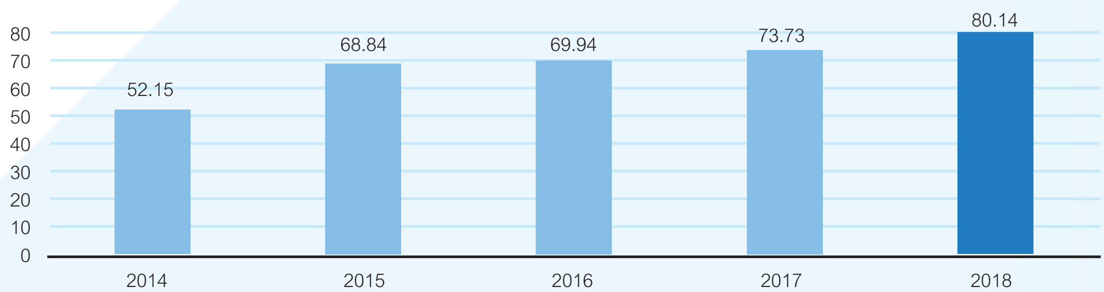
Revenue / Rmb Million (Continuing operations)



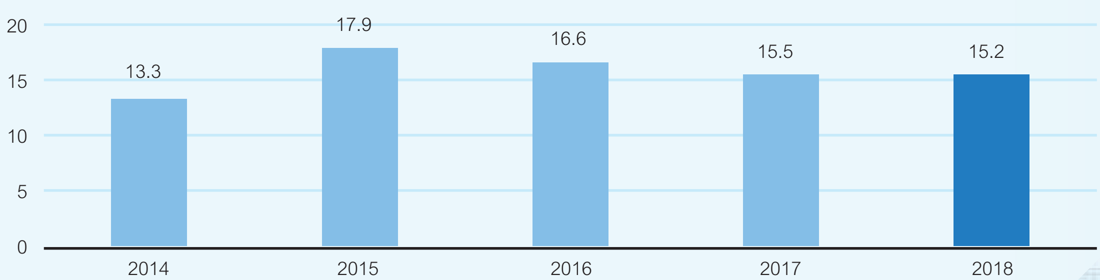
Net profit / Rmb Million (Continuing and discontinued operations)



Basic EPS / Rmb Cents (Continuing and discontinued operations)



ROE / %



YU Zhihong

Chairman

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present the annual results of Zhejiang Expressway ("ZJE" or "the Company"), and its subsidiaries (collectively referred to as "the Group") for the year 2018.

In 2018, China's GDP grew 6.6% and the structure of the economy continued to evolve. GDP for Zhejiang Province, which continues to be the highest disposable income per capita in the nation and is where the major business of the Group is located, rose 7.1%. During the year, e-commerce became a major driver of economic growth in Zhejiang Province. Online retail sales soared 25.4% year-over-year within the province.

Although China kept its economic growth within a reasonable range, the country faced downside pressure from a complicated and challenging external environment. During the period, the Group's traffic volume fluctuated, and the growth rate declined over the course of the year. As the securities business also faced pressure, the Group's overall growth slowed. Revenue was Rmb9,568.32 million, largely flat year-on-year, and the profit attributable to owners of the Company increased 8.7% year-on-year to Rmb3,480.54 million. The ROE (return on equity) for the year was 15.2%, remaining at a relatively high level. The Company previously announced an adjustment to the dividend policy to consolidate the interim and final dividend payments. The dividend for the year recommended by the directors was Rmb37.5 cents per share, which represents a record high and demonstrates our goal of providing a stable return to shareholders.

Chairman's Statement

For the Group's core toll road operations business, it recorded toll revenue of Rmb6,302.37 million during the period, which contributed 65.9% of total revenue. During the period, the Group worked to enhance its service quality by implementing a number of industry-leading innovations related to "intelligent expressways". Through the extensive implementation of modern technology such as ETC (Electronic Toll Collection) payments, mobile payments and self-service toll stations, the Group was able to increase the "zero waiting time" rate for toll collection to an industry-leading 94%, which significantly reduced waiting times and improved service quality for vehicles. In addition, the Group also proactively upgraded many of its internal IT systems and implemented new big data technology to improve operational efficiency. As the Group continue to install new innovative intelligent equipment at scale, it will continue to be able to gradually evolve its business by turning ideas to reality, lead the modernization of our industry, and build a renowned brand for operational quality and customer service in China.

As part of the efforts to strengthen our core toll road operations business, the Group proactively took advantage of asset injections from Zhejiang Communications Investment Group Co., Ltd, which is the controlling shareholder of our Company, as well as exploring external merger and acquisition opportunities, including premium overseas projects. In December 2018, the Group entered into an equity purchase agreement to acquire the Zhejiang Shenjiahuhang Expressway Co., Ltd., which holds two assets of Shenjiahuhang Expressway and Zhoushan Bay Bridge. The acquisition served to increase the total length of the expressways operated by our Group from approximately 663 km to approximately 802 km. The Shenjiahuhang Expressway is one of the five major routes connecting Zhejiang Province and Shanghai, while the Zhoushan Bay Bridge acts as an important economic link between the Zhoushan Islands and the mainland. Both are expected to turn a profit in 2019. At the same time, the Group proposed the issuance of mid-term notes of no more than RMB3,000 million. The proceeds will be partially used for this acquisition, and demonstrate how we are using the capital markets as an important channel to optimize our financial position and reduce financing costs.

The domestic stock and bond markets remained lackluster during the period, which proved to be particularly challenging for Zheshang Securities as various business segments did not perform well. Despite of the unfavorable market conditions, Zheshang Securities maintained its scale and market position in the industry. It also expanded its operations by obtaining three new certifications, including Trial Market Maker in the Interbank Bond Market, and developed new business leveraging the “Phoenix Action” plan of Zhejiang Province, which aims to encourage listings, mergers and acquisitions, and corporate restructurings. Beyond that, the Group continued to broaden its scope in the financial services sector by making various minority investments in other financial institutions. During the year the Group acquired stakes in Shanghai Rural Commercial Bank and later increased it to 5.36%.

As we look out to the future, our aim is to “Strive for Excellence” as we look to become a leading enterprise in China. For the Group’s core toll road operations businesses, we will continue to try to build a renowned brand for expressway operations and service in China, and drive our industry forward with intelligent solutions. For the securities business, we aim to build a unique brand and become a top-tier player in the country. We are setting up a number of systems and procedures to help us achieve these ambitious long-term goals.

On behalf of the Board, I would like to thank everyone who has supported our company, including our shareholders, business partners, customers, management team and employees. As we look ahead, we will work hard to safeguard the overall interests of the Company and add value for shareholders.

YU Zhihong
Chairman

March 18, 2019

15

2018
ANNUAL REPORT

Providing a stable return to shareholders

The Group's return on equity for the year was 15.2%, remaining at a relatively high level. The Company previously announced an adjustment to the dividend policy to consolidate the interim and final dividend payments. The dividend for the year recommended by the directors was Rmb37.5 cents per share, which represents a record high and demonstrates our goal of providing a stable return to shareholders.

Management Discussion and Analysis

BUSINESS REVIEW

The global economy maintained its growth momentum in 2018, though the overall rate had fallen back somewhat. International financial markets were volatile and international trade also slowed. Meanwhile, the Chinese economy maintained a steady level of growth with positive trends, posting a 6.6% increase in GDP during the Period. Zhejiang Province's GDP grew by 7.1% year-on-year, which was 0.5 percentage points higher than the national rate, mainly due to ongoing increases in services, international trade and consumer demand.

Traffic volume on the Group's expressways continued to maintain decent growth, benefiting from the stable and rapid growth of Zhejiang Province's economy during the Period. However, revenue from Zheshang Securities fell due to the pull-back in the equity markets in China, which caused a year-on-year decrease of 0.6% in the Group's revenue. Total revenue of the Group was Rmb9,568.32 million, of which Rmb6,302.37 million was generated by the five major expressways operated by the Group, representing an increase of 5.3% year-on-year and 65.9% of the total revenue. The revenue generated by the securities business was Rmb2,921.27 million, representing a decrease of 16.3% year-on-year and 30.5% of the total revenue. A breakdown of the Group's revenue for the Period is set out below:

	2018 Rmb'000	2017 Rmb'000	% Change
Toll revenue			
Shanghai-Hangzhou-Ningbo Expressway	**4,018,598**	3,772,880	6.5%
Shangsan Expressway	**1,232,410**	1,244,280	-1.0%
Jinhua section, Ningbo-Jinhua Expressway	**386,722**	362,345	6.7%
Hanghui Expressway	**527,181**	477,656	10.4%
Huihang Expressway	**137,459**	129,088	6.5%
Securities business revenue			
Commission and fee income	**1,462,798**	2,088,310	-30.0%
Interest income	**1,458,476**	1,402,940	4.0%
Other operation revenue			
Property sales	**–**	47,865	-100.0%
Hotel operation	**106,097**	100,976	5.1%
Construction revenue	**238,580**	–	N/A
Total revenue	**9,568,321**	9,626,340	-0.6%

2018
ANNUAL REPORT

LUO Jianhu

Executive Director and General Manager

Toll Road Operations

During the Period, traffic volume on the Group's expressways maintained solid organic growth, benefitting from Zhejiang Province's favorable economic development. The varied rates of growth reflect the different regions in which the five expressways are located. The organic traffic volume growth rates for the Group's expressways during the Period are listed in the table below:

The Group's Expressways	Organic Traffic Volume Growth Rate (year-on-year)
Shanghai-Hangzhou-Ningbo Expressway	9.1%
Shangsan Expressway	7.3%
Jinhua Section, Ningbo-Jinhua Expressway	7.7%
Hanghui Expressway	8.8%
Huihang Expressway	8.1%

During the Period, traffic volume on the Group's expressways registered steady growth due to a number of positive factors. Zhejiang Province's service industry maintained stable growth and domestic demand also rose. The growth rates for total retail sales of consumer goods, imports, and exports reached 9.0%, 19.0% and 9.0% respectively, which helped the Group to achieve varied levels of growth in both traffic volume and toll revenue on different expressways. On August 11, 2017, the Zhejiang Provincial government converted the county-level city of Lin'an into a district of Hangzhou. As a result, the economy of the region around Lin'an, which is located along the Hanghui Expressway, experienced rapid development, which was beneficial for the growth in the traffic volume along the Hangzhou-Lin'an section of the Hanghui Expressway. In addition, the restriction of truck traffic in the urban area of Dongyang City since December 1, 2017 has driven trucks to the Ningbo-Jinhua Expressway. Moreover, the Yiwu City government reset toll collection rules for vehicles travelling on expressways within the border of Yiwu. Under the new rules, for a two-year period from September 15, 2018 on which the new rules became into effect, the Yiwu government will pay the toll for all passenger vehicles that have ETC registration. Both local policies have boosted traffic volume along the Yiwu Section of the Ningbo-Jinhua Expressway.

During the Period, the following factors had negative impact on the traffic volume and toll revenue on the Group's expressways: the Ningbo-Taizhou-Wenzhou Expressway which connected to the Shangsan Expressway had intermittent cut-off constructions and the Zhangzhen toll station on National Highway G104 parallel to the Shangsan Expressway suspended toll collection on June 1, 2018, both of which negatively affected traffic volume on the Shangsan Expressway. In addition, the Dongyang-Yiwu Provincial Highway opened on June 30, 2017, which led to a decline in short-distance traffic on the Jinhua Section of the Ningbo-Jinhua Expressway.

2018
ANNUAL REPORT

Industry-leading innovations to build "intelligent expressways"

The Group worked to enhance its service quality by implementing a number of industry-leading innovations related to "intelligent expressways". Through the extensive implementation of modern technology such as ETC payments, mobile payments and self-service toll stations, the Group was able to increase the "zero waiting time" rate for toll collection to an industry-leading 94%, which significantly reduced waiting times and improved service quality for vehicles.

During the Period, total toll revenue from the 248km Shanghai-Hangzhou-Ningbo Expressway, the 141km Shangsan Expressway, the 70km Jinhua Section of the Ningbo-Jinhua Expressway, the 122km Hanghui Expressway and the 82km Huihang Expressway was Rmb6,302.37 million.

During the Period, the daily average traffic volume in full-trip equivalents, toll revenue and the corresponding year-on-year growth rates on the Group's expressways are listed in the table below:

The Group's Expressways	Traffic Volume		Toll Revenue	
	Average Traffic Volume in Full-Trip Equivalents	Year-on-year Growth	Toll Revenue	Year-on-year Growth
Shanghai-Hangzhou-Ningbo Expressway	61,898	8.1%	Rmb4,018.60 million	6.5%
– Shanghai-Hangzhou Section	65,500	9.5%		
– Hangzhou-Ningbo Section	59,324	7.0%		
Shangsan Expressway	30,769	1.8%	Rmb1,232.41 million	-1.0%
Jinhua Section, Ningbo-Jinhua Expressway	21,116	7.1%	Rmb386.72 million	6.7%
Hanghui Expressway	19,320	10.4%	Rmb527.18 million	10.4%
Huihang Expressway	7,788	7.6%	Rmb137.46 million	6.5%

Securities Business

During the Period, conditions in the domestic equity markets remained lackluster. Trading volumes on the Shanghai and Shenzhen stock markets decreased 17.5% year-on-year in aggregate. As a result, revenue from various business segments of Zheshang Securities experienced varied levels of declines on a year-on-year basis, including securities brokerage, margin financing and securities lending, investment banking and asset management.

2018
ANNUAL REPORT

Zheshang Securities aims to become a top-tier player in the securities industry in China

Zheshang Securities Co., Ltd., a subsidiary of the Group, was successfully listed on Shanghai Stock Exchange in 2017. In the next step, it aims to build a unique brand and become a top-tier player in the securities industry in China.

During the Period, Zheshang Securities recorded total revenue of Rmb2,921.27 million, a decrease of 16.3% year-on-year, of which, commission and fee income declined 30.0% year-on-year to Rmb1,462.80 million, and interest income was Rmb1,458.48 million, representing an increase of 4.0% year-on-year. In addition, during the Period, securities investment gains of Zheshang Securities included in the consolidated statement of profit or loss and other comprehensive income of the Group was Rmb512.45 million (2017: securities investment gains of Rmb778.80 million).

Overall, Zheshang Securities experienced a severe market test due to multiple unfavorable factors, such as domestic financial deleveraging and increased trade frictions in the global markets. To overcome the adverse impact of these market conditions, Zheshang Securities refined its risk management system, continuously optimized its business structure, enhanced its business development, expanded its project portfolio, and constantly improved its operations.

Other Business Operations

During the Period, other business revenue was mainly derived from hotel and construction operations. Grand New Century Hotel, owned by Zhejiang Yuhang Expressway Co., Ltd. (a 51% owned subsidiary of the Company), recorded revenue of Rmb106.10 million for the Period. Deqing County De'an Highway Construction Co., Ltd. (an 80.1% owned subsidiary of the Company) recorded revenue of Rmb238.58 million for the Period.

Long-Term Investments

Zhejiang Shaoxing Shengxin Expressway Co., Ltd. ("Shengxin Co", a 50% owned joint venture of the Company) operates the 73.4km Shaoxing Section of the Ningbo-Jinhua Expressway. During the Period, the average daily traffic volume in full-trip equivalents was 20,678, representing an increase of 7.64% year-on-year. Toll revenue during the Period was Rmb417.38 million. During the Period, the joint venture reported a net profit of Rmb60.07 million. (2017: net profit of Rmb35.34 million).

During the Period, Zhejiang Communications Investment Group Finance Co., Ltd. (a 35% owned associate of the Company), derived income mainly from interest, fees and commissions for providing financial services, including arranging loans and receiving deposits, for the subsidiaries of Zhejiang Communications Investment Group Co., Ltd., the controlling shareholder of the Company. During the Period, the associate company recorded a net profit of Rmb409.80 million (2017: net profit of Rmb321.40 million).

Management Discussion and Analysis

During the Period, Yangtze United Financial Leasing Co., Ltd. (a 13% owned associate of the Company), was primarily engaged in the financial leasing business, which includes the transferring and receiving of financial leasing assets, fixed-income securities investment businesses, and other businesses approved by the China Banking and Insurance Regulatory Commission. During the Period, the associate company recorded a net profit of Rmb271.92 million (2017: net profit of Rmb265.25 million).

During the Period, Shanghai Rural Commercial Bank Co., Ltd. (a 5.36% owned associate of the Company), was primarily engaged in commercial banking business, including deposits, short-, medium-, and long-term loans, domestic and overseas settlements and other businesses that are approved by the China Banking and Insurance Regulatory Commission.

FINANCIAL ANALYSIS

The Group adopts a prudent financial policy with an aim to provide shareholders of the Company with sound returns over the long term.

During the Period, profit attributable to owners of the Company was approximately Rmb3,480.54 million, representing an increase of 8.7% year-on-year, basic earnings per share for the Company was Rmb80.14 cents, representing an increase of 8.7%, diluted earnings per share for the Company was Rmb75.52 cents, representing an increase of 5.8%, and return on owners' equity was 15.2%, representing a decline of 1.9% year-on-year.

Liquidity and financial resources

As at December 31, 2018, current assets of the Group amounted to Rmb57,913.31 million in aggregate (December 31, 2017: Rmb53,952.25 million), of which bank balances, clearing settlement fund, deposits and cash accounted for 11.7% (December 31, 2017: 10.4%), bank balances and clearing settlement fund held on behalf of customers accounted for 25.5% (December 31, 2017: 27.9%), financial assets at FVTPL accounted for 37.2% (on the same basis as at December 31, 2017: 26.6%) and loans to customers arising from margin financing business accounted for 10.1% (December 31, 2017: 14.6%). The current ratio (current assets over current liabilities) of the Group as at December 31, 2018 was 1.6 (December 31, 2017: 1.7). Excluding the effect of the customer deposits arising from the securities business, the resultant current ratio of the Group (current assets less bank balances and clearing settlement fund held on behalf of customers over current liabilities less balance of accounts payable to customers arising from securities business) was 2.1 (December 31, 2017: 2.2).

The amount of financial assets at FVTPL of the Group as at December 31, 2018 was Rmb21,558.61 million (on the same basis as at December 31, 2017: Rmb14,369.53 million), of which 88.8% was invested in bonds, 3.1% was invested in stocks, 3.2% was invested in structured products, and the rest were invested in equity funds and trust products.

During the Period, net cash from the Group's operating activities amounted to Rmb 2,412.06 million. The currency mix in which cash and cash equivalents are held has not substantially changed as compared to last year.

The Directors do not expect the Company to experience any problems with liquidity and financial resources in the foreseeable future.

	As at December 31,	
	2018	2017
	Rmb'000	Rmb'000
Cash and cash equivalents	**6,477,724**	5,588,814
Time deposits	**280,913**	20,000
Financial assets at fair value through profit or loss	**21,558,606**	–
Held for trading investments	**–**	12,568,694
Available-for-sale investments	**–**	1,800,835
Total	**28,317,243**	19,978,343

Borrowings and solvency

As at December 31, 2018, total liabilities of the Group amounted to Rmb47,808.96 million (December 31, 2017: Rmb44,446.17 million), of which 0.5% was bank and other borrowings, 31.8% was bonds payable, 5.7% was Convertible Bond, 23.2% was financial assets sold under repurchase agreements and 30.6% was accounts payable to customers arising from securities business.

As at December 31, 2018, total interest-bearing borrowings of the Group amounted to Rmb18,188.41 million, representing an increase of 28.9% compared to that as at December 31, 2017. The borrowings comprised borrowings from a domestic financial institution of Rmb200.27 million, borrowings from a domestic institution of Rmb60.47 million, subordinated bonds of Rmb13.30 billion, corporate bond of Rmb1.92 billion, beneficial certificates of Rmb1.55 million, and convertible bond denominated in Euro and equivalents to Rmb2,709.66 million. Of the interest-bearing borrowings, 67.2% was not payable within one year.

Management Discussion and Analysis

As at December 31, 2018, the annual floating interest rate of the Group's borrowings from a domestic financial institution was 4.35%, the annual fixed interest rate from a domestic institution was 3.0%. The annual floating interest rates of beneficial certificates was 8.0%. The annual interest rates for subordinated bonds were fixed at rates between 3.63% and 5.93%. The annual fixed interest rate for corporate bond was 3.08%. The annual coupon rate for Convertible Bond was nil. While the annual interest rate for accounts payable to customers arising from the securities business was fixed at 0.35%.

		Maturity Profile		
	Gross amount Rmb'000	Within 1 year Rmb'000	2-5 years inclusive Rmb'000	Beyond 5 years Rmb'000
Floating rates				
Borrowings from a domestic financial institution	200,266	200,266	–	–
Beneficial certificates	1,551	1,551	–	–
Fixed rates				
Borrowings from a domestic institution	60,475	475	60,000	–
Subordinated bonds	13,300,425	5,750,425	7,550,000	–
Corporate bond	1,916,033	16,033	1,900,000	–
Convertible bond	2,709,663	–	2,709,663	–
Total as at December 31,2018	18,188,413	5,968,750	12,219,663	–
Total as at December 31,2017	14,113,454	2,482,800	11,630,654	–

Total interest expenses and profit before interest and tax for the Period amounted to Rmb866.32 million and Rmb6,001.65 million, respectively. The interest cover ratio (profit before interest and tax over interest expenses) stood at 6.9 (2017: 9.5) times.

	2018 Rmb'000	2017 Rmb'000
Profit before tax and interest	**6,001,648**	5,795,048
Interest expenses	**866,317**	611,747
Interest cover ratio	**6.9**	9.5

As at December 31, 2018, the asset-liability ratio (total liabilities over total assets) of the Group was 60.1% (December 31, 2017: 60.3%). Excluding the effect of customer deposits arising from the securities business, the resultant asset-liability ratio (total liabilities less balance of accounts payable to customers arising from securities business over total assets less bank balances and clearing settlement fund held on behalf of customers) of the Group was 51.2% (December 31, 2017: 50.3%).

Capital structure

As at December 31, 2018, the Group had Rmb31,704.19 million in total equity, Rmb44,127.40 million in fixed-rate liabilities, Rmb201.82 million in floating-rate liabilities, and Rmb3,479.74 million in interest-free liabilities, representing 39.9%, 55.5%, 0.3% and 4.3% of the Group's total capital, respectively. The gearing ratio, which is computed by dividing the total liabilities less accounts payable to customers arising from the securities business by total equity, was 104.6% as at December 31, 2018 (December 31, 2017:101.1%).

	As at December 31, 2018		As at December 31, 2017	
	Rmb'000	**%**	Rmb'000	%
Total equity	**31,704,193**	**39.9%**	29,204,351	39.7%
Fixed rate liabilities	**44,127,398**	**55.5%**	39,148,787	53.2%
Floating rate liabilities	**201,817**	**0.3%**	421,800	0.6%
Interest-free liabilities	**3,479,746**	**4.3%**	4,875,582	6.5%
Total	**79,513,154**	**100.0%**	73,650,520	100.0%
Long-term interest-bearing liabilities	**12,219,663**	**15.4%**	11,630,654	15.8%
Gearing ratio 1 (note)		**104.6%**		101.1%
Gearing ratio 2 (note)		**38.5%**		39.8%
Asset-liabilities ratio 1 (note)		**60.1%**		60.3%
Asset-liabilities ratio 2 (note)		**51.2%**		50.3%

Note: Gearing ratio 1 represents the total liabilities less balance of accounts payable to customers arising from securities business to the total equity; Gearing ratio 2 represents the total amount of the long-term interest-bearing liabilities to the total equity; Asset-liabilities ratio 1 represents total liabilities to total assets; Asset-liabilities ratio 2 represents total liabilities less balance of accounts payable to customers arising from securities business to total assets less bank balances and clearing settlement fund held on behalf of customers.

Management Discussion and Analysis

Capital expenditure commitments and utilization

During the Period, capital expenditure of the Group totaled Rmb3,471.11 million. Amongst the total capital expenditure, Rmb3,224.54 million was incurred for acquiring equity investments, Rmb66.55 million was incurred for acquisition and construction of properties, and Rmb180.02 million was incurred for purchase and construction of equipments and facilities.

As at December 31, 2018, the capital expenditure committed by the Group totaled Rmb4,251.41 million. Amongst the total capital expenditures committed by the Group, Rmb2,943.00 million will be used for the acquisitions of 100% equity interest in Zhejiang Shenjiahuhang Expressway Co., Ltd., Rmb400.00 million will be used for acquiring other equity investments, Rmb433.86 million will be used for acquisition and construction of properties and Rmb474.55 million for acquisition and construction of equipments and facilities.

The Group will consider financing the above-mentioned capital expenditure commitments with internally generated cash flow first and then will comprehensively consider using debt financing and equity financing to meet any shortfalls.

Contingent liabilities and pledge of assets

Pursuant to the board resolution of the Company dated November 16, 2012, the Company and Shaoxing Communications Investment Group Co., Ltd. (the other joint venture partner that holds 50% equity interest in Shengxin Co) provided Shengxin Co with joint guarantee for its bank loans of Rmb2.20 billion, in accordance with their proportionate equity interest in Shengxin Co. During the Period, Rmb210.00 million of the bank loans had been repaid. As at December 31, 2018, the remaining bank loan principle balance is Rmb1,473.00 million.

Except for the above, as at December 31, 2018, the Group did not have any other contingent liabilities, pledge of assets or guarantees.

Foreign exchange exposure

During the Period, save for (i) dividend payments to the holders of H shares in Hong Kong dollars, (ii) Zheshang International Financial Holding Co., Limited. (a wholly owned subsidiary of Zheshang Securities) operating in Hong Kong, and (iii) issuance of the zero coupon convertible bond in an aggregate principal amount of Euro365.00 million in Hong Kong capital market in 2017, which will be due in April 2022, the Group's principal operations were transacted and booked in Renminbi.

During the Period, the Group has not used any financial instruments for hedging purpose.

OUTLOOK

Looking ahead to 2019, global economic growth is expected to slow down amid intensified trade tensions and volatility in the international financial markets. Under the Chinese government's prudent macroeconomic policy, the domestic economy is expected to maintain stable growth as it transitions from high-speed to high-quality development. Zhejiang Province will strive to achieve high-quality development and increase its competitiveness by promoting technical innovation, as part of the efforts to accelerate economic restructuring and transform the real economy. The performance of the overall economy is expected to remain positive, which will provide a stable external environment for the Company's development. The overall traffic volume on the expressways operated by the Group is expected to maintain steady growth in 2019.

The Company will continue to accelerate the implementation of new software and hardware for its toll collection systems to improve efficiencies. The Company will accelerate the establishment of a transportation data platform, improve the application of big data technology and the Company's data analytics capabilities, and also speed up the implementation of intelligent applications to the Shanghai-Hangzhou-Ningbo Expressway in order to improve the Company's operating capabilities and assure safe and smooth traffic flow. The Company will improve its overall service and comprehensively enhance the Company's public image. The Company will also proactively work to improve its overall branding across all the expressway sections and leverage branding opportunities to implement management reforms, with the aim of building a renowned brand for expressway operations and service in China.

On December 28, 2018, the Company signed an agreement for toll compensation with the Hangzhou Transportation Bureau. It is expected that the Company will suspend toll collection on the section of the Shanghai-Hangzhou-Ningbo Expressway in the urban area of Hangzhou City in the second half of 2019 until the expiration of the toll period for the road section. The Hangzhou Transportation Bureau will compensate the Company accordingly on an annual basis.

With the Chinese government proactively promoting the healthy development of a multi-tiered capital market, the China Securities Regulatory Commission will promote the establishment of a new innovation-focused science and technology stock market, and launch a registration-based IPO process. It will also improve both the regulatory and settlement system of the securities industry, and accelerate the opening of the capital markets, all of which will bring new opportunities and challenges to the securities business of the Group. Zheshang Securities will actively respond to market demands, comply with regulatory changes and industry trends, fully leverage market opportunities, optimize and adjust its business structure, improve its service capabilities in investment and financing, and continuously improve its profitability and competitiveness in an effort to address new challenges from the market and industry, and facilitate the sustainable and healthy development of its business.

Management Discussion and Analysis

In order to adapt to new economic developments in 2019, the Company will leverage its competitive advantages, continue to expand and enhance its core toll road operation business, and strengthen and optimize its securities business. Management will continue to monitor government policies and the external environment to appropriately adjust the Company's operating strategy in a timely manner, take advantage of merger and acquisition opportunities to strengthen the Company's operating capabilities, and proactively yet prudently explore suitable investment projects. The Company will also stay focused on maintaining effective risk controls in order to promote high-quality and sustainable development.

HUMAN RESOURCES

During the Period, the Company actively revamped its human resource management, enhanced its remuneration and performance policy, and prompted the increase in overall payment of remuneration to be linked to the operating performance of Company and the productivity of employee. As at December 31, 2018, there were 6,723 employees within the Group, amongst whom 1,396 worked in the managerial, administrative and technical positions related with expressway and 2,665 worked in fields such as toll collection, maintenance, service areas, while 2,662 worked in securities and futures business outlets.

Promoting high-quality and sustainable development

The Group will leverage its competitive advantages, continue to expand and enhance its core toll road operation business, and strengthen and optimize its securities business. Management will continue to monitor government policies and the external environment to appropriately adjust the Group's operating strategy in a timely manner, take advantage of merger and acquisition opportunities to strengthen the Group's operating capabilities, and proactively yet prudently explore suitable investment projects. The Group will also stay focused on maintaining effective risk controls in order to promote high-quality and sustainable development.

Principal Risks and Uncertainties

TOLL ROAD BUSINESS RISKS

Economic Environment

Affected by unfavorable factors including intensifying international tension and international financial market volatilities, China's economy faces a complicated and severe external environment and pressure of economic downturn. As the expressway toll road business is closely related to the macroeconomy, it is expected that there will also be certain uncertainties in the traffic volume and toll revenue of the Group's expressways in the future.

Roads Competition

Hangzhou-Shaoxing-Taizhou Expressway, which is parallel to the Group's Shangsan Expressway, is planned to complete construction and open at the end of 2021. It is expected that Hangzhou-Shaoxing-Taizhou Expressway, upon opening, will have certain diversion effect on the traffic volume of Shangsan Expressway. In addition, Hangzhou Ring Road is planned to open by the end of 2020 and is expected to have certain diversion effect on the traffic volume of Lianhang section of Shenjiahuhang Expressway. Hangzhou-Ningbo Expressway Alternative Line, which is in line with the Group's Hangzhou-Ningbo Expressway, is expected to complete construction and open in 2022. However, since the Hangzhou-Ningbo Expressway Alternative Line is long and more expensive, it is expected that diversion is minimal. Accordingly, we cannot be assured as to whether traffic volume to be generated on the Group's expressways will be maintained at the same level as before or will increase in the future, or whether or not the operating results of the Group will be negatively affected.

Toll Policy

Since January 1, 2019, a 15% trial discount on the toll rate of expressways in Zhejiang Province has been introduced for legal cargo trucks using non-cash payment cards and truck ETC cards in Zhejiang Province. A press conference on the amendment to the "Regulation on Administration of Toll Roads" (《收費公路管理條例》) was held by the Ministry of Transport on January 24, 2019. Although the administrative regulation has not been officially promulgated at present, we expect the possibility of further significant changes in the policies of the expressway industry in the near term is minimal, we cannot be assured that they will not have any adverse effects on the toll revenue of the expressways under the Group.

SECURITIES BUSINESS RISKS

Market Fluctuations

The securities business is highly susceptible to market fluctuations and may experience periods of high volatility accompanied by reduced liquidity. It may be materially affected by economic and other factors such as the global market conditions; the availability and cost of capital; the liquidity of the global markets; the level and volatility of stock prices, commodity prices and interest rates; currency values and other market indices; inflation; natural disasters; acts of war or terrorism; as well as investor sentiment and confidence in the financial markets. There is no assurance as to whether our securities business will be adversely affected by fluctuations in the market, or whether our securities business will continue to contribute to our overall profit margin.

Regulation of the Securities Business

We are subject to extensive regulations in the PRC that govern how we conduct our securities business, and we are subject to risks of intervention by the PRC regulatory authorities. We could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities, among other things. Significant regulatory actions against us could have material adverse impacts on our financial position, cause us significant reputational harm, or harm our business prospects. New laws, regulations or changes in the enforcement of existing laws or regulations applicable to our clients may also adversely affect our business.

FINANCIAL RISKS

For financial risks and uncertainties of the Group, please see notes 4, 52 and 53 to the Consolidated Financial Statements.

Principal Risks and Uncertainties

STATEMENT OF RESPONSIBILITY FROM THE DIRECTORS WITH RESPECT TO THE ANNUAL REPORT AND THE COMPANY'S ACCOUNTS

The Directors of the Company, whose names and functions are listed on pages 49 to 56, duly confirm that to the best of their knowledge:

– the consolidated financial statements prepared and subject to disclosure under the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants give a true and fair view of the assets, liabilities, financial position and profit of the Group, and cover the enterprises that have been consolidated into the Company; and

– the "Management Discussion and Analysis" section included in this annual report includes a fair review of the development and performance of the business and the position of the Group, covers the enterprises that have been consolidated into the Company and describes the principal risks and uncertainties faced by the Group.

From the beginning of year 2018 up to now, there has been no occurrence of significant events that would have a material impact on the normal operation of the Group.

By Order of the Board
Tony ZHENG
Company Secretary

Hangzhou, Zhejiang Province, the PRC
March 18, 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

To govern the daily functioning of the Board of Directors of the Company, the Company has adopted its own Guidelines on Corporate Governance that closely followed the principles of good Corporate Governance Code ("CG Code") in Appendix 14 of the Listing Rules (available at www.hkex.com.hk).

During the Period, the Company has complied with all code provisions in the CG Code and adopted the recommended best practices in the CG Code as and when applicable. The Directors of the Company have been informed that the latest amendment of Listing Rules and CG Code will be adopted and applied for the daily operation of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Rules on Securities Dealings ("Rules on Securities Dealings") for the Directors, supervisors, senior management personnel and other employees of the Company on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules.

Upon specific inquiries to all the Directors, the Directors have confirmed their respective compliance with the required standards for securities transactions by Directors as set out in the Model Code and the Rules on Securities Dealings.

BOARD OF DIRECTORS OF THE COMPANY (THE "BOARD")

The Chairman of the Company during the Period were:
Mr. YU Zhihong (Appointed, with effect from April 3, 2018)
Mr. ZHAN Xiaozhang (Resigned, with effect from April 2, 2018)

The executive directors of the Company during the Period were:
Mr. ZHAN Xiaozhang (Resigned, with effect from April 2, 2018)
Mr. CHENG Tao
Ms. LUO Jianhu *(General Manager)*

Corporate Governance Report

The non-executive directors of the Company during the Period were:
Mr. DAI Benmeng
Mr. YU Qunli (Appointed, with effect from April 2, 2018)
Mr. WANG Dongjie (Resigned, with effect from April 2, 2018)
Mr. YU Ji (Appointment, with effect from April 2, 2018)

The independent non-executive directors of the Company during the Period were:
Mr. PEI Ker-Wei
Ms. LEE Wai Tsang, Rosa
Mr. CHEN Bin (Appointed, with effect from April 2, 2018)
Mr. ZHOU Jun (Resigned, with effect from April 2, 2018)

During the Period, the Board held a total of nine meetings. Individual attendances by the directors (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

	Attendance in person	Attendance by proxy	Attendance through communication
Mr. YU Zhihong (Chairman)	6/7		1/7
Mr. ZHAN Xiaozhang (Chairman, Resigned)	1/2		1/2
Mr. CHENG Tao	6/9	1/9	2/9
Ms. LUO Jianhu (General Manager)	7/9		2/9
Mr. DAI Benmeng	5/9	1/9	2/9
Mr. WANG Dongjie (Resigned)		1/2	1/2
Mr. YU Qunli	4/7	2/7	1/7
Mr. YU Ji	4/7	2/7	1/7
Mr. ZHOU Jun (Resigned)		1/2	1/2
Mr. PEI Ker-Wei	6/9	1/9	2/9
Ms. LEE Wai Tsang, Rosa	7/9		2/9
Mr. CHEN Bin	4/7	2/7	1/7

During the Period, the Company held two general meetings of the shareholders. The meetings were chaired by Chairman, and all executive directors were present at the meetings.

The Board is charged with duties as well as given powers that are expressly specified in the "articles of association" of the Company, the scope of which includes, amongst others: to determine the business plans and investment proposals of the Company; to prepare the financial budget and final accounts of the Company; to determine the dividend policy of the Company; to appoint or dismiss senior managerial officers of the Company as well as to determine their remuneration; and to draw up proposals for any material acquisition or sale by the Company.

To assist the Board to effectively discharge its duties, the Board has set up the Audit Committee, the Nomination Committee, the Remuneration Committee, and the Strategic Committee.

While the Board fully retains its power to decide on matters within its scope of duties and powers, relevant preparation and drawing up of plans or proposals were usually delegated to the management.

The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules regarding the appointment of independent non-executive directors, with three independent non-executive directors appointed, at least one of whom possessing the appropriate professional qualification or accounting or related financial management expertise.

Pursuant to Rule 3.13 of the Listing Rules, the Company had specifically inquired with all three independent non-executive directors and received their respective and immediate family members confirmation of independence during the Period. The three independent non-executive directors have all confirmed their compliance with requirements regarding independence under Rule 3.13 of the Listing Rules. The Company still considers the independent non-executive directors to be independent.

There were no financial, business, family or other material or relevant relationships between members of the Board, including that between the Chairman and the General Manager of the Company.

Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meetings.

Corporate Governance Report

In addition, during the Period, the Company has arranged for all its executive and non-executive directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. However, as the management considers that the independent non-executive directors of the Company are very experienced, knowledgeable and resourceful, the Company did not arrange any professional briefings or training programs for its independent non-executive directors and has decided to leave it to the independent non-executive directors to undergo appropriate training as they see fit.

CHAIRMAN AND GENERAL MANAGER

During the Period, Mr. YU Zhihong and Mr. ZHAN Xiaozhang (Resigned) served as Chairman and Ms. LUO Jianhu served as General Manager of the Company, respectively. The roles of Chairman and General Manager are fully segregated as expressly set out in the articles of association of the Company.

NON-EXECUTIVE DIRECTORS

Terms for the non-executive directors of current session of the Board started on July 1, 2018 and will expire on June 30, 2021.

SPECIAL COMMITTEES UNDER THE BOARD

The Board has set up the Audit Committee, the Nomination Committee, the Remuneration Committee, and the Strategic Committee. Roles and responsibilities for each committee are specified in its terms of reference, details of which can be found under the “Corporate Governance” section in the Company’s website.

The Audit Committee comprised of the three independent non-executive directors and two non-executive directors, namely Mr. PEI Ker-Wei, Ms. LEE Wai Tsang, Rosa, Mr. CHEN Bin, Mr. YU Qunli and Mr. YU Ji, of whom Mr. PEI Ker-Wei served as the Chairman of the Audit Committee.

The Nomination Committee comprised of the Chairman of the Company, the three independent non-executive directors and one non-executive director, namely Mr. YU Zhihong, Mr. PEI Ker-Wei, Ms. LEE Wai Tsang, Rosa, Mr. CHEN Bin and Mr. DAI Benmeng, of whom Mr. YU Zhihong served as Chairman of the Nomination Committee.

The Remuneration Committee comprised of the three independent non-executive directors and two non-executive directors, namely, Mr. PEI Ker-Wei, Ms. LEE Wai Tsang Rosa, Mr. CHEN Bin, Mr. DAI Benmeng and Mr. YU Qunli, of whom Mr. PEI Ker-Wei, served as Chairman of the Remuneration Committee.

The Strategic Committee comprised of the Chairman of the Company and the two executive directors, namely Mr. YU Zhihong, Mr. CHENG Tao and Ms. LUO Jianhu as well as Mr. ZHANG Jingzhong, Mr. WANG Dehua, Mr. Tony ZHENG and several outside experts and advisors, of whom Mr. YU Zhihong served as chairman of the Strategic Committee.

During the Period, the Audit Committee held a total of four meetings. Individual attendances by the members of the Audit Committee (as indicated by the numbers of meetings attended/numbers of meetings held) are as follows:

	Attendance in person	**Attendance by proxy**
Mr. ZHOU Jun (Resigned)		1/1
Mr. PEI Ker-Wei	3/4	1/4
Ms. LEE Wai Tsang, Rosa	4/4	
Mr. CHEN Bin	1/3	2/3
Mr. WANG Dongjie(Resigned)		1/1
Mr. YU Qunli	2/3	1/3
Mr. YU Ji	1/3	2/3

In the meetings held during the Period, the Audit Committee conducted, amongst others, review of financial statements for the quarterly, interim and annual results, discussed the internal audit, the effectiveness of internal control system, and total risk management of the Company, as well as recommendation on the re-appointment of external auditors.

During the Period, due to taking other works assignment, Mr. ZHAN Xiaozhang resigned the position of Executive Director, Chairman of the Company, Chairman of Nomination and Strategic Committee with effect from April 2, 2018.

Mr. YU Zhihong was appointed as authorized representative and Non-executive Director of the Company with effect from April 2 2018. Mr. YU was also appointed as the Chairman of the Company, Chairman of Nomination and Strategic Committee on April 3, 2018.

Corporate Governance Report

Mr. ZHOU Jun resigned the positions of Independent Non-executive Director, Chairman of Audit committee, Member of Nomination and Remuneration Committee with effect from April 2, 2018 due to taking other works assignment.

Mr. WANG Dongjie resigned the positions of Non-executive Director and Member of audit committee with effect from April 2, 2018 due to other works assignment.

Mr. YU Qunli was appointed as Non-executive Director of the Company with effect from April 2, 2018. Mr. YU was also appointed as a member of audit and remuneration committee on April 3, 2018.

Mr. YU Ji was appointed as Non-executive Director of the Company with effect from April 2, 2018. He was also appointed as a member of audit committee on April 3, 2018.

Mr. CHEN Bin was appointed as Independent Non-executive Director with effect from April 2, 2018. He was also appointed as a member of Audit, Nomination and Remuneration Committee.

Mr. ZHAN Huagang and Mr. WANG Yubing were appointed as supervisors representing employees in the sixth session of employee representatives of the Company on April 12, 2018. Mr. LU Xinghai was no longer the supervisor representing employees due to the expiration of session.

Other than the above, there were no other changes to members of the Board of Directors and senior management of the Company.

During the Period, the Nomination Committee held a meeting on February 14, 2018. Individual attendances by the members (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

	Attendance in person	Attendance by proxy	Attendance through communication
Mr. ZHAN Xiaozhang (Resigned)			1/1
Mr. ZHOU Jun (Resigned)			1/1
Mr. PEI Ker-Wei			1/1
Ms. LEE Wai Tsang, Rosa			1/1
Mr. DAI Benmeng			1/1

During the Period, the Nomination Committee discussed the proposed candidates of Non-executive Directors and Independent Non-executive Directors of Company by way of through communication. The Proposed candidates for Non-executive Directors and Independent Non-executive Directors of the Company that were nominated by the Nomination Committee were later approved by the Shareholders Meeting.

During the Period, the Remuneration Committee held a meeting on May 10, 2018. Individual attendances by the members (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

	Attendance in person	Attendance by proxy
Mr. PEI Ker-Wei	1/1	
Ms. LEE Wai Tsang, Rosa	1/1	
Mr. CHEN Bin		1/1
Mr. DAI Benmeng	1/1	
Mr. YU Qunli	1/1	

During the Period, the Remuneration Committee discussed the proposed remuneration and allowance packages for directors of the Board, supervisors of the Supervisory Committee and senior management of the Company. The proposed remuneration and allowance package for directors of the Board, Supervisors of the Supervisory Committee and senior management of the Company were reviewed by the Remuneration Committee were later reviewed and approved by the Board.

During the Period, the Strategic Committee did not hold any meeting.

The Board is responsible for developing and reviewing the Company's corporate governance policies and practices, monitoring the Company's compliance with the Code and its disclosure within this report; the Board reviews and monitors the training and continuous professional development of Directors and senior management through the works of human resources department, and review and monitor the Company's policies and practices on compliance with legal and regulatory requirements through the works of legal and internal audit department.

Corporate Governance Report

The Directors have all confirmed their responsibility for preparing the accounts, and that there were no events or conditions which would have a material impact on the Company's ability to continue to operate as a going concern basis during the period.

DIVERSIFICATION OF BOARD MEMBERS

The Company believes that diversification of board members is a key element to maintain the Company's competitive advantage, improve business performances, and promoting the Company's continued development. When setting up the board member composition, the Company takes into consideration a number of aspects that determine board member diversification, including but not limited to gender, age, culture, education background, professional experience, work and living background, knowledge and skill, etc.

The Board of the Company attaches great importance to female member of Directors, gender ratio of male and female members is 78% and 22% respectively.

The Board members of the Company have skills in multiple professional field, such as Legal, Accounting, Finance, Management, Computer Science, Construction Engineering, with related experience in different professional aspect. The diversification background of the Board is beneficial to the corporate governance, and related experiences satisfy the development needs of the Company.

The age distribution of the Board of the Company is between 41 and 61. The different age group of the Board members can provide diversified sight of views and opinion.

NOMINATION POLICY

The Company's Nomination Committee is responsible for assessing the board's structure, number of members, as well as a diversified composition, providing recommendation or suggestion on candidates to serve as new directors of the Company to the board when needed. The assessment as well as recommendation or suggestion above would have fully taken into consideration any pros and cons to the diversification of board members. (Please refer to "working rules for Nomination Committee" under Corporation Governance Column on the Company's website)

AUDITORS' REMUNERATION

During the Period, the Company had paid approximately Rmb3.80 million and Rmb0.91 million to Deloitte Touche Tohmatsu Certified Accountants (the Hong Kong auditors) and Pan-China Certified Public Accountants LLP (the PRC auditors), respectively, for audit services conducted in 2018. Besides, the Company had paid Rmb2.09 million and Rmb0.32 million to Deloitte Touche Tohmatsu Certified Public Accountants (the Hong Kong auditors) and Pan-China Certified Public Accountants Ltd. (the PRC auditors), respectively, for other assurance service provided.

SECRETARY TO THE BOARD

During the Period, the Secretary to the Board help the company maintain a sound and effective corporate governance framework, review risk management and internal control systems to ensure regulatory compliance; provide compliance advice to the Board and senior management in the decision making process. The Secretary to the Board had also complied with Rule 3.29 of the Listing Rules regarding undergoing relevant professional trainings.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2018, none of the Directors, Supervisors and General Manager had any interests or short positions 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) as recorded in the register required to be kept pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

Corporate Governance Report

INTERESTS AND SHORT POSITIONS OF OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2018, the interests and short positions of other persons in the shares and underlying shares of the Company according to the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange are set out below:

Substantial Shareholders	Capacity	Total interests in number of ordinary shares of the Company	Percentage of the issued share capital of the Company (Domestic Shares)
Communications Group	Beneficial owner	2,909,260,000	100%

Substantial Shareholders	Capacity	Total interests in number of ordinary shares of the Company	Percentage of the issued share capital of the Company (H Shares)
JP Morgan Chase & Co.	Beneficial owner, investment manager and custodian corporation/ approved lending agent	133,145,060 (L) 3,881,146 (S) 81,458,054 (P)	9.28% 0.27% 5.68%
BlackRock, Inc.	Interest of controlled corporations	140,420,186 (L)	9.79%
Citigroup Inc.	Interest of controlled corporations	116,819,836 (L) 65,800 (S) 116,550,648 (P)	8.14% 0.00% 8.12%
The Bank of New York Mellon Corporation	Interest of controlled corporations	73,173,838 (L) 65,891,506 (P)	5.10% 4.60%

The letter “L” denotes a long position. The letter “S” denotes a short position. The letter “P” denotes interest in a lending pool.

Save as disclosed above, as at December 31, 2018, no other persons had any interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange.

SHAREHOLDERS' RIGHTS

Pursuant to the Articles of Association of the Company, two or more Shareholders who in aggregate hold 10% or more of the voting rights of all the shares of the Company having the right to vote may write to the Board to request the convening of an extraordinary general meeting and specifying the agenda of the meeting. Upon receipt of the request in writing, the Board shall convene the extraordinary general meeting as soon as possible. Shareholders who hold in aggregate 5% or more of the voting rights of all the shares of the Company having the right to vote are entitled to propose additional motions in annual general meeting, provided that such motions are served on the Company within 30 days after the issue of the notice of annual general meeting.

Written requests, proposals and enquiries may be sent to the Company through contact details listed on page 251 of this report.

INVESTOR RELATIONS

The Board is committed to ensuring that all shareholders and the investment community have equal and timely access to information about the Company so as to enable their accurate assessment of the Company's fair value. Such information is available through channels including financial reports, shareholder meetings, regular and irregular statutory announcements, the Hong Kong Stock Exchange website (www.hkexnews.hk) and the Company's own website (www.zjec.com.cn).

Activities such as investor and analyst briefings, one-on-one meetings, conference calls, roadshows, and press conferences are held regularly by senior management of the Company, particularly after results announcements.

Corporate Governance Report

Great importance is also attached to maintaining clear and effective communications channels with investors as part of the Company's bid to enhance its transparency and to promote the understanding of its business in the investment community. Any parties who wish to learn more about the Company may do so via the contact details listed below:

Mr. Tony Zheng
Company Secretary
5/F, #2 Mingzhu International Business Center,
199 Wuxing Road, Hangzhou, Zhejiang 310020 the PRC.
Tel: 86-571-87987700
Fax: 86-571-87950329
Email: zhenghui@zjec.com.cn

During the Period, the last shareholders' meeting of the Company took place at 10:00 a.m. on Friday, June 29, 2018 at the headquarters of the Company. Details of this 2017 annual general meeting of the shareholders were set out in the announcement dated June 29, 2018 on resolutions passed at the annual general meeting of the shareholders.

The next annual general meeting of the Company is expected to be held in May, 2019 with exact date and resolutions for review to be specified in notice of annual general meeting when it is published.

The Company has an issued share capital of 4,343,114,500 shares comprised of domestic shares and H shares. The domestic shares are held by Zhejiang Communications Investment Group Co., Ltd. as to 2,909,260,000 shares, representing approximately 67% of the total issued capital of the Company. The remaining 1,433,854,500 shares are H shares, representing approximately 33% of the total issued capital of the Company. As at the date of this report, and to the best of the Directors' knowledge, 100% of the H shares of the Company are held by the public.

DIVIDEND POLICY

The Company attaches great importance to the return for shareholders who long term support the company's development, shares the company's development results, maintains a stable dividend payout level, and tries to keep the absolute dividend payout relatively steady. During the period, dividend payout ratio was 46.8%. Due to the change of National Foreign Exchange Management Policy, the Board did not recommend the payment of an interim dividend for the six months ended June 30, 2018, therefore adjusted dividend policy and consolidated the interim into the final dividend payment. Details of the dividend payout will be announced after the 2018 annual general meeting of the Company.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Company has set up an internal monitoring system that aims to protect assets, preserve accounting and financial information, as well as to ensure the accuracy of financial statements, including the establishment of departments and units, setting out responsibilities, execution of management systems and quality control mechanisms, and the management system on environment, occupational health and safety. The system is capable of taking necessary steps to react to possible changes in our businesses as well as external operating environments. Throughout the operating process, the Company's various internal control measures are being continuously enhanced, fulfilled and are deemed effective.

The Company attaches great importance to risk management. The Company established its risk management mechanism and relevant regulations, implemented risk management responsibilities of various branches and departments, conducted risk investigation and assessment, established risk management strategy and took risk control measures in response to major risks faced by the Company.

Corporate Governance Report

The Company's Audit Committee is charged with the duties of reviewing internal controls, directing monitoring activities. Aside from reviewing the annual reporting by external auditors, the committee also reviews the effectiveness of internal control system and risk management mechanism through reviewing the internal special audit report on the Company's various core businesses prepared by discipline inspection audit department on a regular basis. During the Period, the Audit Committee focused on a special audit of road maintenance projects of the Company, as well as implementation of state-owned assets supervision policy at Zheshang Securities. The discipline inspection audit department carried out specific audit into these compliance issues and monitored relevant rectifications, ensuring the effectiveness of the Company's management systems.

During the Period, the Directors of the Company had carried out a view on the effectiveness of the Company's internal control system, covering all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. There were no major breaches in the internal control system that may have had an impact to Shareholders' interests, and the internal control system was deemed to be effective and sufficient. The risk management of the Company was deemed to be effective and controllable.

DISCLOSURE OF INSIDE INFORMATION

The Company has developed its disclosure policy to provide a general guide to the Company's Directors, supervisors, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries, Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

MANAGEMENT FUNCTIONS

The management functions of the Board and the management are expressly stipulated in the articles of association of the Company. Pursuant to the articles of association of the Company, the management of the Company is assigned the functions to be in charge of the production and business operation of the Company and to organize the implementation of the resolutions of the board of directors, to organize the implementation of the annual business plan and investment program of the Company, to prepare plans for the establishment of the internal management structure of the Company, to prepare the basic management systems of the Company, and to formulate basic rules and regulations of the Company, etc.

Directors, Supervisors and Senior Management Profiles

Mr. YU Zhihong

Chairman

Born in 1964, is a graduate from the Department of Electro-mechanic Engineering, Zhejiang University, and holds a Master's Degree in management from the Management Institute of Zhejiang University.

Starting from 1985, Mr. Yu Zhihong worked at Xiushui Township in Xiucheng District of Jiaxing City as Deputy Manager of Township Industrial Company and Deputy Head of Township, from 1987 successively served as Secretary to Xiucheng District Office, Secretary of the Xiucheng District Youth League, Deputy Party Secretary and Party Secretary of Tanghui Township in Xiucheng District, from 1995 working as Deputy Director, Deputy Party Secretary, Director and then Party Secretary of Management Committee for the Economic Development Zone of Jiaxing City, from 2005 as Party Secretary of Haining City and as Member of Party Standing Committee of Jiaxing City, from 2010 as Deputy Mayor of Hangzhou City, Party Secretary of Qianjiang New Development Zone's Construction Committee, and then Party Secretary of Xiaoshan District, Member of Party Standing Committee of Hangzhou City, and he became the Deputy Party Secretary and then Mayor of Shaoxing City since 2013.

Mr. Yu Zhihong assumed the position of Chairman and Party Secretary of Zhejiang Communications Investment Group Co., Ltd. since October 2016, and became Member of Provincial Party Committee since June 2017.

Directors, Supervisors and Senior Management Profiles

Mr. CHENG Tao

Executive Director

Born in 1964, graduated from Changsha University of Science & Technology with a Bachelor's Degree in Transportation Engineering. He is a Senior Adminstration Engineer and Senior Economist.

Mr. Cheng joined the work in 1983. He served as Secretary of the Youth League Committee of Zhejiang Shipping Technical School (浙江省航運技工學校), Secretary of the Youth League Committee of Zhejiang Road and Bridge Engineering Office (浙江省路橋工程處), Secretary of the Party General Branch at No.3 Company of Zhejiang Provincial Transportation Engineering & Construction Group Co., Ltd.; (浙江省交通工程建設集團三公司); Party Committee Deputy Secretary of Zhejiang Provincial Transportation Engineering & Construction Group Co., Ltd.; Vice Chairman, Party Committee Secretary and Chairman of Zhejiang Provincial Transportation Engineering & Construction Group Co., Ltd.

Mr. Cheng has been appointed as an Executive Director and Party Committee Secretary of the Company.

Ms. LUO Jianhu

Executive Director

Born in 1971, graduated from Zhejiang University with a Bachelor's Degree in Law and graduated from the National Accounting Institute in 2016 with an EMBA Degree, majoring in Financial Accounting. She is a lawyer and Senior Economist.

Since she started her career in August 1994, Ms. Luo had held such positions as the Board Secretary of Zhejiang Transportation Engineering Construction Group Co., Ltd., the Deputy Director, Director of the Legal Affairs Department, the Deputy Director, Director of the Secretarial Office to the Board, Board Secretary and the Manager of the Investment and Development Department of Zhejiang Communications Investment Group Co., Ltd.

Ms. Luo has been appointed as an Executive Director and General Manager, Deputy Party Committee Secretary of the Company.

Mr. DAI Benmeng

Non-Executive Director

Born in 1965, graduated from the Party School of the Zhejiang Committee of the Communist Party of China (浙江省委黨校) with a Bachelor's Degree of Economics and Management and is a Senior Economist.

He began working in February 1987 and has been a Director and the Deputy General Manager of Wenzhou Shipping Co., Ltd. (溫州海運有限公司), a Director and the General Manager of Zhejiang Wenzhou Yongtaiwen Expressway Co., Ltd. (浙江溫州甬台溫高速公路有限公司), a Director and the General Manager of Zhejiang Jinji Property Co., Ltd. (浙江金基置業有限公司), the person in charge of Zhejiang Province North Zhejiang Expressway Management Co., Ltd. (浙江浙北高速公路管理有限公司), the Chairman of Zhejiang ShenSuZheWan Expressway Co., Ltd. (浙江申蘇浙皖高速公路有限公司), and the General Manager of the Shanghai-Jiaxing-Huzhou-Hangzhou Branch of the Communications Group (交通集團申嘉湖杭分公司) the Manager of Human Resources Department and the Minister of Organization Department of Zhejiang Transportation Group.

Mr. Dai is currently the Party Committee Member and Director of the Secretariat Office of the Communications Group.

Directors, Supervisors and Senior Management Profiles

Mr. YU Qunli

Non-Executive Director

Born in 1968, graduated from Xi'an Roadway Institute with a Bachelor's Degree in Roads and Bridges Engineering. Mr. Yu Qunli also holds a Master's Degree in Structure Engineering and a MBA Degree in Business Administration, both from Zhejiang University.

Mr. Yu Qunli started his career in 1990 at Zhejiang Provincial Roads and Bridges Bureau and Zhejiang Communications Engineering Construction Group Co., moved to Zhejiang Communications Engineering Group Co., Ltd. in 2000, and to Zhejiang Communications Investment Group Co., Ltd. in 2002. Starting from 2005, Mr. Yu Qunli served as Deputy General Manager at Zhejiang Zhoushan Continent to Island Construction Expressway Co., Ltd., and from 2006, as Deputy General Manager at Zhejiang Ningbo Yongtaiwen Expressway Co., Ltd. and Zhejiang Zhoushan Bay Bridge Co., Ltd. Beginning from 2010, Mr. Yu Qunli served as Deputy Manager of Safety Management Department and Manager of Safety Monitoring Management Department at Zhejiang Communications Investment Group Co., Ltd. He served as General Manager at Zhejiang Ningbo Yongtaiwen Expressway Co., Ltd. in 2013, and as General Manager at Zhejiang Taizhou Expressway Co., Ltd. and Zhejiang Zhoushan Bay Bridge Co., Ltd. Since 2015, Mr. Yu Qunli served as General Manager of Expressway Operations Management Department at Zhejiang Communications Investment Group Co., Ltd., and as General Manager at Expressway Management Department since 2018.

Mr. YU Ji

Non-Executive Director

Born in 1975, is a Senior Engineer. He graduated from Zhejiang University with a Master's Degree in Structure Engineering.

Mr. Yu Ji began his career at Jinwen Railroad Engineering Construction Project Management Division (Qingtian County Lianggang section) and General Headquarter from 1996, worked at Zhejiang Local Railroad Survey and Design Bureau and Zhejiang Tiezi Engineering Co., Ltd. from 1998, and became a Structure Design Engineer at Zhejiang Urban Construction Design and Research Institute from 2005. Starting from 2007, Mr. Yu Ji worked as staff, Deputy Manager and then Manager at Project Management Department of Zhejiang Railroad Investment Group Co., Ltd., and became General Manager of Railroad Project Department in 2015, Manager of Communications Investment Department of Zhejiang Communications Investment Group Co., Ltd. in 2016.

Since 2018, Mr. Yu Ji became General Manager of Strategic Development and Legal Affairs Department of Zhejiang Communications Investment Group Co., Ltd.

Directors, Supervisors and Senior Management Profiles

Mr. PEI Ker-Wei

Independent Non-Executive Director

Born in 1957, is a full Professor of Accountancy at the School of Accountancy at the W. P. Carey School of Business Arizona State University. Mr. Pei received his Ph.D. Degree in Accounting from University of North Texas in 1986.

He served as the Chairman of the Globalization Committee of the American Accounting Association in 1997 and as the President of the Chinese Accounting Professors Association – North America in 1993 to 1994.

Mr. Pei currently also serves as an External Director of Baosteel Group and China Merchant Group, and Independent Director of Want Want China Holdings (HK Stock Code: 00151), Zhong An Real Estate (HK Stock Code: 00672) and MMG Limited (HK Stock Code: 01208).

Ms. LEE Wai Tsang, Rosa

Independent Non-Executive Director

Born in 1977, Ms. Lee has over 15 years of experience in the financial sector. She holds a Master of Science in Finance from Boston College and MBA from University of Chicago.

Ms. Lee is a licensed person for asset management under the Securities and Futures Ordinance ("SFO"). Ms. Lee is a Director of Grand Investment (Bullion) Limited and Tianjin Yishang Friendship Holdings Company Ltd.

Ms. Lee was an Executive Director of Grand Investment International Ltd (Stock code: 1160) from 2005 to 2018 and was appointed as its Chairman from 2013 to 2017. Ms. Lee also served as Director for Grand Finance Group Company Ltd from 2005 to 2019.

Directors, Supervisors and Senior Management Profiles

Mr. CHEN Bin

Independent Non-Executive Director

Born in 1967, graduated from University of South China in Computer Science. He also holds a second Bachelor's Degree from Chongqing University in Management Engineering.

Mr. Chen worked at Tianshi Network Company of TCL Group as Deputy General Manager from 1998 to 2004, at Webex Group as General Manager of China Investment from 2005 to 2006, and at Cybernaut China Investment Fund as Senior Partner from 2007 to 2008. Mr. Chen became Chief Executive and Funding Partner of Zhejiang Cybernaut Investment Management Co., Ltd. since 2008.

Mr. Chen also serves as Director at Sundy Land Investment Co., Ltd. (a company listed on Shanghai Stock Exchange, SH Stock Code: 600077) and Shenzhen Fountain Corporation (a company listed on Shenzhen Stock Exchange, SZ Stock Code: 000005).

Mr. YAO Huiliang

Supervisor Representing Shareholders

Born in 1972, graduated from the Zhejiang University and is a Senior Accountant.

Since he started his career in August 1990, Mr. YAO had served as Project Management Manager at Zhejiang Zhetong Road Operation Co., Ltd., Finance Manager of the Management Committee of the Ningbo Second Phase of Yongtaiwen Expressway, Assistant to the General Manager and Finance Manager of the Zhejiang Ningbo-Taizhou-Wenzhou Expressway Co., Limited and Deputy Manager of the Finance Management Department, and General Manager of the Finance Management Center of the Communications Group.

Mr. YAO currently serves as General Manager of the Industrial Investment Management Division One of the Communications Group.

Directors, Supervisors and Senior Management Profiles

Mr. ZHAN Huagang

Supervisor Representing Employees

Born in 1961, graduated from Zhejiang University with a Bachelor's Degree of Engineering in Internal Combustion Engine from the Department of Thermophysical Engineering. He is a professor-level Senior Engineer.

Since Mr. Zhan started his career in 1982, he had worked at Zhejiang Province Vehicular Transport Company (浙江省汽車運輸公司), Zhejiang Office of Motor Vehicles (浙江省車輛監理所), Zhejiang Highway Management Bureau (浙江省公路管理局) and Zhejiang Road and Bridge Engineering Office (浙江省路橋工程處). He also worked at the Operation Division and Maintenance Division of the Zhejiang Provincial Expressway Executive Commission as Senior Engineer.

He has been working at Zhejiang Expressway Co., Ltd. as Deputy Manager and Manager of the Operations Management Department, Director of the monitoring center, Manager of the Investment Development Division, Manager of the Equipment Management Department, Manager of the Engineering Management Department and Head of the Maintenance Management Office, Director of the testing center. He is concurrently the Deputy General Manager of Zhejiang Expressway Investment Development Co., Ltd. and Chairman and General Manager of Zhejiang Expressway Advertising Co., Ltd.

Mr. Zhan is currently the Chairman of the Union and the Party Committee Member of the Company.

Mr. WANG Yubing

Supervisor Representing Employees

Born in 1969, graduated from Shanghai University of Finance and Economics with a Bachelor's Degree. He is a senior accountant.

He started his career in 1991 and worked at the audit office of East China Investigation and Design Institute (華東勘測設計研究院). He had served as Head of Finance Department of Hangzhou KFC Ltd (杭州肯德基有限公司), Principal Accountant of Finance Department of Zhejiang Liantong Leasing Co., Ltd (浙江聯通租賃有限公司). Then he had served as Supervisor in the Financial Planning Department, Supervisor in the Internal Audit Department, Assistant Manager and Deputy Manager of the Legal Audit Department in the Company.

He serves as Manager of Discipline inspection and supervision department.

Directors, Supervisors and Senior Management Profiles

Ms. HE Meiyun

Independent Supervisor

Born in 1964, is a Senior Economist. She graduated from the Zhejiang University in 1986 and later received an Executive Master of Business Admiration (EMBA) in Cheung Kong Graduate School of Business (長江商學院).

Ms. He had served as the Secretary of Youth League Committee at the Hangzhou Business School (杭州商業學校) and as a Secretary to the Board, Deputy General Manager, General Manager and Vice Chairman at Baida Group Co., Ltd. (百大集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600865). Ms. He also serves as a General Manager of Ping An Securities Company Limited, Zhejiang Branch (平安證券浙江分公司), Executive Deputy Director of the Board of Directors of Zhejiang Provincial Listed Company Association (浙江省上市公司協會), Deputy Secretary General of Hangzhou Joint Stock Promotion Association (杭州股份制促進會), Independent Director of Lanzhou Minbai Co., Ltd. (蘭州民百股份有限公司), Independent Director of Xilinmen Co., Ltd. (喜臨門股份有限公司) Ms. He currently serves as Vice Chairman of Zhejiang Shiqiang Group Co., Ltd. (浙江施強集團有限公司), Member of the Equity Investment and M&A Committee of Zhejiang Merchants Association (浙商總會股權投資與併購委員會委員), Supervisor of Zhejiang M&A Federation (浙江併購聯合會監事), Independent Director of Guangyu Co., Ltd. (廣宇股份有限公司), Independent Director of Fuchun Environmental Protection Co., Ltd. (富春環保股份有限公司), Independent Director of Gujia Home Furnishing Co., Ltd. (顧家家居股份有限公司).

Mr. WU Qingwang

Independent Supervisor

Born in 1965, is a PRC Lawyer. He graduated from Hangzhou University (杭州大學) with a Bachelor Degree in Law in 1989 and later received a Master's Degree and a Doctoral Degree in Civil and Commercial Law in Southwest University of Political Science and Law (西南政法大學) in 1995 and 2004, respectively.

Mr. Wu had worked in Chun'an Justice Bureau (淳安司法局) since 1989 and in Zhejiang Securities Co., Ltd. (浙江證券有限公司) from 1995 to 1996. Since May 1996, Mr. Wu has been working in Zhejiang Xinyun Law Firm (浙江星韻律師事務所) and is currently a Partner, specializing in civil and commercial litigation, arbitration and project negotiation. Mr. Wu is on the Panel of Arbitrators in China International Economic and Trade Arbitration Commission. Mr. Wu serves as an Independent Director of the following companies: Yiwu Huading Nylon Co., Ltd. (義烏華鼎錦綸股份有限公司) (stock code: 601113), and Top Choice Medical Investment Co., Inc. (通策醫療投資股份有限公司) (stock code: 600763), both companies listed on the Shanghai Stock Exchange. From August 2011 to April 2016, Mr. Wu served as an Independent Director of OB Telecom Electronics Co., Ltd (杭州中威電子股份有限公司) (stock code: 300270), a company listed on the Shenzhen Stock Exchange, and serves as an Independent Director of Zhejiang Yankon Group Co.,Ltd.(浙江陽光電器股份有限公司)(stock code: 600261), a company listed on the Shanghai Stock Exchange.

Directors, Supervisors and Senior Management Profiles

Other Members of Senior Management

Mr. ZHU Yimin

Born in 1961, graduated from Chang'an University with professional programme in Roads and Transportation Engineering. He is an Engineer.

Mr. Zhu joined the People's Liberation Army Garrison 83026 from December 1978 to January 1982. He had worked as Director in the Transportation Administration Department of Huzhou City, Assistant Manager of Water Traffic Control and Administration Department, Deputy General Manager of Transportation Investment and Development Corporation of Huzhou City, Deputy General Manager of Zhejiang Shenjiahuhang Expressway Co., Ltd., Deputy General Manager of Zhejiang Zhebei Expressway Co., Ltd., Deputy General Manager of Zhejiang Shensuzhewan Expressway Co. Ltd., Deputy General Manager of Zhejiang Zhexi Expressway Co. Ltd., and Deputy General Manager of Zhejiang Hanghui Expressway Co. Ltd.

Mr. Zhu has been the Deputy General Manager and Party Committee Member of the Company since July 1, 2015. He has also served as Chairman of Hanghui Co., and Huihang Co.

Mr. WANG Dehua

Born in 1974, graduated with a Bachelor's Degree in Accounting from Hangzhou Dianzi University in 1996. Mr. Wang studied at School of Economics and Finance of the Faculty of Business and Economics of the University of Hong Kong from 2005 to 2007, graduated with a master's degree in Economics. Mr. Wang has professional accounting qualifications, including CPA, HKICPA, FCCA etc.

Mr. Wang worked in the Foreign Funds Utilization Audit Department of Zhejiang Provincial Audit Office from 1996 to 2003. Mr. Wang worked at the Corporation Division of the Administraive and Finance Department of Liaison Office of the Central Government in the Hong Kong S.A.R. from 2003 to 2011, serving as its Deputy Director. He worked at Zhejiang Communications Investment Group Co., Ltd. from 2011 to 2014, serving as its Deputy General Manager.

Mr. Wang Dehua has been appointed as the Chief Financial Officer of the Company with effect from March 17, 2014.

Mr. Tony H. ZHENG

Born in 1969, Mr. Zheng graduated from University of California at Berkeley with a BS Degree in Civil Engineering in 1995.

Mr. Zheng joined the Company in June 1997, and had served as Deputy Director of the Secretarial Office to the Board, Assistant Company Secretary, Director of the Secretarial Office to the Board and Director of Hong Kong Representative Office of the Company.

Mr. Zheng is the Deputy General Manager and Company Secretary of the Company .

Directors, Supervisors and Senior Management Profiles

Ms. ZHANG Xiuhua

Born in 1969, Ms. Zhang is a Senior Economist, the Deputy General Managerof the Company. Ms. Zhang graduated from Chongqing Jiaotong University majoring in transportation management with a bachelor's degree in science, and obtained a master's degree in business administration from Zhejiang University in 2006.

From July 1991 to February 1997, she worked in the Operation Division of the Zhejiang Provincial Expressway Executive Commission. She joined the Company since March 1997, and had served as Assistant manager, Deputy Manager, Manager of the Operation Department and Assistant to General Manager.

Ms. Zhang is the Deputy General Manager and Party Committee Member of the Company. She also serves as Director of Zhejiang Shaoxing Shengxin Expressway Co., Ltd. and also serves as Chairman and General Manager of Zhejiang Yueqing Bay Expressway Co., Ltd.

Report of the Directors

The Directors of the Company hereby present their report and the audited financial statements of the Group for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the operation, management of high grade roads, as well as provision of security broking service and proprietary securities trading.

BUSINESS REVIEW

A review of the business of the Group and analysis of the Group's performance using key performance indicators is provided in the section headed "Management Discussion and Analysis" of this annual report.

In addition, discussions on the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the Company's 2018 Environmental and Social Responsibility Report.

SEGMENT INFORMATION

During the Period, the entire revenue and segment profit of the Group were derived from the People's Republic of China ("PRC"). Accordingly, no further analysis of the revenue and segment profit by geographical area is presented. An analysis of the Group's revenue and segment profit by principal activities for the year ended December 31, 2018 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2018 and the state of financial position at that date are set out in the financial statements on pages 92 to 244.

The Directors have recommended the payment of a dividend of Rmb0.375 (approximately HK$0.428) per share in the year of 2018. The dividend is subject to shareholders' approval at the 2018 annual general meeting of the Company and is expected to be paid by no later than July 5, 2019. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section in the consolidated statement of financial position. The dividend payout ratio reached 46.8% during the Period. Further details of the dividends are set out in note 16 to the financial statements.

Report of the Directors

FIVE YEAR SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results, and of the assets, liabilities and non-controlling interests of the Group prepared on the basis set out in the notes below.

	Year ended December 31,				
Results	**2018**	2017	2016	2015	2014
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
				(Restated)	(Restated)
Continuing operations					
Revenue	**9,568,321**	9,626,340	9,735,347	10,724,781	7,171,810
Including: interest income	**1,458,476**	1,402,940	1,510,281	1,727,837	739,116
Operating costs	**(4,684,509)**	(4,656,163)	(4,596,048)	(5,278,650)	(3,617,851)
Gross profit	**4,883,812**	4,970,177	5,139,299	5,446,131	3,553,959
Securities investment gains	**512,449**	774,885	223,573	584,114	278,252
Other income and gains and losses	**363,508**	103,639	289,390	191,887	144,016
Administrative expenses	**(99,844)**	(98,496)	(81,687)	(88,421)	(87,462)
Other expenses	**(86,160)**	(75,218)	(74,727)	(77,401)	(64,560)
Reversal (recognition) of impairment losses, net	**47,268**	(59,109)	(10,372)	(81,313)	(18,538)
Share of profit of associates	**350,578**	161,502	64,699	48,289	65,020
Share of profit (loss) of a joint venture	**30,037**	17,668	9,797	(25,067)	(33,277)
Finance costs	**(866,317)**	(611,747)	(671,387)	(632,495)	(272,900)
Profit before tax	**5,135,331**	5,183,301	4,888,585	5,365,724	3,564,510
Income tax expense	**(1,142,988)**	(1,192,269)	(1,161,570)	(1,396,774)	(882,625)
Profit for the year from continuing operations	**3,992,343**	3,991,032	3,727,015	3,968,950	2,681,885
Discontinued operations					
Profit for the year from discontinued operations	**–**	–	81,594	60,830	64,087
Profit for the year	**3,992,343**	3,991,032	3,808,609	4,029,780	2,745,972
Profit for the year attributable to owners of the Company					
– Continuing operations	**3,480,537**	3,202,130	2,957,291	2,932,903	2,204,982
– Discontinued operations	**–**	–	80,114	56,777	60,012
Profit for the year attributable to non-controlling interests					
– Continuing operations	511,806	788,902	769,724	1,036,047	476,903
– Discontinued operations	–	–	1,480	4,053	4,075

Results	Year ended December 31, 2018 Rmb'000	2017 Rmb'000	2016 Rmb'000	2015 Rmb'000 (Restated)	2014 Rmb'000 (Restated)
Earnings per share					
From continuing and discontinued operations					
Basic (Rmb cents)	**80.14**	73.73	69.94	68.84	52.15
Diluted (Rmb cents)	**75.52**	71.36	69.94	68.84	52.15
From continuing operations					
Basic (Rmb cents)	**80.14**	73.73	68.09	67.53	50.77
Diluted (Rmb cents)	**75.52**	71.36	68.09	67.53	50.77

Assets and liabilities	As at December 31, 2018 Rmb'000	2017 Rmb'000	2016 Rmb'000	2015 Rmb'000	2014 Rmb'000
Total assets	**79,513,154**	73,650,520	73,761,432	73,891,763	54,987,056
Total liabilities	**47,808,961**	44,446,169	49,585,505	51,893,114	33,858,586
Net assets	**31,704,193**	29,204,351	24,175,927	21,998,649	21,128,470

Notes:

1. The consolidated results of the Group for the four years ended December 31, 2017 have been extracted from the Company's 2017 annual report dated March 16, 2018, while as at the year ended December 31, 2018 was prepared based on the consolidated statement of profit or loss and other comprehensive income as set out on page 92 of the financial report.

2. The 2018 basic earnings per share is based on the profit attributable to owners of the Company for the year ended December 31, 2018 of Rmb3,480,537,000 (2017: Rmb3,202,130,000) and the 4,343,114,500 (2017: 4,343,114,500) ordinary shares in issue during the year.

   The 2018 diluted earnings per share is based on the profit for the purpose of diluted earnings per share attributable to owners of the Company for the year ended December 31, 2018 of Rmb3,466,196,000 (2017: Rmb3,218,310,000) and the 4,589,747,000 (2017: 4,509,861,000) weighted average number of ordinary shares for the purpose of diluted earnings per share during the year.

Report of the Directors

3. Differences in financial statements prepared under PRC GAAP and HKFRSs

	Profit for the year ended December 31,		Net assets as at December 31,	
	2018	2017	**2018**	2017
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP	**4,001,142**	3,999,920	**32,004,360**	29,495,719
HK GAAP adjustments:				
(a) Goodwill	**–**	–	**(199,769)**	(199,769)
(b) Amortization provided, net of deferred tax	**(1,952)**	(2,041)	**(173,005)**	(171,053)
(c) Assessment on impact of appreciation, net of deferred tax	**(3,292)**	(3,475)	**42,366**	45,658
(d) Others	**–**	–	**7,666**	7,666
(e) Non-controlling interests	**(3,555)**	(3,372)	**22,575**	26,130
As restated in the financial statements	**3,992,343**	3,991,032	**31,704,193**	29,204,351

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the five largest customers and suppliers of the Group accounted for less than 30% of the total turnover and purchases, respectively.

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

RELATED PARTY TRANSACTIONS

During the year, details of the related party transactions that the company and its subsidiaries have entered into with Communications Group and its subsidiaries of are set out in the section of "connected transactions" and note 57 to the consolidated financial statements. The Company has complied with the disclosure requirements in respect of such connected transactions in accordance with Chapter 14A of the Listing Rules.

DONATION

During the year, the total amount of donation made by the group is Rmb3,465,000 for charitable or other purposes.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Group as at December 31, 2018 are set out in note 51 to the financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 96 to 98 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2018, before the proposed final dividend, the Company's reserves available for distribution by way of cash or in kind, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under HKGAAP, amounted to Rmb4,581,503,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,645,726,000 standing to the credit of the Company's share premium account as prepared in accordance with the PRC accounting standards was available for distribution by way of capitalization issues.

TRUST DEPOSITS

As at December 31, 2018, other than the deposits placed with a non-bank financial institution of Rmb311,133,000, the Group's deposits have been placed with commercial banks in the PRC and the Group has not encountered any difficulty in the withdrawal of funds.

PURCHASE, REDEMPTION OR SALE OF THE 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.

Report of the Directors

DIRECTORS

The Directors of the Company during the year and as at the date of this report are:

CHAIRMAN

Mr. YU Zhihong (Appointed, with effect from April 3, 2018)
Mr. ZHAN Xiaozhang (Resigned, with effect from April 2, 2018)

EXECUTIVE DIRECTORS

Mr. ZHAN Xiaozhang (Resigned, with effect from April 2, 2018)
Mr. CHENG Tao
Ms. LUO Jianhu *(General Manager)*

NON-EXECUTIVE DIRECTORS

Mr. DAI Benmeng
Mr. YU Qunli (Appointed, with effect from April 2, 2018)
Mr. WANG Dongjie (Resigned, with effect from April 2, 2018)
Mr. YU Ji (Appointed, with effect from April 2, 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. PEI Ker-Wei
Ms. LEE Wai Tsang, Rosa
Mr. CHEN Bin (Appointed, with effect from April 2, 2018)
Mr. ZHOU Jun (Resigned, with effect from April 2, 2018)

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 49 to 64 in the Company's annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors of the Company has entered into a service agreement with the Company, which effect from July 1, 2018 to June 30, 2021.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at December 31, 2018 or during the year, none of the Directors or Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S RIGHTS TO SUBSCRIBE FOR SHARES OR DEBENTURES

At no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director, Supervisor and chief executive or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any such persons to acquire such rights in any other body corporate.

SHARE CAPITAL

There were no movements in the Company's issued share capital during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights in the Company's Articles of Association or the laws of the PRC which would require the Company to offer new shares on a pro rata basis to existing shareholders.

Report of the Directors

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS

Save for their respective interests in the Group, none of the directors and controlling shareholders of the Company was interested in any business which competes or is likely to complete with the businesses of the Group for the Period.

CONTRACT OF SIGNIFICANCE WITH CONTROLLING SHAREHOLDERS

Save as disclosed in this annual report, there is no contract of significance entered into between the Company, or one of its subsidiary companies, and a controlling shareholder or any of its subsidiaries.

TAXATION AND TAX RELIEF

According to a Notice issued jointly by PRC Ministry of Finance and State Administration of Taxation regarding individual income tax policies (Caishuizi【1994】No.020), the dividend incomes received by foreign individuals from a foreign-invested enterprise are exempt from individual income tax.

As stipulated by a Notice issued by the PRC State Administration of Taxation in relation to the withholding and payment of enterprise income tax by Chinese resident enterprises for payment of dividend to H shareholders Who are overseas non-resident enterprises (Guoshuihan【2008】No.897), the Company as a Chinese resident enterprises is required to withhold 10% enterprise income tax when it distributes dividends for the year 2008 and thereafter to all non-resident enterprise holders of H shares of the Company (including HKSCC Nominees Limited, other nominees, trustees or other entities and organizations, who will be deemed as non-resident enterprise holders of H shares) whose names appear on the H share register of members of the Company on the record date.

Dividends payable to the Shareholders who are mainland individual investors or corporate investors investing in the H Shares via the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect will be paid in Rmb by China Securities Depository and Clearing Corporation Limited Shanghai Branch ("CSDC Shanghai Branch") or Shenzhen Branch ("CSDC Shenzhen Branch") as entrusted by the Company.

According to the requirements of the "Notice on Taxation Policies Concerning the Shanghai-Hong Kong Stock Connect Pilot Program" (Finance Tax【2014】No. 81)《(關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅【2014】81號)) and "Notice on Taxation Policies Concerning the Shenzhen-Hong Kong Stock Connect Pilot Program" (Finance Tax【2016】No. 127) 及《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅【2016】127號) jointly published by the Ministry of Finance, State Administration of Taxation and China Securities Regulatory Commission, the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect tax arrangements are as follows: (i) for Chinese Mainland individual investors who invest in the H Shares via the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect, the Company will withhold individual income tax at the rate of 20% in the distribution of final dividend. Individual investors may, by producing valid tax payment proofs, apply to the competent tax authority of China Securities Depository and Clearing Company Limited for tax credit relating to the withholding tax already paid abroad; and (ii) for Chinese Mainland securities investment funds that invest in the H Shares via the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect, the Company will withhold individual income tax in the distribution of final dividend pursuant to the foregoing provisions.

For Chinese mainland corporate investors that invest in the H Shares via the Shanghai-Hong Kong Stock Connect or the Shenzhen-Hong Kong Stock Connect, the Company will not withhold the income tax in the distribution of final dividend and such investors shall file the tax returns on their own.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

Shareholders of the Company are taxed and/or enjoy tax relief in accordance with the aforementioned regulations.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the latest practicable date prior to the issue of this annual report, the Company has maintained sufficient amount of public float as required under the Listing Rules.

Report of the Directors

DIRECTORS' PERMITTED INDEMNITY PROVISION

The Company purchased appropriate liability insurance coverage for the directors, supervisors and senior management members of the Group during the year ended December 31, 2018 against all actions, costs, charges, losses, damages and expenses which they or any of them may sustain or incur in connection with their duties or the exercise of their powers.

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong, who has served as the Company's Hong Kong auditors since 2005, will retire and a resolution for their re-appointment as Hong Kong auditors of the Company will be proposed at the forth coming Annual General Meeting of the shareholders.

By Order of the Board
YU Zhihong
Chairman

Hangzhou, Zhejiang Province, the PRC
March 18, 2019

Report of the Supervisory Committee

During the Period, the Supervisory Committee duly performed its supervisory responsibilities, and safe guarded the legitimate interests of the shareholders and the Company in accordance with relevant rules and regulations under the Company Law of the PRC, the Company's Articles of Association and the Rules of the Supervisory Committee.

Main tasks undertaken by the Supervisory Committee during the Period were to assess and supervise lawfulness and appropriateness of the activities of the Directors, General Manager and other senior management of the Company in their business decision-making and daily management processes, through a combination of activities including holding meetings of the Supervisory Committee and attending general meetings of shareholders and meetings of the Board. The Supervisory Committee has carefully examined the operating results and the financial standing of the Company, discussed and reviewed the financial statements to be submitted by the Board to the general meeting of shareholders.

During the Period, the Supervisory Committee held a total of two meetings of its own, and attended seven meetings held by the Board and two general meetings. The Supervisory Committee considered that the Company has strengthened the accountability system, stepped up reform and innovation and seized the implementation of tasks by capitalising on the strategic positioning of "three platforms" and centering around the growth objective of becoming the "leading operator in China and a top-notch operator globally" to fully accomplish various targets set at the beginning of the year. The operating results of the Company hit a new high in recent years alongside with full-scale optimisation and upgrade of the highway business as well as effective attempts made in the capital operations. Industry development continued to grow steadily with a more comprehensive and effective risk management system.

The Supervisory Committee has reviewed the financial statements of the Company for 2018 prepared by the Board for submission to the general meeting of shareholders, and concluded that the financial statements accurately reflected the financial position of the Company in 2018, and complied with the relevant laws, regulations and the Company's Articles of Association. The Company maintained a relatively stable dividend in recent years, providing satisfactory return to its shareholders.

Report of the Supervisory Committee

During the Period, the members of the Board, General Manager and other senior management of the Company have complied with their fiduciary duties and have acted in good faith and diligently while carrying out their responsibilities. There was no incident of abuse of power or infringement of the interests of shareholders or employees.

The Supervisory Committee is satisfied with the performances across various lines of business achieved by the Board and the management of the Company.

By the order of the Supervisory Committee
YAO Huiliang
Chairman of the Supervisory Committee

Hangzhou, Zhejiang Province, the PRC
March 18, 2019

Connected Transactions

During the year ended December 31, 2018, the Company had the following non-exempt connected transactions and continuing connected transactions.

Connected Transaction

1. Joint Venture agreement

On February 8, 2018, the Company entered into a joint venture agreement with Zhejiang Hongtu Transportation Construction Company* (浙江交工宏途交通建設有限公司) ("**Zhejiang Hongtu**") (the "**Joint Venture Agreement**"), pursuant to which the Company and Zhejiang Hongtu agreed to establish a joint venture company in the PRC (the "**Joint Venture**") for the purpose of engaging in the construction of bridges, tunnels and public service station in Deqing County. The registered capital of the Joint Venture shall not be less than Rmb100,000,000. The project capital of the Joint Venture is Rmb320,000,000, of which not less than Rmb100,000,000 shall be the registered capital and shall be contributed by the parties with Rmb256,320,000, representing 80.1% of the total equity interest of the Joint Venture from the Company and Rmb63,680,000, representing 19.9% of the total equity interest of the Joint Venture from Zhejiang Hongtu. Please refer to the announcement of the Company dated February 8, 2018 for details.

Communications Group, which holds approximately 67% of the issued share capital of the Company, is a controlling shareholder of the Company. Zhejiang Hongtu is an indirect non-wholly owned subsidiary of Communications Group. As such, Zhejiang Hongtu is a connected person of the Company and as a result, the transaction under the Joint Venture Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

During the Period, the total capital injected by Zhejiang Hongtu amounted to Rmb38,208,000.

2. LED Lights Retrofit Agreement

On April 17 2018, Zhejiang Jinhua Yongjin Expressway Co., Ltd ("**Jinhua Co**") and Zhejiang Expressway Information Engineering Technology Co., Ltd ("**Zhejiang Information**"). entered into a LED lights retrofit agreement (the "**LED Lights Retrofit Agreement**"), pursuant to which the Company agreed to purchase LED lights retrofit services from Zhejiang Information at the consideration of Rmb6,935,280. Please refer to the announcement dated April 17, 2018 for details.

Connected Transactions

Zhejiang Information is a wholly owned subsidiary of Communications Group. As such, Zhejiang Information is a connected person of the Company. Jinhua Co is a wholly-owned subsidiary of the Company. As such, the transaction under the LED Lights Retrofit Agreement constitutes a connected transaction under Chapter 14A of the Listing Rules.

During the Period, the total services fee paid by Jinhua Co to Zhejiang Information amounted to Rmb6,769,000.

3. Expressway Services Agreements

On November 20, 2018, the Company and certain of its subsidiaries entered into three agreements ("**Expressway Services Agreements**") with Zhejiang Information, pursuant to which the Company and certain of its subsidiaries agreed to purchase and Zhejiang Information agreed to provide various expressway monitoring and warning system development services and expressway mechanical and electrical engineering services at the consideration of Rmb237,000, Rmb10,676,250 and Rmb6,936,244.73 respectively.

Zhejiang Information is a wholly owned subsidiary of Communications Group. As such, Zhejiang Information is a connected person of the Company. As such, the transactions contemplated under the Expressway Services Agreements constitute connected transactions for the Company under Chapter 14A of the Listing Rules. Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, as the transactions contemplated thereunder and the Previous Transactions I were entered into with parties who are connected with one another and within a 12-month period, the transactions contemplated under the Expressway Services Agreements and the Previous Transactions I are required to be aggregated for the calculation of the relevant percentage ratios to determine the classification of the transactions contemplated under the Expressway Services Agreements.

During the Period, the total services fee paid by the Company and its subsidiaries to Zhejiang Information amounted to Rmb2,729,000.

4. Equity Purchase Agreement

On December 13, 2018, the Company and Communications Group entered into an equity purchase agreement (the "**Equity Purchase Agreement**"), pursuant to which Communications Group conditionally agreed to sell and the Company conditionally agreed to acquire the entire interest in Zhejiang Shenjiahuhang Expressway Co., Ltd.* (浙江申嘉湖杭高速公路有限公司) at a cash consideration of Rmb2,943,000,000. Please refer to the announcement dated December 13, 2018 for details.

Communications Group is a connected person of the Company. As one or more of the applicable percentage ratios in respect of the transaction contemplated under the Equity Purchase Agreement are over 5% but less than 25%, the transaction contemplated under the Equity Purchase Agreement constitutes a connected transaction for the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Continuing Connected Transactions

1. Daily Road Maintenance Services

On April 8, 2016, the Company and the relevant subsidiaries of the Company entered into a number of road maintenance agreements (the "**Road Maintenance Agreements**") with Zhejiang Expressway Maintenance Co., Ltd.* (浙江滬杭甬養護工程有限公司) ("**Maintenance Co**"), pursuant to which Maintenance Co agreed to provide the daily maintenance services to the Group's four expressways, namely the Shanghai-Hangzhou-Ningbo Expressway, the Shangsan Expressway, Jinhua section, Ningbo-Jinhua Expressway and the Hanghui Expressway. Each of the Road Maintenance Agreements has a term of three years from January 1, 2016 to December 31, 2018. The total service fees in respect of the daily maintenance services shall be Rmb182,307,362 and the aggregate annual service fees payable by the Group to Maintenance Co in respect of the daily maintenance services shall not exceed Rmb85,000,000. Please refer to the announcement of the Company dated April 8, 2016 for details.

Maintenance Co (being a subsidiary of Communications Group) is a connected person of the Company. As such, under the Chapter 14A of the Listing Rules, the provision of daily maintenance services under the Road Maintenance Agreements constitutes a continuing connected transaction for the Company.

Connected Transactions

During the Period, the total service fees paid by the Company and its subsidiaries to Maintenance Co in respect of the daily road maintenance services under the Road Maintenance Agreements amounted to Rmb68,332,000.

2. Deposit Services with Zhejiang Communications Finance

Pursuant to the new financial services agreement (the "**New Financial Services Agreement**") dated March 30, 2016 entered into between the Company and Zhejiang Communications Investment Group Finance Co., Ltd* (浙江省交通投資集團財務有限責任公司), a 35% owned associate of the Company ("**Zhejiang Communications Finance**"), Zhejiang Communications Finance agreed to provide the Company and its subsidiaries with a range of financial services including certain deposit services (the "**Deposit Services**") for a term of three years from the date of the New Financial Services Agreement subject to the terms and conditions provided therein. Please refer to the announcement of the Company dated March 30, 2016 for details.

As the issued share capital of Zhejiang Communications Finance is owned as to 35%, 40% and 25% by the Company, Communications Group and Zhejiang Ningbo Yongtaiwen Expressway Co., Ltd. ("**Ningbo Expressway Co**") respectively, Zhejiang Communications Finance is a connected person of the Company. As such, under the Chapter 14A of the Listing Rules, the provision of Deposit Services under the New Financial Services Agreement constitutes a continuing connected transaction for the Company.

Pursuant to the New Financial Services Agreement, the Deposit Services to be provided by Zhejiang Communications Finance to the Company and its subsidiaries include the current deposit, time deposit, call deposit and agreement deposit services. The Deposit Services will be provided under the New Financial Services Agreement on a non-exclusive basis and the Company and its subsidiaries are entitled to determine whether to accept the Deposit Services provided by Zhejiang Communications Finance or decide to accept deposit services provided by other financial institutions. The Company and its subsidiaries are not obliged to accept any Deposit Services provided by Zhejiang Communications Finance.

The interest rate to be paid by Zhejiang Communications Finance for the deposits of the Company and its subsidiaries with Zhejiang Communications Finance shall be determined based on the prevailing deposit interest rate promulgated by the People's Bank of China for the same period and should not be lower than the deposit interest rates offered by major commercial banks in the PRC for comparable deposits of comparable periods. The maximum amount of the daily deposit balance (including any interest accrued thereon) for the deposits of the Company and its subsidiaries with Zhejiang Communications Finance shall not be more than Rmb1,500,000,000 during the term of the New Financial Services Agreement.

During the Period, the maximum amount of the daily deposit balance (including any interest accrued thereon) for the deposits of the Company and its subsidiaries with Zhejiang Communications Finance under the New Financial Services Agreement amounted to Rmb1,485,380,000.

3. Electronic Toll Collection ("ETC") Construction Project

On December 15, 2017, the Company and certain of its subsidiaries entered into an agreement on ETC construction project with Zhejiang Information (the "**ETC Construction Project Agreement**"), pursuant to which Zhejiang Information agreed to provide the ETC construction services to the Company and certain of its subsidiaries for a term ended on March 15, 2018 at the consideration of Rmb19,955,733. Please refer to the supplemental announcement of the Company dated January 4, 2018 for details.

Zhejiang Information is a wholly-owned subsidiary of Communications Group. As such, Zhejiang Information is a connected person of the Company. Accordingly, under the Chapter 14A of the Listing Rules, the transaction under the ETC Construction Project Agreement constitutes a continuing connected transaction for the Company.

During the Period, the total service fees in respect of road maintenance paid by the Company and certain of its subsidiaries pursuant to the ETC Construction Project Agreement to Zhejiang Information amounted to Rmb2,232,000.

Connected Transactions

4. Dedicated Road Maintenance Agreement

On May 28, 2018, the Company entered into a dedicated road maintenance agreement (the "**Dedicated Road Maintenance Agreement**") with Maintenance Co, pursuant to which Maintenance Co agreed to provide dedicated maintenance services (the "**Dedicated Maintenance Services**"), including (i) road work such as pavement diseases treatment, bridge deck overlay, pavement overlay; (ii) roadbed work such as slope treatment; (iii) bridge work such as bridge fault maintenance and reinforcement and deck system maintenance; (iv) road safety work such as signs, road markings and fence maintenance and (v) specific maintenance services such as tunnelling and greening in respect of Shanghai-Hangzhou-Ningbo Expressway, the Shangsan Expressway, Jinhua section of the Ningbo-Jinhua Expressway and the Hanghui Expressway at the consideration of Rmb199,877,381. The term of the Dedicated Road Maintenance Agreement is from May 28, 2018 to November 30, 2018. Please refer to the announcement of the Company dated May 28, 2018 for details.

Maintenance Co is a non-wholly owned subsidiary of Communications Group. As such, Maintenance Co is a connected person of the Company and as a result, the transactions under the Dedicated Road Maintenance Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

According to Rules 14A.81 and 14A.82 of the Listing Rules, as the transactions under the Dedicated Road Maintenance Agreement and the Previous Transactions II were entered into with parties who are connected with one another and within a 12-month period and are in similar nature, the Dedicated Road Maintenance Agreement and the Previous Transactions II will be treated as if they were one transaction and the continuing connected transactions II contemplated under the Dedicated Road Maintenance Agreement and the Previous Transactions should be aggregated.

During the Period, the total service fees in respect of the Dedicated Maintenance Services paid by the Company to Maintenance Co amounted to Rmb192,138,000.

5. Asphalt Pavement On-site Thermal Regeneration Engineering Agreement

On August 7, 2018, the Company entered into an asphalt pavement on-site thermal regeneration engineering agreement (the "**Asphalt Pavement On-site Thermal Regeneration Engineering Agreement**") for the year of 2018 to November 20, 2018 with Zhejiang Shunchang High-grade Expressway Maintenance Co., Ltd ("**Zhejiang Shunchang**"), pursuant to which Zhejiang Shunchang agreed to provide engineering services of the following works, including (i) asphalt pavement on-site thermal regeneration work; (ii) roadbed work such as slope treatment; (iii) bridge work such as bridge fault maintenance and reinforcement; (iv) toll road station expansion work and (v) road safety work (the "**Engineering Services**") to the Shanghai-Hangzhou-Ningbo Expressway, Jinhua Expressway and the Huihang Expressway at the consideration of Rmb76,564,938. Please see the announcement of the Company dated August 7, 2018 for details.

Zhejiang Shunchang is a non-wholly owned subsidiary of Communications Group. As such, Zhejiang Shunchang is a connected person of the Company and as a result, the transactions under the Asphalt Pavement On-site Thermal Regeneration Engineering Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As the Asphalt Pavement On-site Thermal Regeneration Engineering Agreement and the Previous Transactions III were entered into with parties who are connected with one another and within a 12-month period, Asphalt Pavement On-site Thermal Regeneration Engineering Agreement and the Previous Transactions III are required to be aggregated for the calculation of the relevant percentage ratios to determine the classification of the transactions pursuant to Rules 14A.81 and 14A.82 of the Listing Rules.

During the Period, the total service fees in respect of the Engineering Services paid by the Company pursuant to the Asphalt Pavement On-site Thermal Regeneration Engineering Agreement to Zhejiang Shunchang amounted to Rmb70,649,000.

Connected Transactions

6. Expressway Monitoring System Software Maintenance Agreements and Expressway Mechanical And Electrical Engineering Agreements

On August 7, 2018, the Company and certain of its subsidiaries entered into (i) Expressway Monitoring System Software Maintenance Agreements and (ii) the Expressway Mechanical and Electrical Engineering Agreements with Zhejiang Expressway Information Engineering Technology Co., Ltd ("**Zhejiang Information**"), pursuant to which the Company and certain of its subsidiaries agreed to purchase, and Zhejiang Information agreed to provide, expressway monitoring system software maintenance services at the consideration of Rmb792,000 and expressway mechanical and electrical engineering services at the consideration of Rmb24,910,570.36 for the year ended 2018. Please refer to the announcement of the Company dated August 7, 2018.

Zhejiang Information is a wholly-owned subsidiary of Communications Group. As such, Zhejiang Information is a connected person of the Company. Accordingly, under the Chapter 14A of the Listing Rules, the transactions under (i) the Expressway Monitoring System Software Maintenance Agreements and (ii) the Expressway Mechanical and Electrical Engineering Agreements constitute continuing connected transactions for the Company.

Pursuant to Rules 14A.81 and 14A.82 of the Listing Rules, as the transactions contemplated under the Expressway Monitoring System Software Maintenance Agreements, the Expressway Mechanical and Electrical Engineering Agreements and the Previous Transactions IV were entered into with parties who are connected with one another and within a 12-month period, the Expressway Monitoring System Software Maintenance Agreements, the Expressway Mechanical and Electrical Engineering Agreements and the Previous Transactions IV are required to be aggregated for the calculation of the relevant percentage ratios to determine the classification of the above transactions.

During the Period, the total service fees paid by the Company and certain subsidiaries to Zhejiang Information pursuant to the Expressway Monitoring System Software Maintenance Agreements and the Expressway Mechanical and Electrical Engineering Agreements amounted to Rmb792,000 and Rmb24,777,000, respectively.

The independent non-executive Directors have reviewed the continuing connected transactions described above and confirmed that such continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements HKSAE3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions in accordance with the Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided to the Hong Kong Stock Exchange.

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF ZHEJIANG EXPRESSWAY CO., LTD.
浙江滬杭甬高速公路股份有限公司
(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Zhejiang Expressway Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 92 to 244, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (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 our 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.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to customers arising from margin financing business and financial assets held under resale agreements	
As disclosed in Note 2, the Group has applied HKFRS 9 *Financial Instruments* since January 1, 2018 and the impairment of financial assets is assessed with expected credit loss ("ECL") model instead of incurred loss model. 12-month ECL and lifetime ECL are recognised respectively based on whether there has been a significant increase in credit risk since initial recognition. The application of ECL model mainly affects loans to customers arising from margin financing business and financial assets held under resale agreements. As at December 31, 2018, the Group held loans to customers arising from margin financing business and financial assets held under resale agreements with gross amount of Rmb5,854,913,000 and Rmb8,257,928,000, respectively, which the Group had recognised a cumulative amount of impairment allowance of Rmb4,829,000 and Rmb51,746,000, respectively, as disclosed in Notes 30 and 34. As disclosed in Note 4, the application of ECL model involves significant accounting estimation and judgement in determining the models, assumptions and key inputs used for measuring ECL, including probability of default ("PD"), loss given default ("LGD"), and whether there has been a significant increase in credit risk or whether credit loss has occurred. We identified the impairment of loans to customers arising from margin financing business and financial assets held under resale agreements as a key audit matter due to the significant judgement and estimation applied by the management in assessing impairment.	Our procedures in relation to management's impairment assessment of loans to customers arising from margin financing business and financial assets held under resale agreements included: • Understanding and evaluating design and implementation of key controls of management over the measurement of ECL allowances; • Understanding the ECL model used by the Group, utilising internal expert on evaluating the appropriateness of the ECL model and the critical assumptions and parameters used in the model; • Selecting samples on the credit review performed by the Group and reviewing the parameters and judgement made by the management including the stages of the financial instruments, PD and LGD, the expected future cash flow, counterparties and guarantors, and the realisation of collateral held; and • Recalculating the provision and comparing the results with those estimated by the Group.

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Determination of consolidation scope	
We identified the determination of consolidation scope as a key audit matter as the Group held a number of interests in structured entities including collective asset management schemes and investment funds where the Group was involved as an investment manager and/or an investor. The Group applied significant judgement in determining whether such investments fall within the consolidation scope under HKFRS 10 *Consolidated Financial Statements*. The effect of consolidation or not of these structured entities would have significant impact on the consolidated financial statements of the Group. As disclosed in Note 4, for collective asset management schemes and investment funds where the Group involved as a manager and/or an investor, the Group assessed whether the combination of investments it held together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that was of such significance that it indicated that the Group is a principal. The collective asset management schemes and investment funds were consolidated if the Group acted in the role of principal. Details of consolidated structured entities and unconsolidated structured entities were set out in Notes 39, 47 and 59 to the consolidated financial statements, respectively.	Our procedures in relation to the management's determination of consolidation scope included: • Understanding and evaluating design and implementation of key controls of the management in determining the consolidation scope as set out in HKFRS10 of interests in structured entities; • Checking the information used by the management in assessing the consolidation criteria of significant structured entities against the related supporting, including related service agreements of investments in structured entities newly acquired or with changes in investment holdings or terms during the year; and • Challenging and assessing the management judgement in applying HKFRS 10 to each of the significant structured entities and the conclusion about whether or not the consolidation criteria are met.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance 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 of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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.

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tse Ming Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 18, 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

	NOTES	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Revenue	5	**9,568,321**	9,626,340
Including: interest income		**1,458,476**	1,402,940
Operating costs		**(4,684,509)**	(4,656,163)
Gross profit		**4,883,812**	4,970,177
Securities investment gains	7	**512,449**	774,885
Other income and gains and losses	8	**363,508**	103,639
Administrative expenses		**(99,844)**	(98,496)
Other expenses		**(86,160)**	(75,218)
Reversal (recognition) of impairment losses, net	10	**47,268**	(59,109)
Share of profit of associates		**350,578**	161,502
Share of profit of a joint venture		**30,037**	17,668
Finance costs	9	**(866,317)**	(611,747)
Profit before tax	11	**5,135,331**	5,183,301
Income tax expense	12	**(1,142,988)**	(1,192,269)
Profit for the year		**3,992,343**	3,991,032
Other comprehensive income (expense)	13		
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale ("AFS") financial assets:			
– Fair value gain during the year		**–**	276,849
– Reclassification adjustments for cumulative gain upon disposal		**–**	(105,560)
Share of other comprehensive expense of associates		**–**	(2,672)
Exchange differences on translation of financial statements of foreign operations		**2,253**	(605)
Income tax relating to items that may be reclassified subsequently		**–**	(42,822)
Other comprehensive income for the year, net of income tax		**2,253**	125,190
Total comprehensive income for the year		**3,994,596**	4,116,222

	NOTES	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Profit for the year attributable to:			
Owners of the Company		**3,480,537**	3,202,130
Non-controlling interests		**511,806**	788,902
		3,992,343	3,991,032
Total comprehensive income attributable to:			
Owners of the Company		**3,481,594**	3,259,347
Non-controlling interests		**513,002**	856,875
		3,994,596	4,116,222
Earnings per share	17		
Basic (Rmb cents)		**80.14**	73.73
Diluted (Rmb cents)		**75.52**	71.36

Consolidated Statement of Financial Position

At December 31, 2018

	NOTES	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**2,882,791**	2,948,134
Prepaid lease payments	19	**63,163**	65,300
Expressway operating rights	20	**12,260,548**	13,379,674
Goodwill	21	**86,867**	86,867
Other intangible assets	22	**173,658**	161,486
Interests in associates	24	**5,211,412**	1,686,227
Interest in a joint venture	25	**333,102**	303,065
AFS investments	26	**–**	711,715
Financial assets at fair value through profit or loss ("FVTPL")	27	**17,200**	–
Contract asset	29	**252,868**	–
Deferred tax assets	46	**318,236**	355,803
		21,599,845	19,698,271
CURRENT ASSETS			
Inventories		**157,416**	131,261
Trade receivables	28	**216,233**	244,587
Loans to customers arising from margin financing business	30	**5,850,084**	7,851,609
Other receivables and prepayments	31	**407,684**	911,226
Prepaid lease payments	19	**2,137**	2,137
Derivative financial assets	44	**4,169**	4,587
AFS investments	26	**–**	1,800,835
Held for trading investments	32	**–**	12,568,694
Financial assets at FVTPL	27	**21,558,606**	–
Financial assets held under resale agreements	34	**8,206,182**	9,793,492
Bank balances and clearing settlement fund held on behalf of customers	35	**14,742,161**	15,035,007
Pledged bank deposit		**10,000**	–
Bank balances, clearing settlement fund, deposits and cash			
– Time deposits with original maturity over three months	36	**280,913**	20,000
– Cash and cash equivalents	36	**6,477,724**	5,588,814
		57,913,309	53,952,249

	NOTES	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
CURRENT LIABILITIES			
Placements from other financial institutions	33	**400,679**	–
Accounts payable to customers arising from securities business	37	**14,653,413**	14,933,719
Trade payables	38	**575,465**	628,592
Tax liabilities		**478,183**	608,284
Other taxes payable		**96,931**	90,266
Other payables and accruals	39	**1,630,327**	2,515,399
Contract liabilities		**7,572**	–
Dividends payable		**847**	261,239
Derivative financial liabilities	44	**3,818**	3,941
Bank and other borrowings	40	**200,741**	420,000
Short-term financing note payable	41	**1,551**	762,800
Bonds payable	43	**5,766,458**	1,300,000
Financial assets sold under repurchase agreements	42	**11,086,710**	10,523,414
Financial liabilities at FVTPL	47	**364,714**	373,427
		35,267,409	32,421,081
NET CURRENT ASSETS		**22,645,900**	21,531,168
TOTAL ASSETS LESS CURRENT LIABILITIES		**44,245,745**	41,229,439
NON-CURRENT LIABILITIES			
Bank and other borrowings	40	**60,000**	60,000
Bonds payable	43	**9,450,000**	8,850,000
Convertible bond	45	**2,709,663**	2,720,654
Deferred tax liabilities	46	**321,889**	394,434
		12,541,552	12,025,088
		31,704,193	29,204,351
CAPITAL AND RESERVES			
Share capital	48	**4,343,115**	4,343,115
Reserves		**18,490,045**	16,311,385
Equity attributable to owners of the Company		**22,833,160**	20,654,500
Non-controlling interests	49	**8,871,033**	8,549,851
		31,704,193	29,204,351

The consolidated financial statements on pages 92 to 244 were approved and authorised for issue by the board of directors on March 18, 2019 and are signed on its behalf by:

DIRECTOR	*DIRECTOR*
CHENG Tao	**LUO Jianhu**

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

	Attributable to owners of the Company											
	Share capital Rmb'000	Share premium Rmb'000	Statutory reserve Rmb'000 (Note i)	Capital reserve Rmb'000	Investment revaluation reserve Rmb'000	Share of differences arising on translation Rmb'000	Dividend reserve Rmb'000	Special reserves Rmb'000 (Note ii)	Retained profits Rmb'000	Sub-total Rmb'000	Non-controlling interests Rmb'000	Total Rmb'000
At January 1, 2017	4,343,115	3,355,621	4,767,824	1,712	75,818	458	1,281,219	18,666	4,472,724	18,317,157	5,858,770	24,175,927
Profit for the year	–	–	–	–	–	–	–	–	3,202,130	3,202,130	788,902	3,991,032
Other comprehensive income (expense) for the year	–	–	–	–	57,513	(296)	–	–	–	57,217	67,973	125,190
Total comprehensive Income (expense) for the year	–	–	–	–	57,513	(296)	–	–	3,202,130	3,259,347	856,875	4,116,222
Dividend declared to non-controlling-interests	–	–	–	–	–	–	–	–	–	–	(109,176)	(109,176)
Dilution impact arising from Spin-off and Offering (as defined and see details in Note iii)	–	–	–	–	–	–	–	790,449	–	790,449	2,026,219	2,816,668
Share issue cost in respect of Spin-off and Offering (Note iii)	–	–	–	–	–	–	–	(28,096)	–	(28,096)	(31,770)	(59,866)
Payment to National Social Security Fund upon Spin-off and Offering as deemed distribution (Note iii)	–	–	–	–	–	–	–	(142,551)	–	(142,551)	(51,067)	(193,618)
2017 interim dividend (Note 16)	–	–	–	–	–	–	–	–	(260,587)	(260,587)	–	(260,587)
2016 final dividend	–	–	–	–	–	–	(1,281,219)	–	–	(1,281,219)	–	(1,281,219)
Proposed 2017 final dividend	–	–	–	–	–	–	1,302,934	–	(1,302,934)	–	–	–
Transfer to reserves	–	–	267,192	–	–	–	–	–	(267,192)	–	–	–
At December 31, 2017	4,343,115	3,355,621	5,035,016	1,712	133,331	162	1,302,934	638,468	5,844,141	20,654,500	8,549,851	29,204,351
Adjustments (see Note 2)	–	–	–	–	(133,331)	–	–	–	133,331	–	–	–
At January 1, 2018 (restated)	4,343,115	3,355,621	5,035,016	1,712	–	162	1,302,934	638,468	5,977,472	20,654,500	8,549,851	29,204,351
Profit for the year	–	–	–	–	–	–	–	–	3,480,537	3,480,537	511,806	3,992,343
Other comprehensive income for the year	–	–	–	–	–	1,057	–	–	–	1,057	1,196	2,253
Total comprehensive income for the year	–	–	–	–	–	1,057	–	–	3,480,537	3,481,594	513,002	3,994,596
Dividend declared to non-controlling-interests	–	–	–	–	–	–	–	–	–	–	(230,028)	(230,028)
Contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	38,208	38,208
2017 final dividend (Note 16)	–	–	–	–	–	–	(1,302,934)	–	–	(1,302,934)	–	(1,302,934)
Proposed 2018 dividend	–	–	–	–	–	–	1,628,668	–	(1,628,668)	–	–	–
Transfer to reserves	–	–	185,262	–	–	–	–	–	(185,262)	–	–	–
At December 31, 2018	4,343,115	3,355,621	5,220,278	1,712	–	1,219	1,628,668	638,468	7,644,079	22,833,160	8,871,033	31,704,193

Notes:

(i) Statutory reserves comprise:

(a) Statutory surplus reserve

In accordance with the Company Law of the People's Republic of China (the "PRC") and the respective articles of association of the Company and its subsidiaries (collectively the "Entities"), the Entities are required to allocate 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective Entities. Subject to certain restrictions set out in the Company Law of the PRC and the respective articles of association of the Entities, part of the statutory surplus reserve may be converted to increase the respective Entities' capital.

(b) General risk reserve

In accordance with the Finance Regulation for Financial Enterprises, securities companies are required to allocate 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the general risk reserve. This general risk reserve may be used to cover potential losses on risk exposures.

(c) Transaction risk reserve

In accordance with the securities law of the PRC, securities companies are required to allocate not less than 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the transaction risk reserve. This transaction risk reserve may be used to cover potential losses on securities transactions.

(ii) As at January 1, 2017, special reserves mainly comprise:

(a) Other reserve which was arising from the Group's acquisition of additional interest in a subsidiary and the difference between the carrying value of net assets attributable to the Group acquired and the payment consideration arising from acquisition; and

(b) Merger reserve which was arising from the acquisition of subsidiaries under common control using the merger accounting method. This includes the capital of the combining entities at their existing book values since the first date they were under common control and were reduced by the Group's payment of cash consideration to the controlling party and the excess in payment for the acquisition of additional interest to non-controlling interest of its carrying amount to the controlling party.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

Notes: (Continued)

(iii) On June 26, 2017, an indirect non-wholly-owned subsidiary of the Company, Zheshang Securities Co., Ltd. ("Zheshang Securities"), which was held by Zhejiang Shangsan Expressway Co., Ltd ("Shangsan Co"), had completed the spin-off and separate listing on the Shanghai Stock Exchange (the "Spin-off and Offering"). On the date of the Spin-off and Offering, Zheshang Securities issued 333,333,400 new ordinary shares at Rmb8.45 each, the net proceeds after deducting the issuance costs amounted to Rmb2,756,802,000 (representing proceeds on offering of Rmb2,816,668,000, net of the share issue cost of Rmb59,866,000). Upon completion of the Spin-off and Offering, the Group's effective interest in Zheshang Securities had been diluted from approximately 52.15% to approximately 46.93%, but the Group still has control over Zheshang Securities indirectly. The dilution impact of the Group's interest in Zheshang Securities has resulted in an increase in non-controlling interests of Rmb1,994,449,000 and the resulting gain of Rmb762,353,000 recognised in special reserves.

Pursuant to the "Implementing Measures for the Transfer of Certain State-owned Shares from the Domestic Securities Market to the National Social Security Fund"(Cai Qi No. [2009]94)(《境內證券市場轉持部分國有股充實全國社會保障基金實施辦法》(財企[2009]94號)), the state-owned shareholders of Zheshang Securities are required, upon the listing, to transfer a number of shares in Zheshang Securities they hold which, in aggregate, represents 10% of the total number of shares issues under the Listing to the National Social Security Fund("NSSF"). Such obligation was fully fulfilled by Shangsan Co, a non-wholly-owned subsidiary of the Company and the direct shareholder of Zheshang Securities in cash payment of Rmb193,618,000 on August 15, 2017, according to the "Reply on the Proposal of the State-owned Share Transfer in the Initial Public Offerings of Zheshang Securities Co., Ltd. In A Shares Market" (Zhe Guo Zi Chan Quan No. [2013]9) (《關於浙商證券股份有限公司A股首發上市國有股轉持方案的批復》(浙國資產權[2013]9號)). Such payment has been accounted for as deemed distribution.

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Profit before tax	**5,135,331**	5,183,301
Adjustments for:		
Finance costs	**866,317**	611,747
Interest income	**(59,780)**	(26,017)
Foreign exchange loss	**33,395**	119,653
Share of profit of associates	**(350,578)**	(161,502)
Share of profit of a joint venture	**(30,037)**	(17,668)
Depreciation of property, plant and equipment	**260,097**	266,217
Amortisation of expressway operating rights	**1,119,126**	1,119,126
Release of prepaid lease payments	**2,137**	1,639
Amortisation of other intangible assets	**33,900**	26,101
(Reversal) recognition of impairment loss, net		
– AFS investments	**–**	11,621
– other items subject to ECL	**380**	–
– allowance for trade receivables and other receivables	**5,841**	1,713
– reversal of allowance for advance to customers arising from margin financing business	**(37,190)**	(294)
– (reversal) recognition of allowance for financial assets held under the resale agreement	**(18,999)**	40,076
Cumulative gain reclassified from equity on disposal of AFS investments	**–**	(105,560)
Interest income and dividend from AFS investments	**–**	(21,223)
Loss on disposal of property, plant and equipment	**783**	3,565
Allowance for write-down of inventories	**2,700**	5,993
Gain on disposal of an associate	**(6,645)**	–
Gain on decrease in fair value in respect of derivative component of Convertible Bond (as defined in Note 45)	**(127,094)**	(149,479)
Issue cost relating to derivative component of Convertible Bond	**–**	3,079

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Operating cash flows before movements in working capital	6,829,684	6,912,088
(Increase) decrease in inventories	(28,855)	21,383
Decrease in trade receivables	27,357	29,909
Increase in contract asset	(253,248)	–
Decrease in loans to customers arising from margin financing business	2,038,715	58,717
Decrease in other receivables and prepayments	373,682	1,572,255
Increase in held for trading investments	–	(4,424,562)
Increase in financial assets at FVTPL	(6,494,562)	–
Decrease (increase) in financial assets held under resale agreements	1,606,309	(5,868,239)
Decrease in bank balances and clearing settlement fund held on behalf of customers	292,846	5,047,258
Decrease in net derivative financial assets	295	9,872
Increase (decrease) in placements from other financial institutions	400,679	(700,000)
Decrease in accounts payable to customers arising from securities business	(280,306)	(5,139,716)
Decrease in trade payables	(53,127)	(9,656)
Increase in other taxes payable	6,665	13,635
Decrease in contract liabilities	(12,042)	–
(Decrease) increase in other payables and accruals	(629,649)	162,913
(Decrease) increase in financial liabilities at FVTPL	(8,713)	79,769
Increase in financial assets sold under repurchase agreements	563,296	3,036,671
Placement of pledged bank deposit	(10,000)	–
Cash generated from operations	4,369,026	802,297
Income taxes paid	(1,267,343)	(1,044,791)
Interest paid	(689,623)	(587,173)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	2,412,060	(829,667)

	NOTES	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
INVESTING ACTIVITIES			
Interest received		58,222	28,979
Investment in associates		(3,224,535)	(218,911)
Net cash outflows arising from acquisition of Huangshan Yangtse Huihang Expressway Co., Ltd ("Huihang Co")		–	(28,500)
Dividends received from associates		35,565	2,000
Proceeds on disposal of property, plant and equipment		11,895	30,003
Entrusted loans to a related party		–	(210,000)
Repayment of entrusted loans from a related party		77,650	552,350
Purchases of property, plant and equipment		(241,427)	(276,703)
Purchases of other intangible assets		(47,390)	(38,681)
Purchases of prepaid lease payments		–	(14,915)
Purchase of AFS investments		–	(1,161,943)
Proceeds from disposal of AFS investments		–	2,069,742
Placement of time deposits		(280,000)	(20,000)
Withdrawal of time deposits		20,000	165,000
Proceed from disposal of an associate		21,008	–
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(3,569,012)	878,421
FINANCING ACTIVITIES			
Dividends paid		(1,583,516)	(1,537,627)
Dividends paid to non-controlling shareholders		(229,833)	(108,983)
Issue of Convertible Bond		–	2,684,880
Issue cost in respect of Convertible Bond		–	(16,725)
New bank and other borrowings raised		3,230,000	2,490,000
Repayment of bank and other borrowings		(3,450,000)	(4,117,269)
New issue of bonds payable		7,600,000	3,450,000
Repayment of bonds payable		(2,800,000)	(3,000,000)
Issue of short-term financing note payable		9,473,360	762,800
Repayment of short-term financing note payable		(10,234,610)	(4,828,340)
Proceeds on Spin-off and Offering		–	2,816,668
Share issue cost in respect of Spin-off and Offering paid		–	(59,866)
Payment to National Security Fund upon Spin-off and Offering		–	(193,618)
Capital injection by non-controlling interests in respect of a new subsidiary		38,208	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		2,043,609	(1,658,080)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		886,657	(1,609,326)
CASH AND CASH EQUIVALENTS AT JANUARY 1		5,588,814	7,198,745
Effect of foreign exchange rate changes		2,253	(605)
CASH AND CASH EQUIVALENTS AT DECEMBER 31	36	6,477,724	5,588,814

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

1. CORPORATE INFORMATION

Zhejiang Expressway Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") with limited liability on March 1, 1997. The H shares of the Company ("H Shares") were subsequently listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on May 15, 1997.

All of the H Shares of the Company were admitted to the Official List of the United Kingdom Listing Authority (the "Official List"). Dealings in the H Shares on the London Stock Exchange commenced on May 5, 2000.

On July 18, 2000, with the approval of the Ministry of Foreign Trade and Economic Co-operation of the PRC, the Company changed its business registration into a Sino-foreign joint stock limited company.

In the opinion of the directors of the Company (the "Directors"), the immediate and ultimate holding company of the Company is Zhejiang Communications Investment Group Co., Ltd. (the "Communications Group"), a state-owned enterprise established in the PRC.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Renminbi ("Rmb"), which is also the functional currency of the Company.

The Company is an investment holding company. During the year ended December 31, 2018, the Group commenced the high grade road construction service. In addition, along with the completion of sales of all properties in 2017, the Group ceased to engage in properties development during the year ended December 31, 2018. The Company and its subsidiaries (collectively referred to as the "Group") during the current year are involved in the following principal activities:

(a) the operation, maintenance and management of high grade roads;

(b) the provision of securities and future broking services, margin financing and securities lending services, securities underwriting and sponsorship services, asset management, advisory services and proprietary trading;

(c) the hotel operation, construction service of a high grade road, investment in other financial institutions and other ancillary services.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year.

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

Except as described below, the new and application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, January 1, 2018. Except for the reclassification of the certain items in other payables and accrual to contract liabilities, there is no difference at the date of initial application and the comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The major sources of revenue recognised by the Group which arise from contracts with customers are described in Note 5. Interest income is not under the scope of HKFRS 15.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3, respectively.

Summary of effects arising from initial application of HKFRS 15

There is no significant impacts of transition to HKFRS 15 on retained profits at January 1, 2018.

The following adjustment was made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2017	Reclassification	Carrying amounts under HKFRS 15 at January 1, 2018*
	Rmb'000	Rmb'000	Rmb'000
Current liabilities			
Other payables and accruals	2,515,399	(19,614)	2,495,785
Contract liabilities	–	19,614	19,614

* The amounts in this column are before the adjustments from the application of HKFRS 9.

As at January 1, 2018, advances from customers of Rmb19,614,000 in respect of sponsoring contracts previously included in other payables and accruals were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Impact on the consolidated statement of financial position

	Notes	**As reported**	**Adjustments**	**Amounts without application of HKFRS 15**
		Rmb'000	Rmb'000	Rmb'000
Non-current Assets				
Contract asset	29	252,868	(252,868)	–
Trade receivables	28	–	252,868	252,868
Current Liabilities				
Contract liabilities		7,572	(7,572)	–
Other payables and accruals	39	1,630,327	7,572	1,637,899

Impact on the consolidated statement of cash flows

	As reported	**Adjustments**	**Amounts without application of HKFRS 15**
	Rmb'000	Rmb'000	Rmb'000
OPERATING ACTIVITIES			
Increase in contract asset	(253,248)	253,248	–
Decrease (increase) trade receivables	27,357	(253,248)	(225,891)
Decrease in contract liabilities	(12,042)	12,042	–
Decrease in other payables and accruals	(629,649)	(12,042)	(641,691)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 Financial Instruments and the related amendments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, contract assets, loan commitment and financial guarantee contracts, and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 is recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

	Notes	**Available-for-sale-investment** Rmb'000	**Held for trading investments** Rmb'000	**Financial assets at FVTPL required by HKFRS 9** Rmb'000	**Investment revaluation reserve** Rmb'000	**Retained profits** Rmb'000
Closing balance at December 31, 2017 – HKAS 39		2,512,550	12,568,694	–	133,331	5,844,141
Effect arising from initial application of HKFRS 9:						
Reclassification						
From AFS investments	(a)	(2,512,550)	–	2,512,550	(136,227)	136,227
From held for trading investments	(a)	–	(12,568,694)	12,568,694	–	–
Cumulative fair value losses attributable from AFS investment held by the Group's associates	(b)	–	–	–	2,896	(2,896)
Remeasurement						
Impairment under ECL model	(c)	–	–	–	–	–
Opening balance at January 1, 2018		–	–	15,081,244	–	5,977,472

(a) AFS investments and held for trading investments

From AFS investments and held for trading investments to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments and other investments of Rmb2,512,550,000 and Rmb12,568,694,000 were reclassified from AFS investments and held for trading investments, respectively to financial assets at FVTPL. The fair value gains net of deferred taxation, totalling Rmb136,227,000 relating to those investments previously carried at fair value were transferred from investment revaluation reserve to retained profits.

Notes to the Consolidated Financial Statements

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

Summary of effects arising from initial application of HKFRS 9 (Continued)

(b) Impact on HKFRS 9 attributable to AFS investments held by the Group's associates

The net effects arising from the initial application of HKFRS 9 resulted in a reclassification of the Group's respective cumulative fair value losses net of deferred taxation, totalling Rmb2,896,000 arising from the AFS investments held by the Group's associates from investment revaluation reserve to retained profits.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and contract assets. Except for those which had been determined as credit impaired under HKAS 39, the remaining balance are grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore estimated the expected loss rates for the trade receivables and the contract assets on the same basis.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including loans to customers arising from margin financing business, other receivables, financial assets held under resale agreements, pledged bank deposits, bank balances and clearing settlement fund held on behalf of customers, and bank balances, clearing settlement fund, deposits and cash, are measured on 12m or lifetime ECL basis, depending on whether there had been significant increase in credit risk since initial recognition.

Upon the initial adoption of HKFRS 9 on January 1, 2018, the management of the Group has assessed that the amount of allowance on the financial assets, which was subject to impairment assessment, as estimated under the ECL under HKFRS 9 was not materially different from such under the "incurred loss model" under HKAS 39, and therefore, the opening balances of these financial assets as of January 1, 2018 had not been adjusted, accordingly.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Amendments to HKFRS 3	*Definition of a Business*[4]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[1]

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

2 Effective for annual periods beginning on or after January 1, 2021

3 Effective for annual periods beginning on or after a date to be determined

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating flows by the Group.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 16 Leases (Continued)

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of Rmb338,383,000 as disclosed in Note 55. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement* contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Change in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Change in the Group's interests in existing subsidiaries (Continued)

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in the profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in related to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e., reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs).

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits respectively*;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of associates and joint venture is described below.

Investments in associates and a joint venture

An associate is an entity over which the Group has 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.

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 joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit and loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and a joint venture (Continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture is recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

For advance payments received from customers before the transfer of the associated goods or services in which the Group adjusts for the promised amount of consideration for a significant financing component, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The relevant interest expenses during the period between the advance payments were received and the transfer of the associated goods and services are accounted for on the same basis as other borrowing costs.

For contracts where the Group transferred the associated goods or services before payments from customers in which the Group adjusts for the promised amount of consideration for significant financing components, the Group applies a discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. The Group recognises interest income during the period between the payment from customers and the transfer of the associated goods or services.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer. The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

The estimated useful life and annual depreciation rate (except for construction in progress), after taking into account the residual value, adopted by the Group are set out below:

	Estimated useful life	Annual depreciation rate
Leasehold land and buildings	20 - 50 years	1.9% - 4.9%
Hotel	30 years	3.2%
Ancillary facilities	10 - 30 years	3.2% - 9%
Communication and signaling equipment	5 years	19.4%
Motor vehicles	5 - 8 years	12.1% - 19.4%
Machinery and equipment	5 - 8 years	12.1% - 19.4%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets with indefinite useful lives are carried at cost less subsequent accumulated impairment losses (see accounting policy in respect of impairment losses on tangible and intangible assets below).

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Expressway operating rights under service concession arrangements

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets based on fair value of the consideration paid upon initial recognition. Subsequent costs incurred on expressway widening projects and upgrading services are recognised as additional costs of the expressway operating rights. The concession intangible assets representing expressway operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses.

The concession intangible assets are amortised to write-off their cost over their expected useful lives in the remaining concession period on a straight-line basis.

Costs in relation to the day-to-day servicing, repairs and maintenance of the expressway infrastructures are recognised as expenses in the periods in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories include properties held for sale, consumables and parts for toll road operation, maintenance and hotel service and those commodities held for sale arising from the securities business.

Inventories are stated at the lower of cost and net realisable value. Cost of properties held for sale includes the costs of land, development expenditure incurred and, where appropriate, borrowing costs capitalised. Costs of other inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e., Rmb) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of share of differences arising on translation (attributed to non-controlling interests as appropriate).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in associates and a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the 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 asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which are derived from the Group’s ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "securities investment gains" line item.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial and other assets which are subject to impairment under HKFRS 9 (including trade receivables, contract asset, loans to customers arising from margin financing business, other receivables, financial assets held under resale agreements, pledged bank deposit, bank balances and clearing settlement fund held on behalf of customers, and bank balances, clearing settlement fund, deposits and cash, loan commitment and financial guarantee contracts). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and contract assets. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- The significant adverse changes in the industry or policy environment, geographical environment of debtors, or deterioration of the debtor's own business operations;

- The significant adverse changes in main operations or financial indicators as reflected in the financial informations of the debtor;.

- The significant adverse changes (if any) in the effectiveness of credit enhancement measures;

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Significant increase in credit risk (Continued)

- The debtor is listed as credit disciplinary target such as defaulters and discredit units in the field of environmental protection or safety production, or other important situations that may affect debt repayment ability have occurred; the debtor has delayed and refused to bear the liability for credit enhancement in other debts;

- Other important events identified by the Group.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of ‘investment grade’ as per globally understood definitions.

For loan commitments and financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default ("PD"), loss given default ("LGD") (i.e. the magnitude of the loss if there is a default) and the exposure at default ("EAD"). The assessment of the PD and LGD is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 Leases.

For a financial guarantee contract, the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the expected losses is the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

For ECL on financial guarantee contracts or on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the shared credit risk characteristics basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

(v) Measurement and recognition of ECL (Continued)

For undrawn loan commitments, the loss allowances are the present value of the difference between:

(a) the contractual cash flows that are due to the Group if the holder of the loan commitment draws down the loan: and

(b) the cash flows that the Group expects to receive if the loan is drawn down.

Except for loan commitments and financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade receivables, loans to customers arising from margin financing business, other receivables, financial assets held under resale agreements, contract asset, pledged bank deposit, bank balances and clearing settlement fund held on behalf of customers, and bank balances, clearing settlement fund, deposits and cash where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as convertible bond, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Financial liabilities at amortised cost

Financial liabilities (including accounts payable to customers arising from securities business, trade payables, other payables, dividends payable, bank and other borrowings, placements from other financial institutions, short-term financing Note payable, financial guarantee, financial assets sold under repurchase agreements, bonds payable and convertible bond) are subsequently measured at amortised cost, using the effective interest method.

Convertible bond contains debt and derivative components

A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative components are recognised at fair value. In subsequent periods, the debt component of the convertible bond is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit and loss.

Transaction costs that relate to the issue of the convertible bond are allocated to the debt and derivative components in proportion to their relative fair values. Transactions costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible bond using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately, unless the derivative is designated and effective as a hedging instruments, in which event the timing of recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Financial assets held under resale agreements

Financial assets held under resale agreements where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements, the cash advanced by the Group is recognised as secured loans and receivables and presented as amounts held under resale agreements in the consolidated statement of financial position. The difference between the purchase and resale consideration is amortised over the period of the respective agreements using the effective interest method and is included in interest income.

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date and price are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented under “financial assets sold under repurchase agreements” in the consolidated statement of financial position. The difference between the selling price and repurchasing price is recognised as interest expense during the term of the agreement using the effective interest method.

Securities lending arrangement

The Group lends investment securities to clients and requires cash and/or equity securities from customers held as collaterals under such securities lending agreements. The cash collaterals arisen from these are included in “accounts payable to customers arising from securities business”. For those securities held by the Group and lent to client that do not result in the derecognition of financial assets, they are included in financial assets at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts issued by the Group are initially measured at their fair values and are subsequently measured at the higher of:

(i) the amount of obligation under the contract, as determined in accordance with HKFRS 9 (since January 1, 2018); and

(ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition/modification of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition/modification of financial liabilities (Continued)

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying accounting policies

The followings are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as a fund manager and/or an investor, controls a structured entity. The principle of control sets out the following three elements of control: (a) power over these entities; (b) exposure, or rights, to variable returns from involvement with these entities; and (c) the ability to use power over these entities to affect the amount of the investor's returns. The Group reassesses whether or not it controls a structured entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes and investment funds where the Group involves as a manager, the Group considers the scope of its decision-making authority and assesses whether the combination of investments it holds, if any, together with its remuneration and credit enhancements creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that is of such significance that it indicates that the Group is a principal. The collective asset management schemes and investment funds are consolidated if the Group acts in the role of principal.

Key sources of estimation uncertainty

The following are 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 within the next financial year.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount use of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less cost of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and an appropriate discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. As at December 31, 2018, the carrying amount of goodwill is Rmb86,867,000 (without accumulated impairment loss) (2017: Rmb86,867,000 (without accumulated impairment loss)). Details of the impairment testing are disclosed in Note 23.

Impairment of loans to customers arising from margin financing business and financial assets held under resale agreements

The Group estimates the amount of loss allowance for ECL on its loans to customers arising from margin financing business and financial assets held under resale agreements. Asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss are taken into account for determining the loss allowance amount. The assessment of the credit risk of loans to customers arising from margin financing business and financial assets held under resale agreements involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

The following significant judgements and estimations are required in applying the accounting requirements for measuring the ECL:

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to Note 53 for more details.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of loans to customers arising from margin financing business and financial assets held under resale agreements (Continued)

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to Note 53 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of assets, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to Note 53(b) for more details on ECL and Note 53(c) for more details on fair value measurement.

Forward-looking information

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to Note 53(b) for more details.

PD

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

LGD

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Provision of ECL for trade receivables and contract asset

The Group uses provision matrix to calculate ECL for the trade receivables and contract asset. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The information about the ECL, the Group's trade receivables and contract asset are disclosed in Notes 53(b), 28, 29, respectively.

Impairment of interests in a joint venture and associates

The Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of the Group's interests in a joint venture and associates are lower than their respective recoverable amount. The Group tests for impairment for the interests in a joint venture and associates whenever there is an indication that the asset may be impaired. The recoverable amounts have been determined based on the higher of the fair value less costs of disposal and value in use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates. Where the actual future cash flows are less than expected impairment loss may arise. As at December 31, 2018, the carrying amount of interest in a joint venture was Rmb333,102,000 (without accumulated impairment loss) (2017: Rmb303,065,000 (without accumulated impairment loss)), and the carrying amount of interests in associates was Rmb5,211,412,000 (without accumulated impairment loss) (2017: Rmb1,686,227,000 (without accumulated impairment loss)).

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Group has set up a valuation team, which is headed up by the Chief Financial Officer ("CFO") of the Group, to determine the appropriate valuation techniques and inputs for fair value measurements.

The Group uses various valuation techniques to determine the fair value of financial instruments which are not quoted in an active market. Valuation techniques include the use of discounted cash flows analysis, models or other valuation methods as appropriate. To the extent practical, models use only observable data; however areas such as credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

5. REVENUE

For the year ended December 31, 2018

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended December 31, 2018 Toll operation Rmb'000	Securities operation Rmb'000	Others Rmb'000
Types of goods or services			
Toll operation	6,302,370	–	–
Securities operation			
Asset management services	–	243,972	–
Securities and futures commission	–	919,992	–
Investment banking services	–	298,834	–
	–	1,462,798	–
Others			
Hotel operating and catering services	–	–	106,097
Construction service	–	–	238,580
	–	–	344,677
Total	6,302,370	1,462,798	344,677
Timing of revenue recognition			
A point in time	6,302,370	1,462,798	106,097
Over time	–	–	238,580
Total	6,302,370	1,462,798	344,677

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

5. REVENUE (Continued)

For the year ended December 31, 2018 (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

	Year ended 12/31/2018 Rmb'000
Toll operation	6,302,370
Securities operation	1,462,798
Others	344,677
Revenue from contracts with customers	8,109,845
Interest income	1,458,476
	9,568,321

(ii) Performance obligations for contracts with customers

Toll operation

Revenue arising from toll operation is recognised at a point in time when the vehicles exit the toll expressway, of which the Group operates part or all of it.

The revenue from toll operation is based on the toll rates determined by government authorities. It is settled by government agencies on a monthly basis.

Hotel operation and catering services

In respect of hotel operation and catering services, the Group recognises the revenue at a point in time when the services are provided.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

5. REVENUE (Continued)

For the year ended December 31, 2018 (Continued)

(ii) Performance obligations for contracts with customers (Continued)

High grade road construction service

The Group provides high grade road construction service to a customer. Such service is recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for the construction service based on the stage of completion of the contract using input method.

The Group's construction contract includes payment schedules which require stage payments over the operation period of 10 years after the construction is completed.

A contract asset is recognised over the period in which the construction service is performed representing the Group's right to consideration for the services performed because the right is conditioned on the Group's future performance in completing the construction. The contract asset is transferred to trade receivables when the rights become unconditional. The Group typically transfers contract asset to trade receivables when the construction is completed because only at that time, the Group satisfied the right to consideration pursuant to the terms and conditions of the relevant construction contract.

Asset management services

The Group provides asset management services in respect of wealth management products, and is entitled to management fees of these products for its services rendered to customers. Performance obligation is satisfied over the term of respective wealth management products. Management fees of wealth management products are recognised to the extent that it is highly probable that such recognition will not result in a significant revenue reversal in the future when the uncertainty associated with the quantum of management fees is subsequently resolved. Therefore, in practice the variable management fees can only be recognised upon dividend distribution, withdrawal of investors or liquidation of products.

5. REVENUE (Continued)

For the year ended December 31, 2018 (Continued)

(ii) Performance obligations for contracts with customers (Continued)

Securities brokerage services

Commission and fee income arising from securities brokerage services is recognised at a point in time when the service is provided and performance obligation is satisfied when the brokerage of customers' securities, futures or options contracts dealing is completed. Fees are usually received shortly after the service is provided.

Investment banking services

The Group provides financial advisory services to its customers. The Group recognises the revenue at a point in time when the services are provided. They are usually collected within one month when they become due.

The Group provides sponsoring and underwriting services to its customers for issue of equity or debt instruments to investors. Performance obligation is satisfied when the issue of these equity or debt instruments are completed. Sponsoring and underwriting fees became due when certain milestones are met during the issue process and at completion of the issues. They are usually collected within one month when they become due.

(iii) Transaction price allocated to the remaining performance obligation for contracts with Customers

The transaction price allocated to the remaining performance obligations in respect of the high grade road construction service (unsatisfied or partially unsatisfied) as at December 31, 2018 amounting to approximately Rmb1,216,120,000, which are expected to be recognised as revenue over the construction period till July, 2021 by reference to the progress towards the satisfaction of stage of the completion using the input method.

The transaction price allocated to the remaining performance obligation for sponsorship contracts with customers is not material. Besides, most other contracts with customers have original expected duration of less than one year. Therefore information about the remaining performance obligations is not disclosed.

There is no other unsatisfied or partially unsatisfied remaining performance obligations as at December 31, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

6. OPERATING SEGMENTS

Information reported to the General Manager of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

(i) Toll operation – the operation and management of high grade roads and the collection of the expressway tolls.

(ii) Securities operation – the securities and future broking, margin financing and securities lending, securities underwriting and sponsorship, asset management, advisory services and proprietary trading.

(iii) Others – hotel operation, high grade road construction, investment in other financial institutions and other ancillary services.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

For the year ended December 31, 2018

	Toll operation Rmb'000	Securities operation Rmb'000	Others Rmb'000	Total Rmb'000
Revenue – external customers	6,302,370	2,921,274	344,677	9,568,321
Segment profit	3,150,796	468,665	372,882	3,992,343

6. OPERATING SEGMENTS (Continued)

Segment revenue and results (Continued)

For the year ended December 31, 2017

	Toll operation Rmb'000	Securities operation Rmb'000	Others Rmb'000	Total Rmb'000
Revenue – external customers	5,986,249	3,491,250	148,841	9,626,340
Segment profit	2,754,152	1,045,237	191,643	3,991,032

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit after tax of each operating segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	Segment assets		**Segment liabilities**	
	12/31/2018 Rmb'000	12/31/2017 Rmb'000	**12/31/2018 Rmb'000**	12/31/2017 Rmb'000
Toll operation	**16,570,495**	18,261,586	**(4,459,382)**	(4,995,482)
Securities operation	**57,254,963**	53,215,230	**(43,326,330)**	(39,424,352)
Others	**5,600,829**	2,086,837	**(23,249)**	(26,335)
Total segment assets (liabilities)	**79,426,287**	73,563,653	**(47,808,961)**	(44,446,169)
Goodwill	**86,867**	86,867	**–**	–
Consolidated assets (liabilities)	**79,513,154**	73,650,520	**(47,808,961)**	(44,446,169)

Segment assets and segment liabilities represent the assets and liabilities of the subsidiaries operating in the respective reportable and operating segment.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

6. OPERATING SEGMENTS (Continued)

Other segment information

Amounts included in the measure of segment profit (loss) or segment assets:

For the year ended December 31, 2018

	Toll operation Rmb'000	Securities operation Rmb'000	Others Rmb'000	Total Rmb'000
Income tax expense	975,296	161,225	6,467	1,142,988
Interest income on bank balances and entrusted loan receivables	59,594	–	186	59,780
Interest expense	171,863	694,454	–	866,317
Interests in associates	–	297,896	4,913,516	5,211,412
Interest in a joint venture	333,102	–	–	333,102
Share of (loss) profit of associates	–	(2,904)	353,482	350,578
Share of profit of a joint venture	30,037	–	–	30,037
Gain arising from financial assets at FVTPL	–	526,479	–	526,479
Gain on decrease in fair value in respect of the derivative component of Convertible Bond (as defined in Note 45)	127,094	–	–	127,094
Additions to non-current assets (Note)	146,844	98,975	3,225,286	3,471,105
Depreciation and amortisation	1,283,486	113,943	17,831	1,415,260
Loss on disposal of property, plant and equipment	465	318	–	783

6. OPERATING SEGMENTS (Continued)

Other segment information (Continued)

For the year ended December 31, 2017

	Toll operation Rmb'000	Securities operation Rmb'000	Others Rmb'000	Total Rmb'000
Income tax expense	845,248	339,462	7,559	1,192,269
Interest income on bank balances and entrusted loan receivables	25,945	–	72	26,017
Interest expense	135,275	476,472	–	611,747
Interests in associates	–	317,163	1,369,064	1,686,227
Interest in a joint venture	303,065	–	–	303,065
Share of (loss) profit of associates	–	(7,466)	168,968	161,502
Share of profit of a joint venture	17,668	–	–	17,668
Gain on fair value changes on held for trading investments	174	525,491	–	525,665
Gain on decrease in fair value in respect of the derivative component of Convertible Bond	149,479	–	–	149,479
Additions to non-current assets (Note)	106,652	306,397	30,356	443,405
Depreciation and amortisation	1,283,545	110,401	19,137	1,413,083
Loss on disposal of property, plant and equipment	2,484	1,081	–	3,565

Note: Non-current assets excluded financial instruments and deferred tax assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

6. OPERATING SEGMENTS (Continued)

Revenue from major services

An analysis of the Group's revenue, net of discounts and taxes, for the year is as follows:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Toll operation revenue	**6,302,370**	5,986,249
Commission and fee income from securities operation	**1,462,798**	2,088,310
Interest income from securities operation	**1,458,476**	1,402,940
Revenue from sales of properties	**–**	47,865
Hotel and catering revenue	**106,097**	100,976
Revenue from construction	**238,580**	–
	9,568,321	9,626,340

Geographical information

The Group's operations are located in the PRC. All non-current assets of the Group are located in the PRC.

All of the Group's revenue from external customers is attributed to the group entities' country of domicile (i.e. the PRC).

Information about major customers

During the years ended December 31, 2018 and 2017, there are no individual customer with sales over 10% of the total revenue of the Group.

7. SECURITIES INVESTMENT GAINS

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Gain on held for trading investments	–	525,665
Cumulative gain reclassified from equity on disposal of AFS investments	–	105,560
Interest income and dividends from AFS investments	–	21,223
Gains arising from financial assets at FVTPL	526,479	–
Gains arising from derivative financial instruments	17,605	122,437
Losses arising from financial liabilities at FVTPL	(31,635)	–
	512,449	774,885

8. OTHER INCOME AND GAINS AND LOSSES

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Interest income on bank balances and entrusted loan receivables	59,780	26,017
Rental income (Note)	39,737	42,498
Handling fee income	3,188	2,818
Towing income	6,572	7,128
Gain on decrease in fair value in respect of the derivative component of Convertible Bond	127,094	149,479
Exchange gain (loss), net	55,637	(212,146)
(Loss) gain on commodity trading, net	(17,893)	21,125
Others	89,393	66,720
	363,508	103,639

Note: Rental income included contingent rent of approximately Rmb3,895,000 (2017: Rmb3,817,000) recognised during the year.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

9. FINANCE COSTS

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Bank and other borrowings	**69,160**	61,626
Short-term financing note	**131,459**	121,289
Bonds payable	**562,995**	362,891
Convertible Bond	**102,703**	65,941
Total finance costs	**866,317**	611,747

10. REVERSAL (RECOGNITION) OF IMPAIRMENT LOSSES, NET

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Impairment losses on financial assets and contract asset (recognised) reversed:		
Trade receivables – goods and services	**(997)**	(822)
Other receivables	**(4,844)**	(891)
Loans to customers arising from margin financing business	**37,190**	294
Financial assets held under resale agreements	**18,999**	(40,076)
AFS investments	**–**	(11,621)
Contract asset	**(380)**	–
Others	**(2,700)**	(5,993)
	47,268	(59,109)

11. PROFIT BEFORE TAX

The Group's profit before tax has been arrived at after charging:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Depreciation of property, plant and equipment (included in operating costs and administrative expenses)	**260,097**	266,217
Release of prepaid lease payments	**2,137**	1,639
Amortisation of expressway operating rights (included in operating costs)	**1,119,126**	1,119,126
Amortisation of other intangible assets (included in operating costs and administrative expenses)	**33,900**	26,101
Total depreciation and amortisation	**1,415,260**	1,413,083
Staff costs (including directors and supervisors):		
– Wages, salaries and bonuses	**1,058,303**	1,183,475
– Pension scheme contributions	**129,831**	127,207
	1,188,134	1,310,682
Auditors' remuneration	**9,523**	8,374
Loss on disposal of property, plant and equipment	**783**	3,565

12. INCOME TAX EXPENSE

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Current tax:		
PRC Enterprise Income Tax ("EIT")	**1,177,966**	1,211,926
Deferred tax (Note 46)	**(34,978)**	(19,657)
	1,142,988	1,192,269

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

No Hong Kong Profits Tax has been provided as the Group has no estimated assessable profit in Hong Kong for both years.

Notes to the Consolidated Financial Statements

12. INCOME TAX EXPENSE (Continued)

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Profit before tax	**5,135,331**	5,183,301
Tax at the PRC EIT rate of 25% (2017:25%)	**1,283,833**	1,295,825
Tax effect of share of profit of associates	**(87,645)**	(40,376)
Tax effect of share of profit of a joint venture	**(7,509)**	(4,417)
Utilisation of unused tax loss previously not recognised	**(45,869)**	(35,505)
Tax effect of expenses not deductible for tax purposes	**38,078**	25,126
Tax effect of income not subjected to tax purposes	**(37,900)**	(48,384)
Income tax expense for the year	**1,142,988**	1,192,269

13. OTHER COMPREHENSIVE INCOME (EXPENSE)

Tax effect relating to other comprehensive income is as follows:

	Year ended 12/31/2018			Year ended 12/31/2017		
	Before-tax amount Rmb'000	Tax impact Rmb'000	Net-of-income-tax amount Rmb'000	Before-tax amount Rmb'000	Tax impact Rmb'000	Net-of-income-tax amount Rmb'000
Fair value gain on AFS investments arising during the year	**–**	**–**	**–**	276,849	(69,212)	207,637
Reclassification adjustments for the cumulative gain included upon disposal of AFS investments	**–**	**–**	**–**	(105,560)	26,390	(79,170)
Other comprehensive expense arising from associates	**–**	**–**	**–**	(2,672)	–	(2,672)
Exchange differences on translation of financial statements of foreign operations	**2,253**	**–**	**2,253**	(605)	–	(605)
Total	**2,253**	**–**	**2,253**	168,012	(42,822)	125,190

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' EMOLUMENTS

The emoluments paid or payable to each of the 12 (2017: 9) directors and 6 (2017: 5) supervisors are as follows:

	Yu Zhihong@	Zhan Xiaozhang@	Cheng Tao@	Luo Jianhu@	Wang Dongjie^	Dai Benmeng^	Zhou Jianping^	Yu Qunli^	Yu Ji^	Zhou Jun*	Pei Ker-wei*	Lee Wai Tsang*	Chen Bin*	Yao Huiliang#	Lu Xinghai#	He Meiyun#	Zhan Huagang#	Wu Qingwang#	Wang Yubing#	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
	(Note iii)	(Note ii)	(Note iv)	(Note iv)	(Note ii)		(Note i)	(Note iii)	(Note iii)	(Note ii)			(Note iii)		(Note v)				(Note vi)	
2018																				
Salaries, allowances and benefits in kind	–	50	300	300	–	–	–	–	–	–	211	214	57	–	–	10	–	10	–	1,152
Bonuses paid and payable	–	448	631	631	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,710
Pension scheme contributions	–	4	24	24	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	52
Total emoluments	–	502	955	955	–	–	–	–	–	–	211	214	57	–	–	10	–	10	–	2,914
2017																				
Salaries, allowances and benefits in kind	–	300	406	406	1	3	6	–	–	–	226	226	–	4	–	4	–	2	–	1,584
Bonuses paid and payable	–	448	496	496	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,440
Pension scheme contributions	–	24	24	24	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	72
Total emoluments	–	772	926	926	1	3	6	–	–	–	226	226	–	4	–	4	–	2	–	3,096

@ Executive directors. The emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

^ Non-executive directors. The emoluments shown above were for their services as directors of the Company or its subsidiaries.

* Independent non-executive directors. The emoluments shown above were for their services as directors of the Company.

Supervisors. The emoluments shown above were for their services as supervisors of the Company.

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' EMOLUMENTS (Continued)

Notes:

(i) Resigned on December 22, 2017.

(ii) Resigned on April 2, 2018.

(iii) Appointed on April 2, 2018.

(iv) Mr. Cheng Tao and Ms. Luo Jianhu are also the senior management of the Company and their emoluments disclosed above include those services rendered by them as senior management.

(v) Resigned on April 12, 2018.

(vi) Elected on April 12, 2018.

Bonuses paid to directors and supervisors are performance-rated and are determined by the Remuneration Committee of the Company, which comprises three independent non-executive directors. No directors or supervisors waived any emoluments and no incentive was paid to any directors or supervisors as an inducement to join the Company and no compensation for loss of office was paid to any directors, supervisors, past directors or past supervisors during both years.

14. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' EMOLUMENTS (Continued)

The emoluments paid or payable to each of the other 5 (2017: 6) senior managements are as follows:

	Fang Zhexing Rmb'000 Note	Zhu Yimin Rmb'000	Wang Dehua Rmb'000	Zhan Huagang Rmb'000	Zheng Hui Rmb'000	Zhang Xiuhua Rmb'000	Total Rmb'000
2018							
Salaries, allowances and benefits in kind	–	255	255	255	255	255	1,275
Bonuses paid and payable	–	517	467	517	472	517	2,490
Pension scheme contributions	–	24	24	24	24	24	120
Total emoluments	–	796	746	796	751	796	3,885
2017							
Salaries, allowances and benefits in kind	335	335	335	335	335	335	2,010
Bonuses paid and payable	367	367	367	367	367	367	2,202
Pension scheme contributions	24	24	24	24	24	24	144
Total emoluments	726	726	726	726	726	726	4,356

Note: Resigned on December 18, 2017.

The emoluments of each of the senior managements were below HK$1,000,000 (equivalent to Rmb876,200 (2017: Rmb835,900)) in both years. Bonuses paid to senior managements are performance-rated and are determined by the board of Directors.

No senior management waived any emoluments and no incentive was paid to any senior management as an inducement to join the Company and no compensation for loss of office was paid to any senior management, past senior management during both years. Bonuses are determined by reference to the individual performance of the senior managements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

15. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals in the Group are as follows:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Salaries, allowances and benefits in kind	**4,906**	4,912
Bonuses paid and payable (Note)	**31,886**	32,023
Pension scheme contributions	**305**	220
	37,097	37,155

Note: The bonuses paid and payable are determined by reference to the performance of the relevant business of the Group for the years ended December 31, 2018 and 2017.

No emoluments nor incentive was waived as an inducement to join the Company and no compensation for loss of office was paid to any five highest paid individuals in the Group during both years. Bonuses are determined by reference to the individual performance of the five highest paid individuals in the Group.

The five individuals with the highest emoluments in the Group during the year included five (2017: five) non-director employees.

15. EMPLOYEES' EMOLUMENTS (Continued)

Their emoluments are within the following bands:

	No. of individuals	
	Year ended 12/31/2018	Year ended 12/31/2017
HK$5,000,001 to HK$5,500,000 (equivalent to Rmb4,381,001 (2017: Rmb4,179,501) to Rmb4,819,100 (2017: Rmb5,597,450))	1	–
HK$6,000,001 to HK$6,500,000 (equivalent to Rmb5,257,201 (2017: Rmb5,015,401) to Rmb5,695,300 (2017: Rmb5,433,350))	1	–
HK$6,500,001 to HK$7,000,000 (equivalent to Rmb5,695,301 (2017: Rmb5,433,351) to Rmb6,133,400(2017: Rmb5,851,330))	1	–
HK$7,000,001 to HK$7,500,000 (equivalent to Rmb6,133,401 (2017: Rmb5,851,301) to Rmb6,571,500 (2017: Rmb6,269,250))	–	1
HK$8,000,001 to HK$8,500,000 (equivalent to Rmb7,009,601 (2017: Rmb6,687,201) to Rmb7,447,700 (2017: Rmb7,105,150))	–	1
HK$8,500,001 to HK$9,000,000 (equivalent to Rmb7,447,701 (2017: Rmb7,105,151) to Rmb7,885,800 (2017: Rmb7,523,100))	–	2
HK$10,500,001 to HK$11,000,000 (equivalent to Rmb9,200,101 (2017: Rmb8,776,951) to Rmb9,638,200 (2017: Rmb9,194,900))	1	–
HK$11,500,001 to HK$12,000,000 (equivalent to Rmb10,076,301 (2017: Rmb9,612,851) to Rmb10,514,400 (2017: Rmb10,030,800))	–	1
HK$13,000,001 to HK$13,500,000 (equivalent to Rmb11,390,601 (2017: Rmb10,866,701) to Rmb11,838,700 (2017: Rmb11,284,650))	1	–

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

16. DIVIDENDS

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Dividends recognised as distribution during the year:		
2018 Interim – no distribution (2017: 2017 interim Rmb6 cents per share)	–	260,587
2017 Final – Rmb30.0 cents (2017: 2016 Final Rmb29.5 cents per share)	1,302,934	1,281,219
	1,302,934	1,541,806

Dividend of Rmb37.5 cents per share in respect of the year ended December 31, 2018 (2017: final dividend of Rmb30.0 cents per share in respect of the year ended December 31, 2017) in the total amount of Rmb1,628,668,000 (2017: Rmb1,302,934,000) has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting.

17. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Profit for the year attributable to owners of the Company	3,480,537	3,202,130
Earnings for the purpose of basic earnings per share	3,480,537	3,202,130
Effect of dilutive potential ordinary shares arising from Convertible Bond:		
Interest expense	102,703	65,941
Exchange loss (net of income tax)	10,050	99,718
Gain on decrease in fair value on derivative component	(127,094)	(149,479)
Earnings for the purpose of diluted earnings per share	3,466,196	3,218,310

17. EARNINGS PER SHARE (Continued)

Number of shares

	Year ended 12/31/2018 '000	Year ended 12/31/2017 '000
Number of ordinary shares for the purpose of basic earnings per share	**4,343,115**	4,343,115
Effect of dilutive potential ordinary shares arising from Convertible Bond	**246,632**	166,746
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**4,589,747**	4,509,861

18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings Rmb'000	Hotel Rmb'000	Ancillary facilities Rmb'000	Communication and signaling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Cost								
At January 1, 2017	1,612,613	549,543	997,245	724,175	184,087	509,032	86,986	4,663,681
Additions	566	27,218	5,625	20,602	12,998	48,759	55,130	170,898
Transfer	35,951	15,469	16,971	43,904	–	142	(112,437)	–
Disposals	(11)	–	(5,782)	(4,534)	(13,496)	(77,856)	–	(101,679)
At December 31, 2017	1,649,119	592,230	1,014,059	784,147	183,589	480,077	29,679	4,732,900
Additions	17,952	–	–	27,090	3,232	40,727	109,825	198,826
Transfer	22,549	–	681	22,336	–	6,769	(52,335)	–
Disposals	–	–	(6)	(13,209)	(38,862)	(26,327)	(514)	(78,918)
At December 31, 2018	1,689,620	592,230	1,014,734	820,364	147,959	501,246	86,655	4,852,808
DEPRECIATION								
At January 1, 2017	365,979	28,134	331,201	404,275	128,191	339,330	–	1,597,110
Provided for the year	55,917	19,060	45,607	73,388	11,690	60,555	–	266,217
Disposals	(11)	–	(2,506)	(4,341)	(12,683)	(59,020)	–	(78,561)
At December 31, 2017	421,885	47,194	374,302	473,322	127,198	340,865	–	1,784,766
Provided for the year	62,127	16,477	52,184	69,494	11,741	48,074	–	260,097
Disposals	–	–	(5)	(12,949)	(38,502)	(23,390)	–	(74,846)
At December 31, 2018	484,012	63,671	426,481	529,867	100,437	365,549	–	1,970,017
CARRYING VALUES								
At December 31, 2018	1,205,608	528,559	588,253	290,497	47,522	135,697	86,655	2,882,791
At December 31, 2017	1,227,234	545,036	639,757	310,825	56,391	139,212	29,679	2,948,134

The property, plant and equipment are located in the PRC.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

19. PREPAID LEASE PAYMENTS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Analysed for reporting purposes as:		
Current assets	**2,137**	2,137
Non-current assets	**63,163**	65,300
	65,300	67,437

The amount represents prepayment of rentals under operating leases for "land use rights" of land situated in the PRC.

20. EXPRESSWAY OPERATING RIGHTS

	Rmb'000
COST	
At December 31, 2017 and 2018	26,266,622
AMORTISATION	
At January 1, 2017	11,767,822
Charge for the year	1,119,126
At December 31, 2017	12,886,948
Charge for the year	1,119,126
At December 31, 2018	14,006,074
Carrying values	
At December 31, 2018	12,260,548
At December 31, 2017	13,379,674

The above expressway operating rights were granted by the Zhejiang Provincial Government and Anhui Provincial Government for a period ranging from 25 to 30 years. During the expressway concessionary period, the Group has the rights of operations and management of Shanghai-Hangzhou-Ningbo Expressway, Shangsan Expressway, Jinhua Section of the Ningbo-Jinhua Expressway, Hanghui Expressway and Huihang Expressway and the toll-collection rights thereof. The Group is required to manage and operate the expressways in accordance with the regulations promulgated by the Ministry of Communication and relevant government authorities. Upon the end of the respective concession service periods, the toll expressways and their toll station facilities without residual value, will be returned to the grantors at nil consideration. The expressway operating rights were amortised using the straight-line basis over the useful life attributable to the Group.

21. GOODWILL

	Rmb'000
COST AND CARRYING VALUES	
At January 1, 2017, December 31, 2017 and December 31, 2018	86,867

Particulars regarding impairment testing on goodwill are disclosed in Note 23.

22. OTHER INTANGIBLE ASSETS

	Customer bases Rmb'000	Securities/ futures firm licenses Rmb'000	Trading seats Rmb'000	Software Rmb'000	Total Rmb'000
COST					
At January 1, 2017	101,147	63,083	3,480	143,426	311,136
Additions	–	–	1,672	37,009	38,681
At December 31, 2017	101,147	63,083	5,152	180,435	349,817
Additions	–	–	–	47,744	47,744
Disposal	–	–	(1,672)	–	(1,672)
At December 31, 2018	101,147	63,083	3,480	228,179	395,889
AMORTISATION					
At January 1, 2017	72,945	–	–	89,285	162,230
Charge for the year	6,266	–	–	19,835	26,101
At December 31, 2017	79,211	–	–	109,120	188,331
Charge for the year	6,266	–	–	27,634	33,900
At December 31, 2018	85,477	–	–	136,754	222,231
CARRYING VALUES					
At December 31, 2018	15,670	63,083	3,480	91,425	173,658
At December 31, 2017	21,936	63,083	5,152	71,315	161,486

The customer bases of Zheshang Securities and Zheshang Futures Broker Co., Ltd. ("Zheshang Futures") are amortised on a straight-line basis over fifteen years and three years, respectively.

The securities/futures firm licenses of the securities operation are considered by the management of the Group to have indefinite useful lives because they can be renewed at minimal cost.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

22. OTHER INTANGIBLE ASSETS (Continued)

The trading seats of the securities operation is considered by the management of the Group to have an indefinite useful life because there is no economic or regulatory limit to their useful life.

Software are amortised on a straight-line basis over three to five years.

Particulars of the impairment testing on intangible assets with indefinite useful lives are disclosed in Note 23.

23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and other intangible assets with indefinite useful lives set out in Notes 21 and 22 have been allocated to four individual cash generating units ("CGUs"), comprising two subsidiaries in toll operation segment and two subsidiaries in securities operation segment. The carrying amounts of goodwill and other intangible assets as at December 31, 2018 and 2017 allocated to these units are as follows:

	Goodwill		Securities/futures firm licenses		Trading seats	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Toll operation						
– Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co")	**75,137**	75,137	**–**	–	**–**	–
– Shangsan Co	**10,335**	10,335	**–**	–	**–**	–
Securities operation						
– Zheshang Securities	**–**	–	**51,783**	51,783	**2,080**	2,080
– Zheshang Futures	**1,395**	1,395	**11,300**	11,300	**1,400**	3,072
	86,867	86,867	**63,083**	63,083	**3,480**	5,152

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (Continued)

Jiaxing Co and Shangsan Co

The recoverable amounts of CGUs of Jiaxing Co and Shangsan Co are determined based on value in use calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in toll revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by the management covering a five-year period and the discount rates the management considered appropriate. No growth rate has been assumed beyond the five-year period up to the remaining toll road operating rights which are 10 years (2017: 11 years) and 12 years (2017: 13 years) for Jiaxing Co. and Shangsan Co., respectively. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Jiaxing Co's and Shangsan Co's goodwill to exceed their aggregate recoverable amounts.

Zheshang Securities and Zheshang Futures

The recoverable amounts of CGUs of Zheshang Securities and Zheshang Futures are determined based on value in use calculations. The key assumptions for the value in use calculations relate to the discount rate, growth rates and profit margin during the forecast period. Those calculations use cash flow projections based on financial budgets approved by the management covering a five-year period with discount rates management believe appropriate. Growth rate beyond the five-year period is assumed to be 1% (2017:1%). Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amount of Zheshang Securities and Zheshang Futures' goodwill and other intangible assets to exceed their aggregate recoverable amounts.

During the years ended December 31, 2018 and 2017, the management of the Group determines that there are no impairment of any of its CGUs containing goodwill and other intangible assets with indefinite useful lives.

24. INTERESTS IN ASSOCIATES

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Unlisted investments in associates, at cost less impairment	**4,563,095**	1,358,560
Share of post-acquisition profit and other comprehensive expense, net of dividends received	**648,317**	327,667
	5,211,412	1,686,227

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

24. INTERESTS IN ASSOCIATES (Continued)

At December 31, 2018 and 2017, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of and registration operation	Percentage of equity interest attributable to the Group 12/31/2018 %	12/31/2017 %	Principal activities
Zhejiang Concord Property Investment Co., Ltd. ("Zhejiang Concord Property")	Corporate	The PRC	45	45	Investment and real estate development
Zhejiang Communications Investment Group Finance Co., Ltd. ("Zhejiang Communications Finance")	Corporate	The PRC	35	35	Finance and investment
Zheshang Fund Management Co., Ltd. ("Zheshang Fund") (Note i)	Corporate	The PRC	25	25	Asset fund management
Yangtze United Financial Leasing Co., Ltd. ("Yangtze United Financial Leasing") (Note ii)	Corporate	The PRC	13	13	Provision of financial leasing services
Zhejiang Zheshang Innovation Capital Management Co., Ltd. ("Zheshang Innovation Capital Management")	Corporate	The PRC	40	40	Investment management and consulting
Zhejiang Big Data Exchange Center Co., Ltd. ("Zhejiang Big Data") (Note iii)	Corporate	The PRC	19.8	19.8	Big data asset transaction
Ningbo Equity Exchange Co., Ltd. ("Ningbo Equity Exchange") (Note vii)	Corporate	The PRC	–	40	Listing, registration, custody, settlement service for equity product
Taiping Science and Technology Insurance Co., Ltd. ("Taiping Insurance") (Note iv)	Corporate	The PRC	15	15	Science and technology related insurance
Hangzhou XingYuanJuJin Investment Management LP ("XingYuan Investment') (Note v)	Partnership	The PRC	5.05	5.05	Investment management
Pujiang JuJinFengAn Investment Management LP ("FengAn Investment") (Note v)	Partnership	The PRC	17.86	17.86	Investment management
Zheshang FoF for Industry Transformation and Upgrading LP ("Zheshang FoF")	Partnership	The PRC	24.99	24.99	Investment management and consulting
Shanghai Rural Commercial Bank Co., Ltd ("SRCB") (Note vi)	Corporate	The PRC	5.36	–	Commercial banking

All of the above associates are accounted for using the equity method in these consolidated financial statements.

24. INTERESTS IN ASSOCIATES (Continued)

Notes:

(i) The Group is able to exercise significant influence over Zheshang Fund because it has the power to appoint one out of four directors of that company under the provisions stated in the Articles of Association of that company.

On August 14, 2014, Zheshang Securities, together with one of the shareholders of Zheshang Fund, Yangshengtang Co., Ltd., auctioned off their respective 25% equity interest (totalling 50%) in Zheshang Fund. The hammer price reached at Rmb414,000,000 offered by Tonglian Capital Management Co., Ltd. ("Tonglian Capital"), another shareholder of Zheshang Fund which is independent to the Group, and Zheshang Securities will receive a consideration of Rmb207,000,000 accordingly.

As at December 31, 2018, the disposal transaction has not been completed and the refundable deposit of Rmb165,600,000 (2017: Rmb165,600,000) in respect of such transfer reversed by Zheshang Securities was included in other payables in Note 39.

The Directors consider the disposal required approval by China Securities Regulatory Commission and equity transfer registration, which was a lengthy process and they are not able to estimate the timing when and whether such approval would be granted. The amount of deposit received would be refundable to Tonglian Capital if the transfer eventually cannot be completed.

(ii) The Group is able to exercise significant influence over Yangtze United Financial Leasing because it has the power to appoint one out of eight directors of that company under the provisions stated in the Articles of Association of that company.

(iii) The Group is able to exercise significant influence over Zhejiang Big Data because it has the power to appoint one out of five directors of that company under the provisions stated in the Articles of Association of that company.

(iv) The Group is able to exercise significant influence over Taiping Insurance because it has the power to appoint one out of eleven directors of that company under the provisions stated in the Articles of Association of that company.

(v) Dongfang Jujin (as defined in Note 58) is the general partner of XingYuan Investment and FengAn Investment who holds 0.05% and 0.1786% partnership shares, respectively, and Zheshang Capital Management is one of their limited partners who holds 5% and 17.6786% partnership shares, respectively. The Group is able to exercise significant influence over XingYuan Investment and FengAn Investment because it has voting rights in the investment committee of XingYuan Investment and FengAn Investment.

(vi) On May 31, 2018, the Company acquired 4.9% equity interest of SRCB at a consideration of Rmb2,712,240,000 and subsequently additional Rmb512,295,000 was injected to SRCB and the percentage of equity interest increased to 5.36%. The Group is able to exercise significant influence over SRCB because it has the power to appoint one out of 18 directors of SRCB under the provisions stated in the Articles of Association of SRCB.

(vii) On July 19, 2018, Zheshang Capital Management entered into a contract with Ningbo Finance Holding Co., Ltd., an independent third party, to dispose 40% of equity interest in Ningbo Equity Exchange at a consideration of Rmb21,008,000. The transaction was completed on August 14, 2018 with a disposal gain of Rmb6,645,000.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

24. INTERESTS IN ASSOCIATES (Continued)

The summarised financial information in respect of the Group's material associates at the end of the reporting period is set out below. This represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs:

Zhejiang Communications Finance

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Current assets	**15,323,779**	19,575,483
Non-current assets	**19,996,453**	11,250,792
Current liabilities	**32,421,821**	28,241,765

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Revenue	**1,352,920**	817,525
Profit for the year	**409,801**	321,398
Other comprehensive expense for the year	**–**	(2,826)
Total comprehensive income for the year	**409,801**	318,572
Dividends received from the associate during the year	**33,565**	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Zhejiang Communications Finance recognised in the consolidated financial statements:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Net asset of the associate	**2,898,411**	2,584,510
Proportion of the Group's ownership interest in Zhejiang Communications Finance	**35%**	35%
Carrying amount of the Group's interest in Zhejiang Communications Finance	**1,014,444**	904,579

24. INTERESTS IN ASSOCIATES (Continued)

Yangtze United Financial Leasing

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Current assets	2,236,266	846,378
Non-current assets	21,034,713	21,926,541
Current liabilities	19,994,933	19,868,790
Non-current liabilities	600,000	500,000

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Revenue	1,606,656	1,389,035
Profit for the year	271,917	265,253
Dividends received from the associate during the year	–	–

Reconciliation of the above summarised financial information to the carrying amount of the interest in Yangtze United Financial Leasing recognised in the consolidated financial statements:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Net asset of the associate	2,676,046	2,404,129
Proportion of the Group's ownership interest in Yangtze United Financial Leasing	13%	13%
Carrying amount of the Group's interest in Yangtze United Financial Leasing	347,886	312,537

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

24. INTERESTS IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually disclosed above

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
The Group's share of profit, net of dividends received	**171,799**	12,530
The Group's share of other comprehensive expense	**–**	(1,683)
The Group's share of total comprehensive income, net of dividends received	**171,799**	10,847
Aggregate carrying amount of the Group's interests in these associates	**3,849,082**	469,111

25. INTEREST IN A JOINT VENTURE

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Unlisted investment in a joint venture, at cost less impairment	**373,470**	373,470
Share of post-acquisition loss	**(40,368)**	(70,405)
	333,102	303,065

At December 31, 2018 and 2017, the Group had interest in the following joint venture:

Name of entity	Form of business structure	Place of registration and operation	Percentage of equity interest attributable to the Group 12/31/2018 %	Percentage of equity interest attributable to the Group 12/31/2017 %	Principal activities
Zhejiang Shaoxing Shengxin Expressway Co., Ltd. ("Shengxin Co")	Corporate	The PRC	**50**	50	Management of the Shaoxing section of the Ningbo-Jinhua Expressway

25. INTEREST IN A JOINT VENTURE (Continued)

The summarised financial information in respect of the Group's interest in Shengxin Co which is accounted for using the equity method at the end of the reporting period is set out below. This represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs:

Shengxin Co

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Current assets	**99,311**	64,152
Non-current assets	**2,146,533**	2,326,551
Current liabilities	**53,072**	43,541
Non-current liabilities	**1,526,567**	1,741,031
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**91,741**	55,679
Non-current financial liabilities (excluding trade and other payables and provisions)	**1,473,000**	1,683,000

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

25. INTEREST IN A JOINT VENTURE (Continued)

The summarised financial information in respect of the Group's interest in Shengxin Co which is accounted for using the equity method at the end of the reporting period is set out below. This represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs: (Continued)

Shengxin Co (Continued)

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Revenue	**417,382**	399,335
Profit for the year	**60,074**	35,337
Dividend received from the joint venture	**–**	–
The above profit for the year includes the following:		
Depreciation and amortisation	**(182,169)**	(180,867)
Interest income	**1,290**	663
Interest expense	**(69,580)**	(79,240)
Income tax expense	**(4,464)**	(4,464)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Shengxin Co recognised in the consolidated financial statements:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Net asset of the joint venture	**666,205**	606,131
Proportion of the Group's ownership interest in the joint venture	**50%**	50%
Carrying amount of the Group's interest in Shengxin Co	**333,102**	303,065

26. AVAILABLE-FOR-SALE INVESTMENTS

AFS investments comprise:

	12/31/2017
	Rmb'000
Non-current assets:	
Unlisted equity securities investments, at cost (Note i)	21,294
Listed equity securities investments, at fair value (Note ii)	694,418
Less: provision for impairment loss	(3,997)
	711,715
Current assets:	
Equity securities	264,537
Funds	402,144
Corporate bonds	6,500
Other investments (Note iii)	1,169,019
Less: provision for impairment loss (Note iv)	(41,365)
	1,800,835
	2,512,550

As at December 31, 2017, the Group has entered into securities lending arrangement with clients that resulted in the transfer of listed AFS investments with total fair value of Rmb3,511,000 to external clients, which did not result in derecognition of the financial assets. Details of the collaterals were set out in Note 34. Upon the initial application of HKFRS 9 on January 1, 2018, the carrying amount of AFS investments have been all recognised to financial assets at FVTPL in Note 27.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

26. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes:

(i) unlisted equity securities investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the prior reporting period because the range of reasonable fair value estimated is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. Upon application of HKFRS 9, the management considers the fair value of these investments is not materially different from their cost.

(ii) Listed equity securities investments represent stocks listed in PRC with lock-up period for 3 years since the subscription. The financial instruments was measured at fair value based on a valuation model taking into account the relevant features including the restrictions.

(iii) Other investments comprise of financial products and trust products where funds are mainly invested in listed securities or open-ended funds and the Group's return of investment is tied to the result of such investments.

(iv) Included in the balance as at December 31, 2017, Rmb34,865,000 is the cumulative amount of impairment recognised in relation to AFS equity instruments measured at fair value.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	12/31/2018 Rmb'000
Mandatorily measured at FVTPL	
– Debt securities	19,143,054
– Equity securities	683,284
– Funds	908,111
– Other investments (Note i)	841,357
	21,575,806
Analysed as:	
– Listed (Note ii)	10,618,484
– Unlisted	10,957,322
	21,575,806
Analysed for reporting purposes as:	
Current assets	21,558,606
Non-current assets	17,200
	21,575,806

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Notes:

(i) Other investments mainly represent investments in collective asset management schemes issued and managed by the Group, wealth management products issued by banks and targeted asset management schemes (or trust investments) managed by non-bank financial institutions, which mainly invest in debt securities, publicly traded equity securities listed in the PRC. The Group has committed to hold its investments in collective asset management schemes that managed by the Group till the end of the investment period.

(ii) Securities and funds traded on the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Hong Kong Stock Exchange and other stock exchanges are included in the "Listed" category.

28. TRADE RECEIVABLES

	12/31/2018	12/31/2017
	Rmb'000	Rmb'000
Trade receivables		
– goods and services	**219,458**	246,815
Less: Allowance for credit losses	**(3,225)**	(2,228)
	216,233	244,587
Trade receivables (before allowance for credit losses) comprise:		
Fellow subsidiaries	**10,578**	10,207
Third parties	**208,880**	236,608
Total trade receivables	**219,458**	246,815

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

28. TRADE RECEIVABLES (Continued)

The Group has no credit period granted to its trade customers of toll operation business. The Group's trade receivable balance for toll operation is toll receivables from the respect expressway fee settlement centre of Zhejiang Province and Anhui Province, Transportation Bureau of Yuhang County of Hangzhou, Transportation Bureau of Yiwu, which are normally settled within 3 months. All of these trade receivables were neither past due nor impaired in both years.

In respect of the Group's asset management service, security commission and financial advisory service operated by Zheshang Securities, trading limits are set for customers. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by the management.

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Within 3 months	180,292	222,020
3 months to 1 year	29,793	20,468
1 to 2 years	4,074	2,010
Over 2 years	2,074	89
	216,233	244,587

Movement of allowance for credit losses

	2018 Under HKFRS 9 Rmb'000	2017 Under HKAS 39 Rmb'000
At the beginning of the year	2,228	1,406
Impairment recognised for the year	997	947
Amount reversed during the year	–	(125)
At the end of the year	3,225	2,228

29. CONTRACT ASSET

	12/31/2018 Rmb'000	1/1/2018 Rmb'000
High grade road construction contract	**253,248**	–
Less: Allowance for contract asset	**(380)**	–
	252,868	–

Contract asset, that is not expected to be settled within the Group's normal operating cycle, is classified as current and non-current based on expected settlement dates.

Details of contract asset and the typical payment terms which impact on the amount of contract asset recognised are disclosed in Note 5.

30. LOANS TO CUSTOMERS ARISING FROM MARGIN FINANCING BUSINESS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Loans to margin clients	**5,854,913**	7,893,616
Less: Impairment allowance	**(4,829)**	(42,007)
	5,850,084	7,851,609

The Group has provided customers with margin financing and security lending for securities transactions, the credit facility limits to margin clients are determined by the discounted market value of the pledged securities accepted by the Group or the market value of cash collaterals.

All of the loans to margin clients which are secured by the underlying pledged securities are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan to collateral ratio. Any excess in the lending ratio will trigger a margin call which the customers have to make good of the shortfall. The Group has the right to process forced liquidation if the customer fails to make good of the shortfall within a short period of time.

As at December 31, 2018, loans to customers under the margin financing and securities lending activities carried out in the PRC were secured by the customers' stock securities and cash collaterals. The undiscounted market value of the stock security collaterals was amounted to Rmb14,260,228,000 (2017: Rmb22,140,435,000). Cash collateral of Rmb392,345,000 (2017: Rmb491,032,000) received from clients was included in accounts payable to customers arising from securities business in Note 37.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

30. LOANS TO CUSTOMERS ARISING FROM MARGIN FINANCING BUSINESS (Continued)

No aged analysis is disclosed as in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The following table shows reconciliation of loss allowances that has been recognised for loans to customers arising from margin financing business.

	12m ECL Rmb'000	Lifetime ECL (not credit-impaired) Rmb'000	Lifetime ECL (credit-impaired) Rmb'000	Total Rmb'000
As at January 1, 2018	37,817	2	4,188	42,007
– Transfer to lifetime	(1)	1	–	–
– Transfer to 12m ECL	1	(1)	–	–
– Impairment losses recognised	–	757	–	757
– Impairment losses reversed (Note)	(37,811)	–	(124)	(37,935)
As at December 31, 2018	6	759	4,064	4,829

Note: Reversal of loss allowance is due to the Group's recovery of the related financial assets during the year.

The tables below detail the credit risk exposures of the Group's loans to customers arising from margin financing business, which are subject to ECL assessment.

As at December 31, 2018

	12m ECL Rmb'000	Lifetime ECL (not credit-impaired) Rmb'000	Lifetime ECL (credit-impaired) Rmb'000	Total Rmb'000
Gross carrying amount	5,431,533	419,316	4,064	5,854,913

31. OTHER RECEIVABLES AND PREPAYMENTS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Entrusted loan and interest receivable from a related party (Note 57(ii))	–	78,300
Interest receivables (Note)	–	449,848
Prepayments	118,126	73,173
Advances in relation to asset management plans	–	229,070
Receivables from Zhejiang Expressway Maintenance Co., Ltd. ("Maintenance Co") in relation to disposal of maintenance equipment	11,082	24,021
Settlement receivables	198,090	–
Others	80,386	56,814
	407,684	911,226

Note: As at December 31, 2018, the interests accrued on financial instruments of the Group are included in the carrying amount of corresponding financial assets.

32. HELD FOR TRADING INVESTMENTS

	12/31/2017 Rmb'000
Listed securities in the PRC, at fair value:	
Equity securities	76,734
Open-end equity funds	300,502
Bonds in the PRC, at fair value:	
Listed in Shanghai/Shenzhen Stock Exchange with fixed interest ranging from 0.2% to 9.5% per annum	5,569,010
Unlisted with fixed interest ranging from 2.7% to 8.6% per annum	6,622,448
	12,568,694

Note: As at December 31, 2018, held for trading investments are all presented as financial assets at FVTPL as disclosed in Note 27.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

33. PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
China Securities Finance Corporation Limited (secured)	**400,679**	–

As at December 31, 2018, the placements carried interest at a fixed rate of 4.70% per annum are repayable within 3 months from the end of the reporting period. The placements were secured by debt securities with total fair value of Rmb93,963,000 and a cash deposit of Rmb13,481,000 as at December 31, 2018.

34. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Analysed by collateral type:		
Bonds	**3,091,042**	5,147,924
Stock securities	**5,166,886**	4,716,313
Less: Impairment allowance	**(51,746)**	(70,745)
	8,206,182	9,793,492
Analysed by market:		
Inter bank market	**267,237**	2,687,848
Shanghai/Shenzhen Stock Exchange	**7,990,691**	7,176,389
Less: Impairment allowance	**(51,746)**	(70,745)
	8,206,182	9,793,492

The collaterals include both equity and debt securities listed in the PRC. As at December 31, 2018, the fair value of equity securities and debt securities held as collaterals was Rmb12,464,582,000 (2017: Rmb11,098,959,000) and Rmb3,176,921,000 (2017: Rmb4,523,618,000), respectively.

34. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The following table shows reconciliation of loss allowances that has been recognised for financial assets held under resale agreements.

	12m ECL Rmb'000	Lifetime ECL (not credit-impaired) Rmb'000	Lifetime ECL (credit-impaired) Rmb'000	Total Rmb'000
As at January 1, 2018	47,560	23,185	–	70,745
– Transfer to credit-impaired	(304)	–	304	–
– Transfer to lifetime	(1,397)	1,397	–	–
– Transfer to 12m ECL	6,420	(6,420)	–	–
– Impairment losses recognised	–	14,526	3,696	18,222
– Impairment losses reversed (Note)	(37,221)	–	–	(37,221)
As at December 31, 2018	15,058	32,688	4,000	51,746

Note: Reversal of loss allowance is due to the Group's recovery of the related financial assets during the year.

The tables below detail the credit risk exposures of the Group's financial assets held under resale agreements, which are subject to ECL assessment.

As at December 31, 2018

	12m ECL Rmb'000	Lifetime ECL (not credit-impaired) Rmb'000	Lifetime ECL (credit-impaired) Rmb'000	Total Rmb'000
Gross carrying amount	6,268,174	1,916,065	73,689	8,257,928

35. BANK BALANCES AND CLEARING SETTLEMENT FUND HELD ON BEHALF OF CUSTOMERS

For the Group's securities operation carried out by Zheshang Securities, the Group receives and holds money deposited by customers (including other institutions). These customers' money is maintained in one or more segregated bank accounts. The Group has recognised the corresponding accounts payable to respective customers and other institutions.

Bank balances and clearing settlement fund held on behalf of customers carry interest at market rates which range from 0.8% to 6% (2017: 0.35% to 6%) per annum.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

35. BANK BALANCES AND CLEARING SETTLEMENT FUND HELD ON BEHALF OF CUSTOMERS (Continued)

Bank balances and clearing settlement fund held on behalf of customers that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	HKD Rmb'000	USD Rmb'000
As at December 31, 2018	**17,714**	89,770
As at December 31, 2017	**18,093**	97,592

36. BANK BALANCES, CLEARING SETTLEMENT FUND, DEPOSITS AND CASH

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Time deposits with original maturity over three months	**280,913**	20,000
Unrestricted bank balances and cash	**6,453,245**	5,583,691
Time deposits with original maturity of less than three months	**24,479**	5,123
Cash and cash equivalents	**6,477,724**	5,588,814
	6,758,637	5,608,814

Bank balances carry interest at the average market rate is 0.35%(2017: 0.35%) per annum. Time deposits carry interest at fixed rates ranging from 0.67% to 3.45%(2017: 0.80% to 2.06%) per annum.

Bank balances, clearing settlement fund, deposits and cash that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	HKD Rmb'000	USD Rmb'000
As at December 31, 2018	**44,204**	511,481
As at December 31, 2017	**46,096**	1,560,278

37. ACCOUNTS PAYABLE TO CUSTOMERS ARISING FROM SECURITIES BUSINESS

The amounts mainly represent money held on behalf of clients at the banks and clearing houses by the Group.

The amounts also include payables for securities/futures business as well as cash collaterals from customers for securities lending and/or margin financing arrangement.

The majority of the accounts payable balance is repayable on demand except where certain accounts payable to brokerage clients represent margin deposits received from clients for their trading activities under normal course of business. No aged analysis is disclosed as in the opinion of the Directors, an aged analysis does not give any additional value in view of the nature of the business.

As at December 31, 2018, Rmb392,345,000 (2017: Rmb491,032,000) cash collaterals have been received from clients for securities lending or margin financing arrangement, of which under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

Accounts payable to customers arising from securities business that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	HKD **Rmb'000**	USD Rmb'000
As at December 31, 2018	**17,714**	89,770
As at December 31, 2017	**18,093**	97,592

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

38. TRADE PAYABLES

Trade payables mainly represent the payables for the expressway improvement projects and construction of high grade road. The following is an aged analysis of trade payables presented based on the invoice date:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Within 3 months	329,157	267,464
3 months to 1 year	36,175	73,433
1 to 2 years	52,643	112,374
2 to 3 years	60,196	70,812
Over 3 years	97,294	104,509
	575,465	628,592

39. OTHER PAYABLES AND ACCRUALS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Other liabilities:		
Accrued payroll and welfare	875,651	1,190,986
Advances	17,353	44,879
Toll collected on behalf of other toll roads	9,672	9,543
Retention payable	75,116	98,713
Deposit received for disposal of an associate (Note 24(i))	165,600	165,600
Other investors' interests in consolidated limited partnership designated at FVTPL (Note i)	205,903	421,782
Payables to fund management companies for clients	15,351	130,731
Others	265,681	219,270
	1,630,327	2,281,504
Other accruals (Note ii)	–	233,895
	1,630,327	2,515,399

Notes:

(i) Other investors' interests in consolidated limited partnership designated at FVTPL represents the third party unit holders' interests in the consolidated limited partnership which are reflected as a liability. Interests in these consolidated structured entities directly held by the Group amounted to fair value of Rmb172,957,000 and Rmb339,742,000 at December 31, 2018 and 2017, respectively. As in the opinion of the management, such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

(ii) Other accruals as at December 31, 2017 are mainly interest payables and are included in the carrying amount of the respective liabilities upon initial application of HKFRS 9.

40. BANK AND OTHER BORROWINGS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Loan from related parties, unsecured (Note 57(i), 57(ii))	**260,741**	480,000
	260,741	480,000
Carrying amount repayable:		
Within one year	**200,741**	420,000
More than one year but not exceeding two years	**60,000**	–
More than two years but not more than five years	**–**	60,000
	260,741	480,000
Less: Amounts due within one year	**(200,741)**	(420,000)
Amounts shown under non-current liabilities	**60,000**	60,000
The bank and other borrowings comprise:		
Fixed-rate borrowings	**60,475**	60,000
Variable-rate borrowings	**200,266**	420,000
	260,741	480,000

The range of effective interest rates (which are also agreed to contracted interest rates) on the Group's borrowings are as follows:

	12/31/2018	12/31/2017
Effective interest rate:		
Fixed-rate borrowings	**3.00%**	3.00%
Variable-rate borrowings	**4.35%**	4.22%

The Group's bank and other borrowings were all dominated in the functional currency of the group entities as at December 31, 2018 and 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

41. SHORT-TERM FINANCING NOTE PAYABLE

	12/31/2018	12/31/2017
Unsecured:		
Beneficial certificates (Note)	1,551	762,800

Note:

As at December 31, 2018, the beneficial certificate bears an interest rate at 8% (2017: 2.0% to 5.3%) per annum paid at maturity.

42. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Analysed as collateral type:		
Bonds	11,086,710	8,263,414
Other rights and interests in debt instruments	–	2,260,000
	11,086,710	10,523,414
Analysed by market:		
Shanghai/Shenzhen Stock Exchange	6,396,287	4,018,588
Inter-bank market	4,690,423	4,244,826
Over the counter	–	2,260,000
	11,086,710	10,523,414

As of December 31, 2018, the above financial assets sold under repurchase agreements include those repurchase agreements entered into with qualified investors, with maturities within 1 year.

Sales and repurchase agreements are transactions in which the Group sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit risks and market risks and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities. The cash proceed received is recognised as financial liability.

As at December 31, 2018, the Group enters into repurchase agreements with certain counterparties. The proceeds from selling such securities are presented as financial assets sold under repurchase agreements. Because the Group sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred securities during the term of the arrangement.

42. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

The following tables provides a summary of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and the associated liabilities as at December 31, 2018 and December 31, 2017.

	Held for trading investments Rmb'000	Financial assets held under resale agreements Rmb'000	Loans to customers arising from margin financing business Rmb'000	Financial assets at FVTPL Rmb'000	Total Rmb'000
As at December 31, 2018					
Carrying amount of transferred assets	–	–	–	9,245,868	9,245,868
Carrying amount of associated liabilities	–	–	–	(8,689,133)	(8,689,133)
Net position	–	–	–	556,735	556,735
As at December 31, 2017					
Carrying amount of transferred assets	7,228,533	1,887,301	2,382,625	–	11,498,459
Carrying amount of associated liabilities	(6,429,268)	(1,834,146)	(2,260,000)	–	(10,523,414)
Net position	799,265	53,155	122,625	–	975,045

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

43. BONDS PAYABLE

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Corporate and subordinated bonds with redemption option (Note i)	**1,006,166**	2,500,000
Subordinated bonds without redemption option (Note ii)	**14,210,292**	6,850,000
Long term beneficial certificates (Note iii)	**–**	800,000
	15,216,458	10,150,000
Less: subordinated bonds due within 1 year	**(5,766,458)**	(500,000)
Less: beneficial certificates due within 1 year	**–**	(800,000)
	(5,766,458)	(1,300,000)
Amounts shown under non-current liabilities	**9,450,000**	8,850,000

Notes:

(i) This balance represented a subordinated bond (2017: a subordinated bond and a corporate bond) due by year 2021 (2017:2020 to 2021) issued by Zheshang Securities carried fixed interest rate at 3.63% (2017: 3.63% to 4.90%) per annum, with redemption option of the Group exercisable at the second or third anniversary since the date of issue. If the redemption option is not exercised, the interest rate would be increased to a fixed rate of 6.63% (2017: 6.63%) per annum for the remaining period till maturity.

As at December 31, 2018, the subordinated bond carried at fixed interest rates at 3.63% (2017: 3.63% to 4.9%) per annum.

(ii) This balance represented 7 (2017: 5) subordinated bonds due by year 2019 to 2021 (2017: 2018 to 2021) issued by Zheshang Securities, without redemption option, with fixed interest rates ranging from 3.08% to 5.93% (2017: 3.08% to 6.30%) per annum.

(iii) Long term beneficial certificates due by 2018 issued by Zheshang Securities bear fixed interest rates rated ranging from 3.70% to 3.79% per annum.

44. DERIVATIVE FINANCIAL ASSETS/LIABILITIES

Derivative financial assets of Rmb4,169,000 (2017: Rmb4,587,000) and derivative financial liabilities of Rmb3,818,000 (2017: Rmb3,941,000) has been recognised for the fair values of commodity options as at December 31, 2018.

45. CONVERTIBLE BOND

On April 21, 2017, the Company issued a zero coupon convertible bond due 2022 in an aggregate principal amount of Euro365,000,000 (the "Convertible Bond"). The Convertible Bond is listed on the Stock Exchange.

The principal terms of the Convertible Bond are set out below:

(1) Conversion right

The Convertible Bond will, at the option of the holder (the "Bondholders"), be convertible (unless previously redeemed, converted or purchased and cancelled) on or after June 1, 2017 up to April 11, 2022 into fully paid ordinary shares with a par value of Rmb1.00 each at an initial conversion price (the "Conversion Price") of HK$13.10 per H share and a fixed exchange rate of HK$8.2964 to Euro1.00 (the "Fixed Exchange Rate"). The Conversion Price is subject to the anti-dilutive adjustments and certain events including mainly: share consolidation, subdivision or re-classification, capitalisation of profits or reserves, capital distributions, rights issues of shares or options over shares, rights issues of other securities and issues at less than current market price. The latest Conversion Price is HK$12.00 per H share.

(2) Redemption

(i) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Convertible Bond at 100 percent of its outstanding principal amount on April 21, 2022 (the "Maturity Date").

(ii) Redemption at the option of the Company

The Company may, having given not less than 30 nor more than 60 days' notice, redeem the Convertible Bond in whole and not some only at 100 percent of their outstanding principal amount as at the relevant redemption date:

(a) at any time after April 21, 2020 but prior to the Maturity Date, provided that no such redemption may be made unless the closing price of an H share translated into Euro at the prevailing rate applicable to each Stock Exchange business day, for any 20 Stock Exchange business days within a period of 30 consecutive Stock Exchange business days, the last of such Stock Exchange business day shall occur not more than 10 days prior to the date upon which notice of such redemption is given, was, for each such 20 Stock Exchange business days, at least 130 percent of the Conversion Price (translated into Euro at the Fixed Exchange Rate); or

(b) if at any time the aggregate principal amount of the Convertible Bond outstanding is less than 10 percent of the aggregate principal amount originally issued.

Notes to the Consolidated Financial Statements

45. CONVERTIBLE BOND (Continued)

(2) Redemption (Continued)

(iii) Redemption at the option of the Bondholders

The Company will, at the option of the Bondholders, redeem whole or some of that holder's bond on April 21, 2020 (the "Put Option Date") at 100 percent of their outstanding principal amount on the Put Option Date.

The Convertible Bond comprises two components:

(a) Debt component was initially measured at fair value amounted to approximately Euro297,801,000 (equivalent to Rmb2,190,578,000). It is subsequently measured at amortised cost by applying effective interest rate method after considering the effect of the transaction costs. The effective interest rate used is 4.28%.

(b) Derivative component comprises conversion right of the Bondholders, redemption option of the Company, and redemption option of the Bondholders.

Transaction costs totalling Rmb16,725,000 that relate to the issue of the Convertible Bond are allocated to the (including conversion right and redemption options) components in proportion to their respective fair values. Transaction costs amounting to approximately Euro419,000 (equivalent to Rmb3,079,000) relating to the derivative component were charged to profit or loss immediately. Transaction costs amounting to approximately Euro1,855,000 (equivalent to Rmb13,646,000) relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the Convertible Bond using the effective interest method. The derivative component was measured at fair value with reference to valuation carried out by a firm of independent professional valuers.

45. CONVERTIBLE BOND (Continued)

The movement of the debt and derivative components of the Convertible Bond for the year ended December 31, 2017 and 2018 is set out as below:

	Debt component at amortised cost		Derivative components at FVTPL		Total	
	Euro'000	Rmb'000	Euro'000	Rmb'000	Euro'000	Rmb'000
Convertible Bond issued on April 21, 2017	297,801	2,190,578	67,199	494,302	365,000	2,684,880
Issue cost	(1,855)	(13,646)	–	–	(1,855)	(13,646)
Exchange realignment	–	132,958	–	–	–	132,958
Interest charge	8,558	65,941	–	–	8,558	65,941
Gain on decrease in fair value	–	–	(23,004)	(149,479)	(23,004)	(149,479)
As at December 31, 2017	304,504	2,375,831	44,195	344,823	348,699	2,720,654
Exchange realignment	–	13,400	–	–	–	13,400
Interest charge	13,049	102,703	–	–	13,049	102,703
Gain on decrease in fair value	–	–	(16,449)	(127,094)	(16,449)	(127,094)
As at December 31, 2018	317,553	2,491,934	27,746	217,729	345,299	2,709,663

No conversion or redemption of the Convertible Bond has occurred up to December 31, 2018.

The detailed key inputs the valuer uses to calculate the fair value of the derivative component refer to Note 53(c).

46. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Deferred tax assets	**318,236**	355,803
Deferred tax liabilities	**(321,889)**	(394,434)
	(3,653)	(38,631)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

46. DEFERRED TAXATION (Continued)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Changes in fair value of investments carried at fair value Rmb'000	Difference in tax and accounting depreciation of property plant and equipment and expressway operating rights Rmb'000	Fair value adjustment of long term assets arising from business combination Rmb'000	Temporary differences of accrued expenses and impairment losses Rmb'000	Total Rmb'000
At January 1, 2017	92,227	4,606	211,069	(292,436)	15,466
(Credit) charge to profit or loss	(27,729)	(24,155)	(14,402)	46,629	(19,657)
Charge to other comprehensive income	42,822	–	–	–	42,822
At December 31, 2017	107,320	(19,549)	196,667	(245,807)	38,631
(Credit) charge to profit or loss	(56,781)	(20,665)	(14,402)	56,870	(34,978)
At December 31, 2018	50,539	(40,214)	182,265	(188,937)	3,653

As at December 31, 2018, the Group had unused tax losses of approximately Rmb44,488,000 (2017: Rmb227,964,000). No deferred taxation asset has been recognised due to the unpredictability of future profit streams. Such unrecognised tax losses will expire within 2021.

47. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Financial liabilities held for trading:		
– Bonds borrowing	**211,091**	223,234
Financial liabilities designated at FVTPL:		
– Financial liabilities arising from consolidation of structured entities (Note)	**153,623**	150,193
	364,714	373,427

47. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Note:

Financial liabilities designated at FVTPL arising from consolidation of structured entities represent the third party unit holders' interests in the consolidated structure schemes and funds. Interests in these consolidated structured entities directly held by the Group amounted to fair value of Rmb3,115,749,000 and Rmb115,627,000 at December 31, 2018 and 2017, respectively.

The Group has designated these liabilities as FVTPL, as in the opinion of the management, such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

48. SHARE CAPITAL

	Number of shares 12/31/2017 and 2018 '000	Share capital 12/31/2017 and 2018 Rmb'000
Registered, issued and fully paid:		
Domestic shares of Rmb1 each	**2,909,260**	2,909,260
H Shares of Rmb1 each	**1,433,855**	1,433,855
	4,343,115	4,343,115

The domestic shares are not currently listed on any stock exchange.

The H Shares have been listed on the Stock Exchange since May 15, 1997. The H shares were admitted to the Official List on May 5, 2000 and their dealings on the London Stock Exchange commenced on the same day.

All the domestic shares and H Shares rank pari passu with each other as to dividends and voting rights.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

49. NON-CONTROLLING INTERESTS

	Rmb'000
Balance at January 1, 2017	5,858,770
Share of total comprehensive income	856,875
Increase due to Spin-off and Offering	1,943,382
Dividend declared to non-controlling interests	(109,176)
At December 31, 2017	8,549,851
Share of total comprehensive income	513,002
Capital injection from non-controlling interests	38,208
Dividend declared to non-controlling interests	(230,028)
At December 31, 2018	8,871,033

The summarised financial information in respect of the Group's subsidiary that has material non-controlling interests, namely Shangsan Co and its subsidiaries and Yuhang Co (as defined in Note 58) at the end of the reporting period are set out below. The summarised financial information below represents amounts before intragroup elimination.

Shangsan Co and its subsidiaries

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Current assets	57,357,269	51,893,532
Non-current assets	3,244,437	4,146,760
Current liabilities	34,017,723	30,683,157
Non-current liabilities	9,550,645	9,000,315
Equity attributable to owners of the Company	8,872,168	8,410,241
Non-controlling interests	8,161,170	7,946,579

49. NON-CONTROLLING INTERESTS (Continued)

Shangsan Co and its subsidiaries (Continued)

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Revenue	**4,153,684**	4,735,530
Expenses	**(2,986,567)**	(2,982,545)
Profit for the year	**1,167,117**	1,752,985
Other comprehensive income for the year	**2,253**	128,083
Total comprehensive income for the year	**1,169,370**	1,881,068
Profit attributable to owner of the Company	**734,755**	1,036,344
Profit attributable to non-controlling interests	**432,362**	716,641
	1,167,117	1,752,985
Total comprehensive income attributable to owner of the Company	**735,813**	1,096,455
Total comprehensive income attributable to non-controlling interests	**433,557**	784,613
	1,169,370	1,881,068

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Dividends paid to non-controlling shareholders	**(218,966)**	(98,115)
Net cash used in operating activities	**(1,585,868)**	(4,606,648)
Net cash (used in) from investing activities	**(172,052)**	920,489
Net cash from financing activities	**3,603,850**	75,645
Net cash inflow (outflow)	**1,845,930**	(3,610,514)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

49. NON-CONTROLLING INTERESTS (Continued)

Yuhang Co

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Current assets	**248,820**	114,948
Non-current assets	**771,615**	819,186
Current liabilities	**53,982**	72,119
Non-current liabilities	**6,967**	7,323
Equity attributable to owners of the Company	**489,338**	435,894
Non-controlling interests	**470,148**	418,798

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Revenue	**312,038**	305,606
Expenses	**(184,676)**	(179,014)
Profit for the year	**127,362**	126,592

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Profit and total comprehensive income		
– attributable to owner of the Company	**64,955**	64,562
– attributable to non-controlling interests	**62,407**	62,030
	127,362	126,592
Dividends paid to non-controlling shareholders	**(11,057)**	(11,058)
Net cash from operating activities	**160,756**	214,436
Net cash used in investing activities	**(200,860)**	(77,903)
Net cash used in financing activities	**(22,377)**	(92,620)
Net cash (outflow) inflow	**(62,481)**	43,913

50. RETIREMENT BENEFITS SCHEMES

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. To supplement this existing retirement benefits scheme, the Group adopted a corporate annuity scheme in accordance with relevant rules and regulations. The Group is required to contribute a certain percentage of payroll costs to these retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

No forfeited contributions are available to reduce the contribution payable in future years.

51. COMMITMENTS

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Authorised but not contracted for:		
– Purchase of machinery and equipment	**474,547**	290,121
– Acquisition and construction of properties	**433,858**	162,019
– Equity investments	**–**	360,000
Contracted for but not provided:		
– Equity investments	**3,343,000**	–
	4,251,405	812,140

52. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in Notes 40, 41, 42, 43 and 45, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Financial assets		
Financial assets at FVTPL	**21,575,806**	–
Held for trading investments	**–**	12,568,694
Derivative financial assets	**4,169**	4,587
AFS investments		
At cost	**–**	17,297
At fair value	**–**	2,495,253
Loans and receivables (including cash and cash equivalents)	**–**	39,371,562
Financial assets at amortised cost	**36,072,854**	–
Financial liabilities		
Derivative financial liabilities	**3,818**	3,941
Financial liabilities at FVTPL	**364,714**	373,427
Convertible Bond - derivative component	**217,729**	344,823
Other payables measured at fair value	**205,903**	421,782
Amortised cost	**44,817,493**	40,069,638

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, trade receivables, other receivables, loans to customers arising from margin financing business, financial assets held under resale agreements, pledged bank deposit, bank balances, clearing settlement fund, deposits and cash, bank balances and clearing settlement fund held on behalf of customers, trade payables, other payables, placements from other financial institutions, accounts payable to customers arising from securities business, derivative financial assets, derivative financial liabilities, bank and other borrowings, short-term financing note payable, financial assets sold under repurchase agreements, financial liabilities at FVTPL, bonds payable, convertible bond and financial guarantee. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk, currency risk and other price risk), credit risk and impairment assessment and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to loans to customers arising from margin financing business, fixed-rate entrusted loans, financial assets held under resale agreements, fixed-rate time deposits, placements from other financial institutions, fixed-rate bank and other borrowings, fixed rate short-term financing note payable, financial assets sold under repurchase agreements, bonds payable, debt component of Convertible Bond and financial liabilities at FVTPL (see Notes 30, 31, 34, 36, 33, 40, 41, 42, 43, 45 and 47 for details).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and clearing settlement fund held on behalf of customers, bank balances, clearing settlement fund, deposits and bank and other borrowings (see Notes 35, 36 and 40 for details).

The Group currently does not have an interest rate risk hedging policy as the management considers the Group is not exposed to significant interest rate risk. The management will continue to monitor interest rate risk exposure and consider hedging against it should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments, comprising variable-rate bank balances and clearing settlement fund held on behalf of customers, bank balances, clearing settlement fund, deposits and bank and other borrowings at the end of the reporting period.

The analysis is prepared assuming the balances outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2017: 30 basis points) increase or decrease represents the management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2017: 30 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2018 would have increased/decreased by Rmb78,861,000 (2017: Rmb45,459,000). This was mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and clearing settlement fund.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Currency risk

Several subsidiaries of the Group have foreign currency denominated monetary assets and liabilities, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting date are as follows:

	Assets		Liabilities	
	12/31/2018	12/31/2017	**12/31/2018**	12/31/2017
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Hong Kong dollar ("HKD")	**61,919**	64,189	**17,714**	18,093
United States dollar ("USD")	**601,251**	1,657,870	**89,770**	97,593
Euro dollar ("EUR") (Note)	**–**	–	**2,709,663**	2,720,654

Note: Amount represented both the debt and derivative component of the Convertible Bond issued by the Company.

Sensitivity analysis

The Group is mainly exposed to USD and EUR relative to Rmb. The following table details the Group's sensitivity to a 10% (2017: 10%) increase and decrease in Rmb against the relevant foreign currencies. 10% (2017: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 10% (2017: 10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit where Rmb strengthen 10% (2017: 10%) against the relevant currency. For a 10% (2017: 10%) weakening of Rmb against the relevant currency, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative. The impact of HKD is not presented, since the outstanding monetary items denominated in HKD is not significant and their impact is immaterial.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Currency risk (Continued)

Sensitivity analysis (Continued)

	USD impact		EUR impact	
	12/31/2018	12/31/2017	**12/31/2018**	12/31/2017
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
Profit or loss	**(38,361)**	(117,021)	**203,225**	204,049

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(iii) Other price risk

The Group is exposed to equity and debt security price risk in relation to its financial assets at FVTPL (2017: held-for-trading investments and AFS investments), derivative financial assets and liabilities and financial liabilities at FVTPL.

The Group currently does not have a price risk hedging policy and the management will continue to monitor price risk exposure and consider hedging against it should the need arise.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Other price risk (Continued)

Sensitivity analysis

For financial instruments other than derivative component of Convertible Bond

The sensitivity analyses below have been determined based on the exposure to equity and debt security price risks at the reporting date.

If the prices of the respective equity and debt instruments had been 5% (2017: 5%) higher/lower,

- post-tax profit for the year ended December 31, 2018 would have increased/decreased by Rmb809,903,000as a result of the changes in fair value of financial assets at FVTPL.

- post-tax profit for the year ended December 31, 2017 would have increased/decreased by Rmb471,326,000 as a result of the changes in fair value of held for trading investments

- investment valuation reserve would have increased/decreased by Rmb93,572,000 for the year ended December 31, 2017 for the Group as a result of the changes in fair value of AFS listed investments, or the investment revaluation reserve would decrease by the same amount and the Group would consider any potential impairment effect, if necessary.

For derivative component of Convertible Bond

The Group are required to estimate the fair values of the derivative component of Convertible Bond issued by the Company at the end of each reporting period, which therefore exposed the Group to equity price risk. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in risk-free rate, the Company's share price, share price volatility and foreign currency exchange rate. Details of the Convertible Bond issued by the Company are set out in Note 45.

The sensitivity analyses below have been determined based on the exposure to the Company's share price, volatility and foreign currency exchange rate at the reporting date only as the Directors consider that the change in risk-free rate may not have significant financial impact on the fair values of derivative component of Convertible Bond. The exposure to foreign currency exchange rate of the Convertible Bond had been covered in Note 53(b)(ii) already.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Other price risk (Continued)

Sensitivity analysis (Continued)

Conversion option derivatives of Convertible Bond.

(1) Changes in share price

If the share price of the Company had been 10% higher/lower while all other input variables of the valuation models were held constant, the Group's profit for the year would have (decreased)/increased as follows:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Higher by 10%	**(20,356)**	(61,770)
Lower by 10%	**12,409**	51,085

(2) Changes in volatility

If the volatility to the valuation model had been 10% higher/lower while all other variables were held constant, the Group's profit for the year would have (decreased)/increased as follows:

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Higher by 10%	**(13,160)**	(35,954)
Lower by 10%	**10,397**	37,153

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment

As at December 31, 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and the amount of contingent liability in relation to financial guarantee issued by the Group as disclosed in Note 56.

The credit risk on liquid funds is limited because the counterparties are state-owned banks or banks with high credit ratings assigned by international credit-rating agencies.

Other items under the Group's different operations with credit risk and corresponding impairment assessment are set out below:

Toll operation and high grade road construction service

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances arising from toll operation on collective basis and contract asset on individual basis, using life-time ECL under the simplified approach.

The Group has no credit period granted to its trade customers of toll operation. All the Group's trade receivable balances for toll operation and contract asset, upon the conditions satisfied, are receivable from the government-operated organisations. In this regard, the directors of the Company consider that the credit risk is low as the Group has no history of loss experience with the government-operated organisations in the past. No significant ECL was recognised as at December 31, 2018.

Securities operation

The Group's securities operation currently faces credit risk primarily from loans to customers arising from margin financing business, and financial assets held under resale agreements which are secured by clients' securities or deposits held as collateral. It refers to the risk of loss arising from the debtor's failure to meet its contractual obligations in a timely manner.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Securities operation (Continued)

i) Credit risk management

Credit risk from loans to customers arising from margin financing business and financial assets held under resales agreements mainly including the debtor falsifying the application, failing to repay debts, violating the agreement, violating regulatory discipline of trading behaviour, and providing collateral that involves law dispute, etc. The Group management authorises professional personnel to examine and approve the credit limit of these businesses, as well as adjust such credit limit in accordance with the regular assessment of the debtor's repayment capacity. Risk management division oversights the collaterals and usage of related credit limit, and initiates margin call if necessary. Once the debtor fail to enhance the collateral to the account, the credit risk will be controlled by liquidating the pledged securities.

ii) Measurement of ECL

Since January 1, 2018, The Group has applied the ECL model to measure the expected credit losses for applicable financial assets mainly including loans to customers arising from margin financing business and financial assets held under resale agreements.

The group has used the "3 stage" ECL model to assess the credit losses when its credit risk has increased significantly since initial recognition:

(i) An asset moves to stage 1 where there has low risk of default or has not been a significant increase in credit risk and that are not credit impaired. The Group will continuously monitor its credit risk;

(ii) An asset moves to stage 2 where there has been a significant increase in credit risk since initial recognition but that are not credit impaired. The Group does not see it as an impairment loss occurred instrument;

(iii) An asset moves to stage 3 when impairment losses occurred; and

(iv) The loss impairment for financial instruments in stage 1 is anticipated credit losses for the next 12 months, which correspond to the amount of anticipated credit losses for the entire life time resulting from possible defaults within the next 12 months. In the second or third stage, the expected credit losses of financial instruments are measured for the entire life time and the expected credit losses are recorded.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Securities operation (Continued)

The factors the Group considers whether credit risk increases significantly refer to Note 3. In particular, for loans to customers arising from margin financing business and financial assets held under resale agreement, the Group generally believes that when the loan to collateral ratio determined by fair value reaches the warning line, the credit risk increases significantly and needs to be transferred to "stage 2", and when the loan to collateral ratio determined by fair value reaches the liquidation line or expect there would be loss after closing the position mandatorily, it will be transferred to "stage 3".

The Group uses PD, EAD and LGD to measure credit risks:

(i) PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions;

(ii) EAD is the amount that the Group should be repaid at the time of default in the next 12 months or throughout the remaining life; and

(iii) LGD is an estimate of the loss arising on default. The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.

The expected credit losses are measured based on the probability weighted results of PD, EAD and LGD.

During the year ended December 31, 2018, no significant changes were made in the estimated technology or key assumptions.

The assessment of significant increase in credit risk and the measurement of expected credit losses all involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators affecting the credit risk and expected credit losses of each asset portfolio. Key economic indicators include macroeconomic indicators and indicators that can reflect market volatility, including but not limited to Total Loan Growth Rate (Nationwide), Gross Domestic Product ("GDP"), Industrial Product Price Index ("PPI"), M2, Consumers Price Index ("CPI"), Stock Index, Business Climate Index, Unemployment Rate, RMB to USD Exchange Rate, Total Investment in Fixed Assets, Completed Investment in Fixed Assets, Social Financing Scale, etc.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Securities operation (Continued)

The Group regularly forecasts the economic condition by selecting various indicators within the macroeconomic indicator pool to make a sound estimation of the ECL.

In order to determine the relationship between these economic indicators and the default probability as well as the default loss rate, the Group constructs an econometric model to determine the impact of historical changes in these indicators on the PD and LGD.

The Group makes forward-looking estimation of the ECL based on the scenario reflecting key economic indicators above. The Group accrues the credit loss provisions for the next 12 months for financial assets in Stage 1, and accrues the credit loss provisions for the whole life for those financial assets in Stage 2 and Stage 3. The Group has classified exposures with similar risk characteristics when calculating anticipated credit loss impairment in a portfolio. During the classification, the Group obtained sufficient information to ensure its statistical reliability.

Other operations

In respect of the Group's other operations, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group did not experience significant credit loss on its other operations, and performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract asset	Other financial assets/other items (Note)
Low risk (stage 1)	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful (stage 2)	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL –not credit-impaired
Loss (stage 3)	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

Note: Other financial assets include loans to customers arising from margin financing business, bank balances, clearing settlement fund, deposits and cash, pledged bank deposit, bank balances and clearing settlement fund held on behalf customers, financial assets held under agreements and other receivables.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

The table below details the credit risk exposures of the Group's financial assets, contract asset and financial guarantee contracts, which are subject to ECL assessment:

2018	Notes	External credit rating	Internal credit rating	12-months or lifetime ECL	Gross carrying amount Rmb'000
Financial assets at amortised cost					
Trade receivables (Note i)	28				
– toll operation		N/A	Low risk	Lifetime ECL	100,270
– securities operation		N/A	Low risk	Lifetime ECL	97,084
– others		N/A	Low risk	Lifetime ECL	22,104
Loans to customers arising from margin financing business					
– securities operation	30	N/A	Low risk	12-month ECL	5,431,533
			Doubtful	Lifetime ECL - not credit-impaired	419,316
			Loss	Lifetime ECL - credit-impaired	4,064
Bank balances, clearing settlement fund, deposits and cash	36	AA to AAA	Low risk	12-month ECL	6,758,637
Pledged bank deposit – others		AAA	Low risk	12-month ECL	10,000
Bank balances and clearing settlement fund held on behalf customers – securities operation	35	AA	Low risk	12-month ECL	14,742,161
Financial assets held under resale agreements					
– securities operation	34	N/A	Low risk	12-month ECL	6,268,174
			Doubtful	Lifetime ECL- not credit-impaired	1,916,065
			Loss	Lifetime ECL- credit-impaired	73,689
Other receivables	31	N/A	Low risk	12-month ECL	301,553
Other items					
Contract asset (Note i)					
– high grade road construction service	29	N/A	Low risk	Lifetime ECL	253,248
Financial guarantee contracts (Note ii)	56				
– toll operation		N/A	Low risk	12-month ECL	737,493

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk and impairment assessment (Continued)

Notes:

i. The Group has applied the simplified approach in HKFRS 9 to measure the credit loss allowance at their lifetime ECL for trade receivables and contract asset.

   During the year ended December 31, 2018, the Group provided ECL on trade receivables and contract asset by Rmb997,000 and Rmb380,000, respectively.

ii. For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

Concentration of credit risk

As at December 31, 2018, other than the concentration of credit risk on trade receivables, entrusted loan receivables and financial guarantee contract amounting to Rmb216,233,000 (2017: Rmb244,587,000), nil (2017: Rmb78,300,000), and Rmb737,493,000 (2017: Rmb842,643,000), respectively, of which these balances were only limited and concentrated to a few counterparties, the Group does not have any other significant concentrations of credit risk.

There are also no concentration risks on its margin financing business and financial assets held under resale agreements as at December 31, 2018 and 2017 respectively as the Group has a large number of clients who are dispersed.

The Group's concentration of credit risk by geographical location is mainly in the PRC.

Liquidity risk

Most of the bank balances, clearing settlement fund, pledged bank deposits and cash at December 31, 2018 and 2017 were denominated in Rmb which is not a freely convertible currency in the international market. The exchange rate of Rmb is regulated by the PRC government and the remittance of these Rmb funds out of the PRC is subject to foreign exchange controls imposed by the PRC government.

The Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future.

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. Liquidity risk analysis below excludes derivative component of Convertible Bond as the settlement of which does not involve cash settlement. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average interest rate	On demand or less than 3 months	3 months - 1 year	1 - 3 years	3 - 5 years	+5 years	Total undiscounted cash flows	Carrying amount at 31/12/2018
	%	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
2018								
Non-derivative financial liabilities								
Accounts payable to customers arising from securities business	–	14,653,413	–	–	–	–	14,653,413	14,653,413
Trade payables	–	575,465	–	–	–	–	575,465	575,465
Other payables	–	336,445	–	–	–	–	336,445	336,445
Bank and other borrowings								
– fixed rate	3.00	–	1,800	61,800	–	–	63,600	60,475
– variable rate	4.35	2,175	200,918	–	–	–	203,093	200,266
Short-term financing note payable	8.00	–	1,581	–	–	–	1,581	1,551
Financial assets sold under repurchase agreements	2.31	11,159,606	–	–	–	–	11,159,606	11,086,710
Placements from banks and other financial institutions	4.70	401,442	–	–	–	–	401,442	400,679
Bonds payable	4.99	2,118,600	4,127,900	10,209,400	–	–	16,455,900	15,216,458
Convertible Bond								
– debt component	4.28	–	–	–	2,864,264	–	2,864,264	2,491,934
Financial guarantee	–	737,493	–	–	–	–	737,493	–
Financial liabilities at fair value through profit or loss	–	211,091	153,623	–	–	–	364,714	364,714
		30,195,730	4,485,822	10,271,200	2,864,264	–	47,817,016	45,388,110

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

	Weighted average interest rate	On demand or less than 3 months	3 months - 1 year	1 - 3 years	3 - 5 years	+5 years	Total undiscounted cash flows	Carrying amount at 31/12/2017
	%	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
2017								
Non-derivative financial liabilities								
Accounts payable to customers								
arising from securities business	–	14,933,719	–	–	–	–	14,933,719	14,933,719
Trade payables	–	628,592	–	–	–	–	628,592	628,592
Other payables	–	637,064	–	–	–	–	637,064	637,064
Bank and other borrowings								
– fixed rate	3.00	–	1,800	63,600	–	–	65,400	60,000
– variable rate	4.22	4,370	433,206	–	–	–	437,576	420,000
Short-term financing note payable	5.01	101,182	676,842	–	–	–	778,024	762,800
Financial assets sold under								
repurchase agreements	4.25	8,560,153	2,046,824	–	–	–	10,606,977	10,523,414
Bonds payable	4.60	1,133,566	650,371	5,615,440	3,986,620	–	11,385,997	10,150,000
Convertible Bond								
– debt component	4.28	–	–	–	2,847,840	–	2,847,840	2,375,831
Financial guarantee	–	842,643	–	–	–	–	842,643	–
Financial liabilities at fair value								
through profit or loss	–	223,234	150,193	–	–	–	373,427	373,427
		27,064,523	3,959,236	5,679,040	6,834,460	–	43,537,259	40,864,847

53. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity tables (Continued)

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of the interest rates determined at the end of the reporting period.

As at December 31, 2018 and 2017, the Group has not entered into any master netting arrangements with counterparties. The collaterals of which, such as financial assets held under resale agreement, financial assets at FVTPL (2017: held-for-trading investments), loans to customers arising from margin financing business, placements from other financial institutions and financial assets sold under repurchase agreements, financial liabilities FVTPL, etc., are disclosed in the corresponding notes, which are generally not on the net basis in financial position. However, the risk exposure associated with favourable contracts is significantly reduced by the collaterals received by the Group which could be recovered to the extent if a default occurs, in respect of the outstanding receivable amounts from the counterparty.

The analysis above does not include the cash flow of derivatives, which do not have material impact on the cash flow of the Group.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

Fair value measurements recognised in the statement of financial position that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

For the year ended December 31, 2018

Financial Assets	Classified as	Fair value as at 31/12/2018 Rmb'000	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Equity investments listed in exchange	Financial assets at FVTPL	499,356	Level 1	Quoted bid prices in an active market.	N/A	N/A
2) Equity securities traded in inactive market	Financial assets at FVTPL	119,158	Level 2	Recent transaction prices.	N/A	N/A
		47,570	Level 3	Discounted cash flow. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Discounted for lack of marketability.	The higher the discount, the lower the fair value.
3) Listed funds	Financial assets at FVTPL	316,786	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Unlisted fund investments	Financial assets at FVTPL	591,325	Level 2	Based on the net asset values of the equity investment, with reference to observable market price.	N/A	N/A
5) Debt investments listed in exchange and debt investment in interbank market	Financial assets at FVTPL	4,092,848	Level 1	Quoted bid prices in an active market.	N/A	N/A
		15,050,206	Level 2	Discounted cash flow. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
6) Investments in structured products	Financial assets at FVTPL	688,025	Level 2	The fair value was based on the net value of the underlying assets. The net asset value of the products was calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses..	N/A	N/A
7) Investments in trust products	Financial assets at FVTPL	153,332	Level 3	The fair value was based on the net value of the underlying assets. The net asset value of the products was calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Future cash flows and discount rate	The higher the future cash flows, the higher the fair value. The higher the discounted rate, the lower the fair value.
8) Private equity investments	Financial assets at FVTPL	17,200	Level 3	Calculated based on pricing/yield such as price-to-earnings (P/E) of comparable companies with an adjustment of discount for lack of marketability	P/E multiples P/ B multiples P/ S multiples Discounted for lack of marketability	The higher the discount, the lower the fair value. The higher the multiples, the higher the fair value

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

For the year ended December 31, 2017

Financial Assets	Classified as	Fair value as at 31/12/2017 Rmb'000	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Equity investments listed in exchange	Held for trading investments	76,734	Level 1	Quoted bid prices in an active market.	N/A	N/A
2) Equity securities traded in inactive market	AFS investments	179,274	Level 2	Recent transaction prices.	N/A	N/A
		751,530	Level 3	Discounted cash flow. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	Discounted for lack of marketability.	The higher the discount, the lower the fair value.
3) Listed funds	Held for trading investments	300,502	Level 1	Quoted bid prices in an active market.	N/A	N/A
	AFS investments	63,881	Level 1	Quoted bid prices in an active market.	N/A	N/A
4) Unlisted fund investments	AFS investments	59,970	Level 2	Based on the net asset values of the equity investment, with reference to observable market price.	N/A	N/A
		271,579	Level 3	Net asset of the fund which is determined by the fair value of underlying investments.	The fair value of underlying investments	The higher the fair value of underlying investments, the higher the fair value.
5) Debt investments listed in exchange and debt investment in interbank market	Held for trading investments	5,569,010	Level 1	Quoted bid prices in an active market.	N/A	N/A
	Held for trading investments	6,622,448	Level 2	Discounted cash flow. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
6) Investments in structured products	AFS investments	868,579	Level 2	The fair value was based on the net value of the underlying assets. The net asset value of the products was calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
		46,214	Level 3	Discounted cash flows. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustment of related expenses.	Future cash flows and discount rate	The higher the future cash flows, the higher the fair value. The higher the discounted rate, the lower the fair value
7) Investments in trust products	AFS investments	254,226	Level 3	Discounted cash flows. Future cash flows are estimated based on expected applicable yield of the underlying investment portfolio and adjustment of related expenses.	Future cash flows and discount rate	The higher the future cash flows, the higher the fair value. The higher the discounted rate, the lower the fair value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

Financial Liabilities	Classified as	Fair value as at 31/12/2018 Rmb'000	Fair value as at 31/12/2017 Rmb'000	Fair value hierarchy	Basis of fair value measurement/valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Investments in interbank market	Financial liabilities at FVTPL	211,091	223,234	Level 2	Discounted cash flow. Future cash flows are estimated based on applying the interest yield curves of different types of bonds as the key parameter.	N/A	N/A
2) Investments in asset management scheme	Financial liabilities at FVTPL	153,623	150,193	Level 2	Shares of the net assets of the products, determined with reference to the net asset value of the products, calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
3) Other investors' interests in consolidated limited partnership designated as FVTPL	Other payables and accruals	205,903	421,782	Level 2	Shares of the net assets of the products, determined with reference to the net asset value of the products, calculated by observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
4) Derivative component of Convertible Bond	Derivative component of Convertible Bond	217,729	344,823	Level 3	Binomial option pricing model Expected volatility: 29.29% (2017:31.82%) Dividend yield: nil Risk-free rate: 1.77% (2017:1.54%) Share price: HK$6.79 (equivalent to Rmb5.95) (2017: HK$8.59 (equivalent to Rmb7.18)) Exercise price: HK$12.00 (equivalent to Rmb10.51) (2017: HK$12.54 (equivalent to Rmb10.48))	Expected volatility of 29.29%, taking into account the actual historical share price of the Company over the same time period as the Convertible Bond's remaining time to maturity	The higher the expected volatility, the higher the fair value

There were no transfer between Level 1 and Level 2 during the year.

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

As at December 31, 2018

	Level 1 Rmb'000	Level 2 Rmb'000	Level 3 Rmb'000	Total Rmb'000
Financial assets at FVTPL				
– Equity securities	499,356	119,158	47,570	666,084
– Fund	316,786	591,325	–	908,111
– Debt investments	4,092,848	15,050,206	–	19,143,054
– Asset management plans	–	688,025	–	688,025
– Trust products	–	–	153,332	153,332
– Private equity Investment	–	–	17,200	17,200
Sub-total	4,908,990	16,448,714	218,102	21,575,806

	Level 1 Rmb'000	Level 2 Rmb'000	Level 3 Rmb'000	Total Rmb'000
Financial liabilities at FVTPL				
– Bonds	–	211,091	–	211,091
– Asset management scheme	–	153,623	–	153,623
Sub-total	–	364,714	–	364,714
Other investors' interests in consolidated limited partnership designated as FVTPL	–	205,903	–	205,903
Derivative component of Convertible Bond	–	–	217,729	217,729

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

As at December 31, 2017

	Level 1 Rmb'000	Level 2 Rmb'000	Level 3 Rmb'000	Total Rmb'000
Held for trading investments				
– Equity securities	76,734	–	–	76,734
– Open-ended fund	300,502	–	–	300,502
– Bonds	5,569,010	6,622,448	–	12,191,458
Sub-total	5,946,246	6,622,448	–	12,568,694

	Level 1 Rmb'000	Level 2 Rmb'000	Level 3 Rmb'000	Total Rmb'000
AFS investments				
– Equity	–	179,274	751,530	930,804
– Fund	63,881	59,970	271,579	395,430
– Structured products	–	868,579	46,214	914,793
– Trust products	–	–	254,226	254,226
Sub-total	63,881	1,107,823	1,323,549	2,495,253

	Level 1 Rmb'000	Level 2 Rmb'000	Level 3 Rmb'000	Total Rmb'000
Financial liabilities at FVTPL				
– Bonds	–	223,234	–	223,234
– Asset management scheme	–	150,193	–	150,193
Sub-total	–	373,427	–	373,427
Other investors' interest in consolidated limited partnership designated as FVTPL	–	421,782	–	421,782
Derivative component of Convertible Bond	–	–	344,823	344,823

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

The following tables represent the changes in Level 3 financial assets at FVTPL during the years ended December 31, 2018 and AFS during the years ended December 31, 2017, respectively. For the changes in Level 3 derivative component of Convertible Bond during the year ended December 31, 2018 and 2017, please refer to Note 45.

For the year ended December 31, 2018

Financial assets at FVTPL:

	Structured products Rmb'000	Trust products Rmb'000	Restricted shares Rmb'000	Equity investments Rmb'000	Funds Rmb'000	Total Rmb'000
At beginning of the year	46,214	254,226	751,530	17,297	271,579	1,340,846
Additions	–	10,000	47,570	–	–	57,570
Disposal	(46,214)	(110,894)	–	(97)	(271,579)	(428,784)
Changes in fair value changes	–	–	(385,814)	–	–	(385,814)
Transfer out of level 3 (Note)	–	–	(365,716)	–	–	(365,716)
At end of the year	–	153,332	47,570	17,200	–	218,102

Note: For the year ended December 31, 2018, the Group reclassified the restricted shares previously classified as Level 3 to Level 2 with fair value of Rmb365,716,000 as these shares became tradable in exchange market in the current year.

For the year ended December 31, 2017

AFS investments

	Structured products Rmb'000	Trust products Rmb'000	Restricted shares Rmb'000	Funds Rmb'000	Total Rmb'000
At beginning of the year	133,387	10,000	315,878	–	459,265
Addition	45,100	250,000	27,500	258,881	581,481
Disposal	(132,580)	(10,000)	–	–	(142,580)
Total gain recognised in other comprehensive income	307	4,226	134,807	12,698	152,038
Recognised in other fair value changes	–	–	273,345	–	273,345
At end of the year	46,214	254,226	751,530	271,579	1,323,549

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

53. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities at amortised costs recognised in the consolidated statement of financial position approximate their fair values.

	As at 31/12/2018		As at 31/12/2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Debt component of Convertible Bond	2,491,934	2,530,656	2,375,831	2,402,383

The fair value of the debt component of Convertible Bond as at December 31, 2018 is under level 3 category and was determined by the Directors with reference to the valuation performed by a firm of independent professional valuers. The fair value of the debt component of Convertible Bond is determined by discounted cash flow using the inputs including estimated cash flows over the remaining terms of the Convertible Bond and discount rate that reflected the credit risk of the Company.

54. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash. Liabilities arising financing activities are those for which cash flows were or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Dividends payable Note 16 Rmb'000	Bank and other borrowings Note 40 Rmb'000	Bonds payable Note 43 Rmb'000	Convertible Bond Note 45 Rmb'000	Accrued issue cost for Convertible Bond Note 45 Rmb'000	Short-term financing note payable Note 41 Rmb'0000	Accrued share issue cost in respect of Spin-off and Offering Rmb'000	Capital injection by non-controlling interest Rmb'000	Total Rmb'000
At January 1, 2018	261,239	480,000	10,150,000	2,734,300	(13,646)	762,800	–	–	14,374,693
Financing cash flows	(1,813,349)	(220,000)	4,800,000	–	–	(761,250)	–	38,208	2,043,609
Non-cash changes									
Fair value adjustment	–	–	–	(127,094)	–	–	–	–	(127,094)
Exchange realignment	19,995	–	–	13,400	–	–	–	–	33,395
Accrued interest	–	741	266,458	102,703	–	1	–	–	369,903
Dividends declared to owners of the Company and non-controlling interests	1,532,962	–	–	–	–	–	–	–	1,532,962
At December 31, 2018	847	260,741	15,216,458	2,723,309	(13,646)	1,551	–	38,208	18,227,468
At January 1, 2017	261,046	2,116,395	9,700,000	–	–	4,828,340	–	–	16,905,781
Financing cash flows	(1,646,610)	(1,627,269)	450,000	2,684,880	(16,725)	(4,065,540)	(59,866)	–	(4,281,130)
Non-cash changes									
Fair value adjustment	–	–	–	(149,479)	–	–	–	–	(149,479)
Exchange realignment	(4,179)	(9,126)	–	132,958	–	–	–	–	119,653
Accrued interest	–	–	–	65,941	–	–	–	–	65,941
Dividends declared to owners of the Company and non-controlling interests	1,650,982	–	–	–	–	–	–	–	1,650,982
Upon completion of Spin-off and Offering	–	–	–	–	–	–	59,866	–	59,866
Issue cost relating to derivative component of Convertible Bond	–	–	–	–	3,079	–	–	–	3,079
At December 31, 2017	261,239	480,000	10,150,000	2,734,300	(13,646)	762,800	–	–	14,374,693

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

55. OPERATING LEASES

The Group as lessee

	Year ended 12/31/2018 Rmb'000	Year ended 12/31/2017 Rmb'000
Minimum lease payments	**82,678**	70,917

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Within one year	**77,037**	42,266
In the second to fifth year inclusive	**184,918**	58,657
Over five years	**76,428**	745
	338,383	101,668

Operating lease payments mainly represent rentals payable by the Group for the operating branches of Zheshang Securities and Zheshang Futures. They are negotiated for an average term of three to ten years. The above commitment represented the minimum lease payments payable to lessors only and do not include any contingent rent elements.

The Group as lessor

The Group leased their service areas and communication ducts and part of spare office premises under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 25 years and rentals are fixed annually.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Within one year	**28,090**	26,849
In the second to fifth year inclusive	**61,797**	58,815
After five years	**16,997**	20,661
	106,884	106,325

For certain of the Group's service areas, the rental income are variable and being calculated at the higher of a pre-agreed percentage of revenue of the relevant service areas made by the lessees or the minimum lease payments. The commitment above represented the minimum lease payments from lessees only and do not include any contingent rent elements.

56. CONTINGENT LIABILITIES

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Guarantees given to bank, in respect of a joint venture (Note)	737,493	842,643

Note: The Group provided a financial guarantee to Shengxin Co, a 50% owned joint venture of the Group, in favour of a bank for 50% of its outstanding bank borrowings and interest. As at December 31, 2018, the bank borrowings of Shengxin Co and accrued interest amounted to Rmb1,474,985,000 (2017: principal of Rmb1,683,000,000 and accrual interest of 2,287,000). The Directors consider that the fair value of the guarantee is insignificant at initial recognition and default by the guaranteed party is not probable, therefore no provision for financial guarantee contract had been made as at 31 December 2018 and 2017.

57. RELATED PARTY TRANSACTIONS AND BALANCES

Other than disclosed elsewhere in the consolidated financial statements, during the year, the Group also entered into the following significant transactions with related parties:

(i) Transactions and balances with Communications Group and government related parties

Details of significant transactions with Communications Group are summarised below:

Entrusted loans

Pursuant to the entrusted loan contracts entered into between the Company and Zhejiang Highway Logistic Company Limited ("Logistic Co"), a wholly-owned subsidiary of the Communications Group, on September 28, 2017. Logistic Co agreed to provide the Company with entrusted loans amounting to Rmb60,000,000 at a fixed interest rate of 3.00% per annum, with maturity date of September 28, 2020.

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Interest expenses incurred	1,825	475

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

57. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(i) Transactions and balances with Communications Group and government related parties (Continued)

Management and Administrative services

The Company has entered into agreements with the Communications Group and its subsidiaries, pursuant to which, the Company would provide the management and administrative services for six toll roads, including Shenjiahuhang Expressway, Shensuzhewan Expressway, South Line of Qianjiang Channel, Ningbo Yongtaiwen Expressway, Taizhou Yongtaiwen Expressway and Zhoushan Bay Bridge. According to the agreements, the Company would charge the Communications Group and its subsidiaries management fee on actual cost basis. During this year, a total management fee of Rmb5,956,000 (2017: Rmb1,199,000) has been charged.

Other transactions

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Toll road service area leasing income earned (Note a)	**9,955**	9,876
Toll road service area management fee paid (Note a)	**2,967**	2,809
Property leasing income earned	**2,019**	5,614
Road maintenance service expenses incurred	**345,916**	343,527
Construction cost incurred (Note b)	**73,952**	–
System development and maintenance, expressway mechanical and electrical engineering services expenses incurred	**37,872**	38,608
Operation information services expenses incurred	**–**	9,267
Toll road related inspection services expense incurred	**7,006**	9,478
Interest expenses in respect of beneficial certificates incurred	**5,348**	–
Financial advisory service income earned	**8,064**	12,075

Notes:

(a) Pursuant to the leasing and operation agreement entered into between Jinhua Co (as defined in Note 58) and Zhejiang Communications Investment Group Industrial Development Co., Ltd. ("Zhejiang Communications Investment "), an indirect subsidiary of the Communications Group, Jinhua Co leased the toll road service area to Zhejiang Communications Investment and Zhejiang Communications Investment managed the operation of the service area and the advertising business in respect of the toll road service area. Such business began from January 1, 2011 and will be expired at the same time with the operating right in 2030.

57. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(i) Transactions and balances with Communications Group and government related parties (Continued)

Other transactions (Continued)

Notes (Continued):

(a) Pursuant to the leasing and operation agreements entered into between Hanghui Co and Zhejiang Communications Investment, Hanghui Co leased the toll road service area to Zhejiang Communications Investment and Zhejiang Communications Investment managed the operation of the service area. Such business began from January 1, 2011 and will be expired at the same time with the operating right for respective expressway sections in 2029 to 2031.

(b) On June 7, 2018, Deqing County De'an Highway Construction Co., Ltd.. ("Deqing Co"), a non-wholly owned subsidiary of the Company, entered into a construction agreement with Zhejiang Hongtu Transportation Construction Co., Ltd. ("Zhejiang Hongtu"), pursuant to which Zhejiang Hongtu would act as a subcontractor and provide expressway construction service to Deqing Co. Zhejiang Hongtu is the non-controlling shareholder of Deqing Co and is also an indirect non-wholly owned subsidiary of Communications Group.

Others

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("government-related entities"). In addition, the Group itself is part of a larger group of companies under the Communications Group which is controlled by the PRC government. However, due to the business nature, in respect of the Group's toll road and securities business, the Directors are of the opinion that it is impracticable to ascertain the identity of counterparties and accordingly whether the transactions are with other government-related entities in the PRC.

In addition, the Group has entered into other banking transactions, including deposit placements, borrowings and other general banking facilities, with certain banks and financial institution which are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosure would not be meaningful.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

57. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(ii) Transactions and balances with associates and other related parties

Financial service provided by Zhejiang Communications Finance

The Group entered into a financial services agreement with Zhejiang Communications Finance. Pursuant to the agreement, Zhejiang Communications Finance agreed to provide the Group with the deposit services, the loan and financial leasing services, the clearing services and other financial services.

Loan advanced from Zhejiang Communications Finance

In prior years, Zhejiang Communications Finance provided Huihang Co with several short-term loans with aggregated principal amount of Rmb15,000,000 at fixed interest rates of 3.915% per annum, with maturities in 2017. All these loans were repaid in 2017.

During the year, Zhejiang Communications Finance provided Hanghui Co with short-term loan which bears variable interest rates of 4.2195% to 4.35% (2017: 3.915% to 4.2195%) with aggregated principal amount of Rmb610,000,000 (2017: Rmb1,580,000,000). The short-term loans totalling Rmb863,858,000 (2017: principal of Rmb1,160,000,000 and interest of Rmb12,036,000) had been repaid during the current year.

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Outstanding loan payable balances:		
repayable within one year	**200,741**	420,000
interest payable (Note)	**–**	148
	200,741	420,148

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Interest expenses incurred	**41,558**	18,529

Note: Interest payable as at December 31, 2017 was included in "Other payable and accruals" in Note 39.

57. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(ii) Transactions and balances with associates and other related parties (Continued)

Financial service provided by Zhejiang Communications Finance (Continued)

Deposits to Zhejiang Communications Finance

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Bank balances and cash		
– Cash and cash equivalents	**311,133**	1,301,639

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Interest income earned	**15,322**	6,612

Short-term loan advanced to Zhejiang Canal Concord Property Co., Ltd. ("Zhejiang Canal Concord")

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
Outstanding loan receivable balances	–	77,650
Interest receivables	–	650
	–	78,300
Analysed for reporting purpose as:		
Current assets (Note 31)	–	78,300

	For the year ended 12/31/2018 Rmb'000	For the year ended 12/31/2017 Rmb'000
Interest income earned	**438**	11,125

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

57. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(ii) Transactions and balances with associates and other related parties (Continued)

Short-term loan advanced to Zhejiang Canal Concord Property Co., Ltd. ("Zhejiang Canal Concord") (Continued)

During the year, the Group did not advance any additional entrusted loans to Zhejiang Canal Concord, a subsidiary of Zhejiang Concord Property (2017: Rmb210,000,000) and received settlement of loan principals and interests amounting to Rmb77,650,000 (2017: Rmb552,350,000) and Rmb1,115,000 (2017: Rmb14,754,000), respectively. All these loans were repaid in the current year. The amounts were unsecured and repayable in accordance with the terms of entrusted loan agreements entered into between the Group and Zhejiang Canal Concord. All entrusted loans in both years were guaranteed by Zhejiang World Trade Property Development Co., Ltd., which is the controlling shareholder of Zhejiang Concord Property, an independent third party of the Group, in full.

Sales of asset management schemes and beneficial certificates to Zhejiang Communications Finance

During the current year, Zheshang Securities Asset Management Co., Ltd. ("Asset Management", an indirect subsidiary of the Company) sold 400,000,000 units (equivalent to Rmb400,000,000) of asset management schemes to Zhejiang Communications Finance, which were all early terminated in the same year. In 2016, Asset Management sold 69,000,000 units (equivalent to Rmb69,000,000) of asset management schemes to Zhejiang Communications Finance and all of them were terminated subsequently in March 2017. Management fee and performance fee income of Rmb4,401,000 and Rmb3,848,000 respectively were earned by the Group from managing these asset management schemes in 2017.

During the current year, Zheshang Securities also sold beneficial certificates amounting Rmb800,000,000 to Zhejiang Communications Finance, which were all due in the current year and related interest expense amounting Rmb7,841,000 was fully paid.

(iii) Key management emoluments

The remuneration of the directors, supervisors and key management personnel during the year was Rmb6,799,000 (2017: Rmb7,454,000) including retirement benefit scheme contribution of Rmb172,000 (2017: Rmb216,000) which is determined by the performance of the individuals and the market trends.

58. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Date and place of registration	Registered and paid-in capital/ share capital	Percentage of equity interest attributable to the Company				Principal activities
		Rmb	Direct		Indirect		
			12/31/2018	12/31/2017	12/31/2018	12/31/2017	
			%	%	%	%	
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	Note 1	75,223,000	51	51	–	–	Management of the Yuhang Section of the Shanghai-Hangzhou Expressway
Jiaxing Co	Note 2	1,859,200,000	99.9995	99.9995	–	–	Management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Shangsan Co	Note 3	2,400,000,000	73.625	73.625	–	–	Management of the Shangsan Expressway
Zhejiang Expressway Vehicle Towing and Rescue Services Co., Ltd. ("Towing Co")	Note 4	8,000,000	100	100	–	–	Provision of vehicle towing, repair and emergency rescue services
Zheshang Securities	Note 5	3,333,333,400	–	–	*46.9321	*46.9321	Operation of securities business
Zheshang Futures	Note 6	500,000,000	–	–	**46.9321	**46.9321	Operation of securities business
Zheshang Capital Management	Note 7	170,000,000	–	–	**46.9321	**46.9321	Operation of securities business
Asset Management	Note 8	500,000,000	–	–	**46.9321	**46.9321	Provision of asset management service
Ningbo Dongfang Jujin Investment Management Co., Ltd ("Dongfang Jujin")	Note 9	1,000,000	–	–	**46.9321	**46.9321	Provision of investment management and advisory services
Ningbo Dongfang Jujin Jiahua Investment Management Center (Limited Partnership) ("Dongfang Jujin Jiahua")	Note 10	29,150,000	–	–	**14.7317	**14.7317	Provision of investment management and advisory and private equity investments
Zhejiang Zheqi Co., Ltd. ("Zhejiang Zheqi")	Note 11	200,000,000	–	–	**46.9321	**46.9321	Trading of future

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

58. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Date and place of registration	Registered and paid-in capital/ share capital	Percentage of equity interest attributable to the Company				Principal activities
		Rmb	Direct		Indirect		
			12/31/2018	12/31/2017	12/31/2018	12/31/2017	
			%	%	%	%	
Zhejiang Jinhua Yongjin Expressway Co., Ltd. ("Jinhua Co")	Note 12	1,900,000,000	100	100	–	–	Management of the Jinhua Section of the Ningbo-Jinhua Expressway
Hanghui Co	Note 13	1,812,280,000	88.674	88.674	–	–	Management of the Zhejiang Section of the Hangzhou-Ruili Expressway
Hangzhou Jujin Jiawei Investment Management (Limited Partnership) ("Jujin Jiawei")	Note 14	206,103,000	–	–	**21.1323	**21.1323	Provision of investment management and advisory and private equity investments
Zheshang International Financial Holding Co., Limited	Note 15	8,011,000	–	–	**46.9321	**46.9321	Trading of future
Huihang Co	Note 16	1,950,000,000	100	100		–	Management of the Anhui Section of the Hangzhou-Ruili Expressway Expressway
Deqing Co	Note 17	100,000,000	80.1	–	–	–	Construction and management

* The company is a subsidiary of Shangsan Co, a non-wholly-owned subsidiary of the Company, and, accordingly, is accounted for as a subsidiary by virtue of the Group's control over it. On June 26, 2017, Zheshang Securities has completed the Spin-off and Offering on the Shanghai Stock Exchange, resulting in the dilution of the equity interest attributed to the Company. Details please refer to Note iii to the consolidated statement of changes in equity.

** These companies and partnership entities are subsidiaries of Zheshang Securities, a non-wholly-owned subsidiary of Shangsan Co, and accordingly, are accounted for as subsidiaries by virtue of the Group's control over them.

Note 1: Yuhang Co was established on June 7, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 28, 1996. The Company is able to control over Yuhang Co because it has the power to appoint five out of nine directors of that company and under the provisions stated in the Articles of Association of that company, the passing of ordinary resolutions at the board meetings required one-half of the directors attending the meetings.

58. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Note 2: Jiaxing Co was established on June 30, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 29, 1996.

Note 3: Shangsan Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 4: Towing Co was established on July 31, 2003 in the PRC as a limited liability company.

Note 5: Zheshang Securities was established on May 9, 2002 in the PRC as a limited liability company.

Note 6: Zheshang Futures was established on September 7, 1995 in the PRC as a limited liability company.

Note 7: Zheshang Capital Management was established on February 9, 2012 in the PRC as a limited liability company. The registered capital of Zheshang Capital Management has been increased from Rmb100,000,000 to Rmb170,000,000 during the year ended December 31, 2016.

Note 8: Asset Management was established on July 22, 2013 in the PRC as a limited liability company.

Note 9: Dongfang Jujin was established on March 25, 2014 in the PRC as a limited liability company.

Note 10: Dongfang Jujin Jiahua was established on April 11, 2014 in the PRC as a limited partnership. Pursuant to the partnership agreement, Dongfang Jujin is a general partner, while Zheshang Capital Management and other two individuals are limited partners of the partnership. The Directors consider that the Group has the practical ability to direct the relevant activities of Dongfang Jujin Jiahua unilaterally, and it is therefore classified as a subsidiary of the Group.

Note 11: Zhejiang Zheqi was established on April 9, 2013 in the PRC as a limited liability company, and its paid-in share capital was increased by Rmb100,000,000 to Rmb200,000,000 during the year ended December 31, 2014.

Note 12: Jinhua Co was established in February 2002 in the PRC as a limited liability company. Jinhua Co became a wholly owned subsidiary and directly held by the Company during the year ended December 31, 2013.

Note 13: Hanghui Co was established in December 2008 in the PRC as a limited liability company. During the year ended December 31, 2015, the Company acquired the 80.614% equity interests in Hanghui Co from Communications Group, and Hanghui Co then became a subsidiary and directly held by the Company as at December 31, 2015. In December 2015, the equity interest held by the Group increased to 88.674% as the Company has made a capital contribution to Hanghui Co.

Note 14: Jujin Jiawei was established on April 15, 2015 in the PRC as a limited partnership. Pursuant to the partnership agreement, Dongfang Jujin is a general partner, while Zheshang Capital Management and other three individuals are limited partners of the partnership. The Directors consider that the Group has the practical ability to direct the relevant activities of Jujin Jiawei unilaterally, and it is therefore classified as a subsidiary of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

58. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

Note 15: Zheshang International Financial Holding Co., Limited (previously known as Zheshang Futures (Hong Kong) Co., Limited) was established on April 23, 2015 in Hong Kong as a limited liability company.

Note 16: Huihang Co was established in September 2000 in the PRC as a limited liability company. During the year ended December 31, 2016, the Company acquired the 100% equity interests in Huihang Co from an independent third party, and Huihang Co then became a subsidiary and directly held by the Company as at December 31, 2016.

Note 17: Deqing Co was established on April 12, 2018 in the PRC as a limited liability company.

Except that Zheshang International Financial Holding Co., Limited is operating in Hong Kong, all of the Company's other subsidiaries are operating in Mainland China. As at December 31, 2018, Zheshang Securities has issued subordinated bonds, corporate bonds and beneficial certificates at the total principal amount of Rmb7,600,000,000, nil and Rmb9,473,360,000 (2017: Rmb3,500,000,000, nil and Rmb762,800,000), respectively.

59. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group served as the investment manager of structured entities (including collective asset management schemes and investment funds), therefore had power over them during the years ended December 31, 2018 and 2017. Except for the structured entities the Group has consolidated as disclosed in Note 47, in the opinion of the Directors, the variable returns the Group exposed to over these collective asset management schemes and investment funds in which the Group has interests are not significant. The Group therefore did not consolidate these structured entities.

The total assets of unconsolidated funds and asset management schemes managed by the Group amounted to Rmb153,292,980,000 and Rmb171,366,885,000 as at December 31, 2018 and 2017, respectively. The Group classified the investments in unconsolidated funds and asset management schemes as financial assets at FVTPL (2017: available for sale investments and held for trading as appropriate). As at December 31, 2018 and 2017, the carrying amounts of the Group's interests in unconsolidated funds and asset management schemes are Rmb1,749,468,000 and Rmb1,744,411,000, respectively.

60. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
NON-CURRENT ASSETS		
Property, plant and equipment	**483,279**	489,863
Prepaid lease payments	**15,136**	15,728
Expressway operating rights	**2,846,670**	3,191,903
Other intangible assets	**9,145**	10,386
Interests in subsidiaries	**11,424,869**	11,271,077
Interests in associates	**4,419,756**	1,195,221
Interest in a joint venture	**373,470**	373,470
	19,572,325	16,547,648
CURRENT ASSETS		
Trade receivables	**38,133**	42,651
Other receivables	**80,480**	161,783
Prepaid lease payments	**592**	592
Amount due from subsidiaries	**706,994**	1,234,205
Dividend receivable	**97,731**	–
Bank balances and cash		
– Cash and cash equivalents	**1,908,124**	2,345,458
	2,832,054	3,784,689

Notes to the Consolidated Financial Statements

60. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY (Continued)

	12/31/2018 Rmb'000	12/31/2017 Rmb'000
CURRENT LIABILITIES		
Trade payables	**67,376**	88,181
Tax liabilities	**195,041**	188,317
Other taxes payable	**12,227**	8,529
Other payables and accruals	**194,995**	199,783
Amount due to subsidiaries	**4,132,442**	2,859,792
Dividend payable	**–**	260,587
Bank and other borrowings	**475**	–
	4,602,556	3,605,189
NET CURRENT (LIABILITIES) ASSETS	**(1,770,502)**	179,500
TOTAL ASSETS LESS CURRENT LIABILITIES	**17,801,823**	16,727,148
NON-CURRENT LIABILITIES		
Bank and other borrowings	**60,000**	60,000
Convertible Bond	**2,709,663**	2,720,654
Deferred tax liabilities	**78,720**	82,647
	2,848,383	2,863,301
	14,953,440	13,863,847
CAPITAL AND RESERVES		
Share capital	**4,343,115**	4,343,115
Reserves	**10,610,325**	9,520,732
	14,953,440	13,863,847

60. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY (Continued)

Movement of share capital and reserve of the Company was set out below.

	Share capital Rmb'000	Share premium Rmb'000	Statutory reserves Rmb'000	Investment valuation reserve Rmb'000	Dividend reserve Rmb'000	Special reserves Rmb'000	Retained profits Rmb'000	Total Rmb'000
At December 31, 2016	4,343,115	3,645,726	2,364,430	–	1,281,219	18,666	1,872,992	13,526,148
Total comprehensive income for the year	–	–	–	–	–	–	1,879,505	1,879,505
Interim dividend	–	–	–	–	–	–	(260,587)	(260,587)
Final dividend	–	–	–	–	(1,281,219)	–	–	(1,281,219)
Proposed final dividend	–	–	–	–	1,302,934	–	(1,302,934)	–
At December 31, 2017	4,343,115	3,645,726	2,364,430	–	1,302,934	18,666	2,188,976	13,863,847
Total comprehensive income for the year	–	–	–	–	–	–	2,392,527	2,392,527
2017 dividend	–	–	–	–	(1,302,934)	–	–	(1,302,934)
Proposed dividend	–	–	–	–	1,628,668	–	(1,628,668)	–
At December 31, 2018	4,343,115	3,645,726	2,364,430	–	1,628,668	18,666	2,952,835	14,953,440

Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

61. EVENTS AFTER THE REPORTING PERIOD

On December 13, 2018, the Company and Communications Group entered into equity purchase agreement (the "Equity Purchase Agreement"), pursuant to which Communications Group conditionally agreed to sell and the Company conditionally agreed to acquire the entire equity interest in Zhejiang Shenjiahuhang Expressway Co., Ltd. ("Zhejiang Shenjiahuhang") at a cash consideration of Rmb2,943,000,000. On the same day, the board of directors of the Company also approved and resolved to submit to the shareholders of the Company to consider, and if thought fit, to approve the offer and issuance of the mid-term notes (the "Proposed Mid-term Notes Issue") of no more than Rmb3,000,000,000 for a term of no more than five years.

The Equity Purchase Agreement and the Proposed Mid-term Notes Issue were approved by the extraordinary general meeting subsequently on March 4, 2019.

The acquisition of Zhejiang Shenjiahuhang upon completion will be accounted for as business combination under common control using the merger accounting method. The financial impact of this acquisition is still under assessment by the Group.

Independent Auditor's Report

Deloitte. 德勤

(Issued by a Third Country Auditor registered with The UK Financial Reporting Council)

TO THE MEMBERS OF ZHEJIANG EXPRESSWAY CO., LTD.
浙江滬杭甬高速公路股份有限公司
(Incorporated in the People's Republic of China with limited liability)

Opinion

We have audited the consolidated financial statements of Zhejiang Expressway Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 6 to 132, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (the "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 our 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.

Key Audit Matters

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

Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to customers arising from margin financing business and financial assets held under resale agreements	
As disclosed in Note 2, the Group has applied HKFRS 9 *Financial Instruments* since January 1, 2018 and the impairment of financial assets is assessed with expected credit loss ("ECL") model instead of incurred loss model. 12-month ECL and lifetime ECL are recognised respectively based on whether there has been a significant increase in credit risk since initial recognition. The application of ECL model mainly affects loans to customers arising from margin financing business and financial assets held under resale agreements. As at December 31, 2018, the Group held loans to customers arising from margin financing business and financial assets held under resale agreements with gross amount of Rmb5,854,913,000 and Rmb8,257,928,000, respectively, which the Group had recognised a cumulative amount of impairment allowance of Rmb4,829,000 and Rmb51,746,000, respectively, as disclosed in Notes 30 and 34. As disclosed in Note 4, the application of ECL model involves significant accounting estimation and judgement in determining the models, assumptions and key inputs used for measuring ECL, including probability of default ("PD"), loss given default ("LGD"), and whether there has been a significant increase in credit risk or whether credit loss has occurred. We identified the impairment of loans to customers arising from margin financing business and financial assets held under resale agreements as a key audit matter due to the significant judgement and estimation applied by the management in assessing impairment.	Our procedures in relation to management's impairment assessment of loans to customers arising from margin financing business and financial assets held under resale agreements included: • Understanding and evaluating design and implementation of key controls of management over the measurement of ECL allowances; • Understanding the ECL model used by the Group, utilising internal expert on evaluating the appropriateness of the ECL model and the critical assumptions and parameters used in the model; • Selecting samples on the credit review performed by the Group and reviewing the parameters and judgement made by the management including the stages of the financial instruments, PD and LGD, the expected future cash flow, counterparties and guarantors, and the realisation of collateral held; and • Recalculating the provision and comparing the results with those estimated by the Group.

Key audit matter	How our audit addressed the key audit matter
Determination of consolidation scope	
We identified the determination of consolidation scope as a key audit matter as the Group held a number of interests in structured entities including collective asset management schemes and investment funds where the Group was involved as an investment manager and/or an investor. The Group applied significant judgement in determining whether such investments fall within the consolidation scope under HKFRS 10 *Consolidated Financial Statements*. The effect of consolidation or not of these structured entities would have significant impact on the consolidated financial statements of the Group. As disclosed in Note 4, for collective asset management schemes and investment funds where the Group involved as a manager and/or an investor, the Group assessed whether the combination of investments it held together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes and investment funds that was of such significance that it indicated that the Group is a principal. The collective asset management schemes and investment funds were consolidated if the Group acted in the role of principal. Details of consolidated structured entities and unconsolidated structured entities were set out in Notes 39, 47 and 59 to the consolidated financial statements, respectively.	Our procedures in relation to the management's determination of consolidation scope included: • Understanding and evaluating design and implementation of key controls of the management in determining the consolidation scope as set out in HKFRS10 of interests in structured entities; • Checking the information used by the management in assessing the consolidation criteria of significant structured entities against the related supporting, including related service agreements of investments in structured entities newly acquired or with changes in investment holdings or terms during the year; and • Challenging and assessing the management judgement in applying HKFRS 10 to each of the significant structured entities and the conclusion about whether or not the consolidation criteria are met.

Independent Auditor's Report

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism 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.

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

Independent Auditor's Report

- o 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.

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

The engagement partner on the audit resulting in the independent auditor's report is Tse Ming Fai.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
Certified Public Accountants
(Registered as a Third Country Auditor with the UK Financial Reporting Council)
Shanghai, China

March 18, 2019

Corporate Information

CHAIRMAN

YU Zhihong

EXECUTIVE DIRECTORS

CHENG Tao
LUO Jianhu *(General Manager)*

NON-EXECUTIVE DIRECTORS

DAI Benmeng
YU Qunli
YU Ji

INDEPENDENT NON-EXECUTIVE DIRECTORS

PEI Ker-Wei
LEE Wai Tsang, Rosa
CHEN Bin

SUPERVISORS

YAO Huiliang
HE Meiyun
WU Qingwang
ZHAN Huagang
WANG Yubing

COMPANY SECRETARY

Tony ZHENG

AUTHORIZED REPRESENTATIVES

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Shanghai Pudong Development Bank, Hangzhou Branch

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H SHARES LISTING INFORMATION

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London Stock Exchange plc
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Location Map of Expressways in Zhejiang Province