CITIC LIMITED

Stock code : 00267

中信
CITIC

ANNUAL REPORT 2018

Our Businesses

Financial Services

CITIC Bank	(65.97%)
CITIC Trust	(100%)
CITIC-Prudential	(50%)
CITIC Securities	(16.50%)

Resources & Energy

CITIC Resources	(59.50%)
CITIC Mining International	(100%)
CITIC Metal Group	(100%)
Sunburst Energy	(100%)

Manufacturing

CITIC Pacific Special Steel	(90%)
CITIC Dicastal	(100%)
CITIC Heavy Industries	(67.27%)

Engineering Contracting

CITIC Construction	(100%)
CITIC Engineering	(100%)

Real Estate

CITIC Pacific Properties	(100%)
CITIC Urban Development & Operation	(100%)

Others

CITIC Telecom International	(59.33%)
Dah Chong Hong	(56.97%)
CITIC Industrial Investment	(100%)
CITIC Environment	(100%)

As at 28 February 2019

Contents

Our Company

CITIC Limited (SEHK: 00267) is one of China's largest conglomerates and a constituent of the Hang Seng Index. Among our diverse global businesses, we focus primarily on financial services, resources and energy, manufacturing, engineering contracting and real estate. As China's economy matures and is increasingly weighted towards consumption and services, CITIC is building upon its existing consumer platform, expanding into complementary businesses that reflect these trends and opportunities.

Tracing our roots to the beginning of China's opening and reform, we are driven today by the same values on which we were founded: a pioneering spirit, a commitment to innovation and a focus on the long term. We embrace world-class technologies and aim for international best practice. We are guided by a strategy that is consumer-centric, commercially-driven, and far-sighted in the allocation of capital and resources.

Our platform is unique in its diversity and scale, allowing CITIC to capture emerging opportunities in China and around the world. Guiding us as we grow is our fundamental commitment to create long-term value for all of our shareholders.

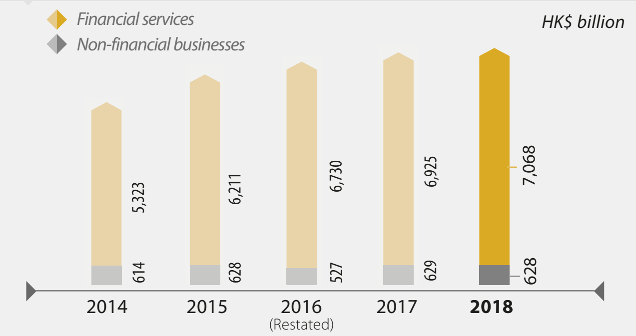
Highlights

HK$ million	Year ended 31 December 2018	2017	Increase/ (Decrease)
Revenue	533,285	450,536	82,749
Profit before taxation	93,969	82,783	11,186
Profit attributable to ordinary shareholders	50,239	43,902	6,337
Basic earnings per share (HK$)	1.73	1.51	0.22
Diluted earnings per share (HK$)	1.73	1.51	0.22
Dividend per share (HK$)	0.41	0.36	0.05
Net cash generated from operating activities	151,899	107,133	44,766
Capital expenditure	43,802	45,323	(1,521)

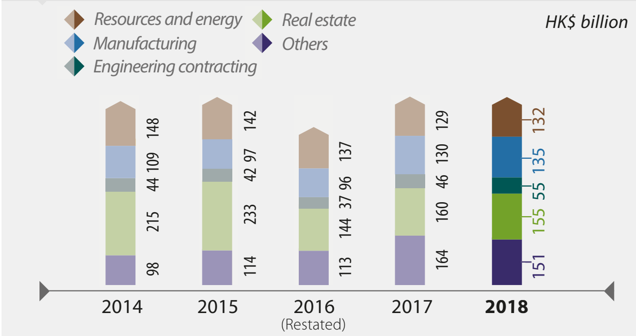
	As at 31 December 2018	As at 31 December 2017	Increase/ (Decrease)
Total assets	7,660,713	7,520,739	139,974
Total liabilities	6,850,053	6,727,098	122,955
Total ordinary shareholders' funds and perpetual capital securities	558,545	550,951	7,594
Return on total assets (%)	1.4%	1.3%	0.1%
Return on net assets (%)	9.1%	8.6%	0.5%
Staff employed	273,344	243,036	30,308

Business	**Business assets**		**Revenue from external customers**		**Profit attributable to ordinary shareholders**	
HK$ million	As at 31 December 2018	Increase/ (Decrease)	Year ended 31 December 2018	Increase/ (Decrease)	Year ended 31 December 2018	Increase/ (Decrease)
Financial services	7,067,565	142,489	202,949	12,921	41,704	2,198
Resources and energy	131,842	2,404	78,722	15,266	2,102	12,002
Manufacturing	134,882	4,501	121,939	24,507	6,008	2,690
Engineering contracting	55,432	9,305	19,700	5,047	2,053	322
Real Estate	154,631	(5,033)	8,968	5,741	5,353	(2,307)
Others	151,071	(12,764)	100,920	19,247	2,049	(7,406)

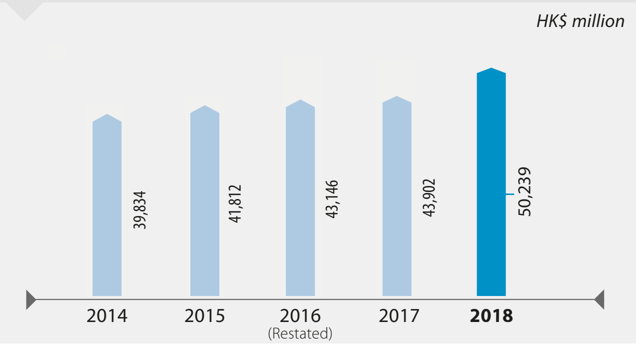
Assets By Business



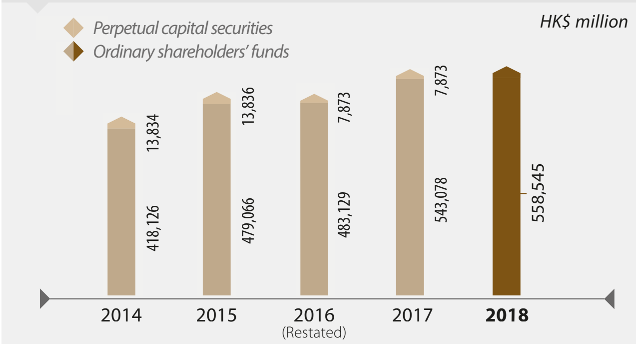
Assets of Non-Financial Businesses



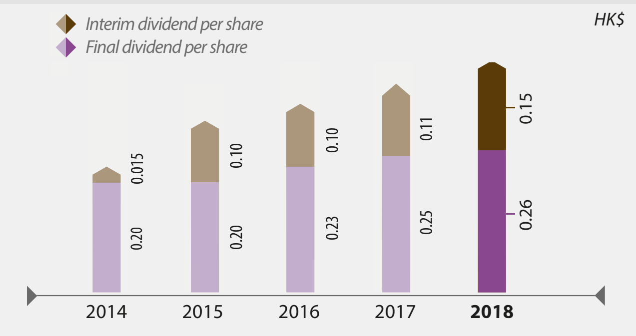
Profit Attributable to Ordinary Shareholders



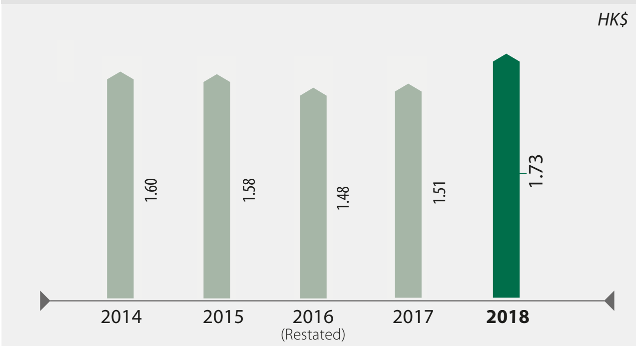
Total Ordinary Shareholders' Funds and Perpetual Capital Securities



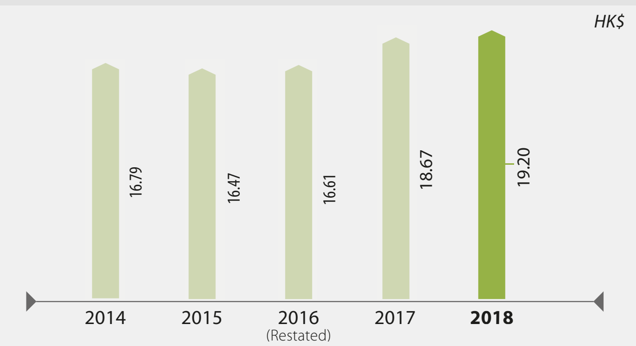
Dividend Per Share



Earnings Per Share



Ordinary Shareholders' Funds Per Share



Chairman's Letter to Shareholders

Our North Star is as true today as when Deng Xiaoping first inscribed it on a plaque at the fifth anniversary of CITIC in 1984: "Dare to innovate and contribute more."

Dear Shareholders,

The year 2018 marked the 40th anniversary of the beginning of Chinese economic liberalisation. Even closer to home, in 2019 we will be celebrating the 40th anniversary of the establishment of CITIC Group, the majority shareholder of CITIC Limited. To provide context, most of our assets today trace their heritage to CITIC Group: Its history is very much our history. So in the spirit of renewal, I would like in this letter to reflect on the path we've taken and provide a framework for placing our performance not only in an annual, but also a historical and future, context.

First, let me share with you CITIC Limited's performance in the past year. In 2018, CITIC Limited recorded a profit attributable to ordinary shareholders of HK$50.2 billion, our highest ever and 14% more than 2017. Financial services registered a 6% profit growth to HK$41.7 billion while profit from our non-financial businesses rose 43% from 2017 to HK$17.6 billion, with the largest increase from the resources and energy area as well as our manufacturing business.

Three years ago, we set ourselves a task to better balance the growth between our financial and non-financial arms. I am pleased to report that for 2018, the contribution from the non-financial segment reached 30%, and we are working to raise that number further. At the end of last year, we had HK$31.6 billion in cash and available facilities, positioning us well for our future development. You can find a more detailed account of our 2018 results and a comprehensive review of our business performance in the annual report.

The board recommends a final dividend payment of HK$0.26 per share, giving shareholders a total dividend of HK$0.41 per share for the year, 14% more than last year.

The Foundations of Our Growth

The world is a very different place from what it was four decades ago. China today is the second largest economy in the world, global commerce is more interconnected, and digital technologies permeate nearly every aspect of our lives. CITIC too has grown in transformative ways. But how did our story begin? What were the foundations for our evolution?

We had very entrepreneurial and modest beginnings, not all that different from any other startup. In 1979, when Mr Rong Yiren founded China International Trust and Investment Corporation (now known as CITIC Group) at the direction of Deng Xiaoping, the goal was to tap international capital markets to catalyse China's modernisation. But save for the determination to succeed and insights into China and its opportunities, the fact is that CITIC had neither meaningful experience running a market-driven enterprise nor substantial cash to bankroll its ambitions. Operating out of just a few guest rooms at the Peace Guest House with limited funds, the company had to more or less just "run with it." That is why, from an early age, innovation and a can-do spirit were part of our DNA.

CITIC has achieved many firsts over the decades. Among them, in 1982 CITIC became the first Chinese corporate to participate in the overseas bond markets with an issue in Japan. Then in 1993, CITIC was again the first Chinese corporate to issue a Yankee bond in the US capital markets. We were also the first to invest in commercial property with Beijing's CITIC Building, affectionately referred to as the Chocolate Building for its distinct colour. Then in 1986, we began what would become our successful long-term partnership with Alcoa when we acquired a 10% interest in the Portland Aluminium Smelter in Australia, making us the first Chinese enterprise to complete a direct overseas investment.

Despite its modest start, CITIC became a key force in the modern investment and venture ecosystem connecting China and the world. It also became a partner of choice for both domestic and foreign companies. In 1987, CITIC invested in Hong Kong's flagship airline, Cathay Pacific, then went on to co-develop with the Swire Group a number of property projects across Hong Kong. Most recently, we partnered with McDonald's alongside Carlyle to operate and expand the brand's network throughout mainland China, Hong Kong and Macau.

There are many other such examples. Through disciplined investing, a global outlook and an emphasis on partnership, CITIC evolved from a company with only RMB200 million as registered capital to CITIC Limited's total assets of close to RMB7 trillion.

This is not just history—it is the story of our lives. I see this most clearly when I reflect on my own journey. Thirty-six years ago, I started with CITIC as a fresh-faced graduate, one of around 200 employees. Every few years since, as the vignettes I just shared show, we have stepped out a little further onto the world stage. Today, CITIC Limited has businesses ranging from financial services to manufacturing, resources and energy, and consumer goods and services with over 200,000 employees worldwide.

The Pillars of Our Model as a 21st Century Conglomerate

Ten years ago, in 2009, when I became chairman of Hong Kong listed CITIC Pacific, a subsidiary of CITIC Group, the company was just emerging from the shadow of its foreign exchange currency crisis. In 2014, we made a bold move to acquire substantially all of the assets of CITIC Group and transform it into today's CITIC Limited. This historic and innovative transaction essentially thrust CITIC forward as a public company. I have been honoured to lead this now much larger and more global business.

It was no small task to integrate a large portfolio of previously non-listed assets. But through hard work and determination, we have matured into a 21st century conglomerate built upon four pillars: building and operating businesses, value generation, good governance, and a culture that cultivates both entrepreneurialism and continuity. These are the basics that, despite our scale, have enabled us to remain a dynamic platform for innovation. To that end, I want to speak frankly about how we grew into each and what challenges we overcame.

1. We have proven our capacity to build and operate businesses at home and abroad—and have the battle scars to prove it.

Through both trial and error and effective management, we have created a portfolio of remarkable businesses. Some, like CITIC Dicastal, our aluminium wheel business, were built from scratch and have since grown into world leaders. Today, Dicastal is the largest supplier of its type, with manufacturing facilities in the US and Europe supplying top automakers around the globe. Others, like CITIC Pacific Special Steel, stand tall above crowded domestic markets. We are now the largest dedicated special steel manufacturer in China with over 13 million tonnes of annual capacity and high quality products prized by users, both at home and abroad.

A uniquely representative case is our Sino Iron mine in Australia. We transformed this once greenfield location into one of the world's largest magnetite operations with mining, processing and dedicated infrastructure facilities that include a power station, a desalination plant and a large-scale port. I have often been asked whether, after inheriting Sino Iron in 2009, I considered exiting the business, particularly given the uncertainty caused by the global financial crisis around that time. Although we faced many challenges, I believe that it was the right decision to press forward.

Today, there is growing demand from steel mills in China and beyond for our high-grade magnetite concentrate product, which is low in impurities and is a premium feedstock ideal for low-emission steel making. In 2018, we achieved record production, shipping more than 19 million tonnes of concentrate, cementing our position as the single largest seaborne supplier of magnetite concentrate to China. Moreover, we are creating a new downstream processing industry with major economic benefits for Australia.

While we celebrate our achievements, the reality is that we still have real hurdles to overcome to put Sino Iron on a long-term sustainable footing.

2. We have internalised a fundamental focus on value generation.

Beyond building and operating businesses, it is equally important that we generate value by identifying and making shrewd investments, by bringing in partners to further our existing businesses and by knowing when and how best to divest.

We work hard to optimise our exposure to secular trends, developing positions within the industries we expect to grow alongside the economy over a long horizon. Sometimes, that means we also need to incubate ventures in promising sectors, as we are doing today through our CITIC Agriculture platform. Other times, we opt for partnerships. Among our wholly-owned subsidiaries, we have many good businesses, and we are open to bringing in partners who can add value and further their development.

Value generation also means we divest to return shareholder value. One of the best examples of this is CITIC Securities. Over many years, we have built the company into China's largest and most successful securities business and listed it in both the mainland China and Hong Kong markets. At the right point, we substantially reduced our interest to our present minority stake. Likewise, the recent restructuring and listing of our special steel assets will enable capital markets to unlock value from this business for the benefit of all shareholders.

3. We have embraced international standards of governance.

Since the founding of CITIC, our basic tenets have been respect for the rule of law, open-mindedness, and continuous learning. In today's globalised era, each of these principles has become even more important to our sustainability as a public company. Consistency not only in policy but also in practice is paramount to meeting the expectations of our investors, the regulators, employees and all stakeholders in the communities where we operate. That is why we maintain open engagement, transparency and full disclosure across all our companies. It is how we have shaped CITIC Limited into a company that is resilient, innovative and well-governed.

4. We have promoted both innovation and continuity.

To me, the defining elements of the CITIC experience are the continuity of our traditions, our belief in the importance of innovation and our perseverance even during periods of great change. These characteristics descend from the direction set by Mr Rong and each of my predecessors, and reflect the culture in which I was trained and studied closely as I moved up CITIC's ranks.

Neither innovation nor traditions can be sustained without people. The real test of our staying power as a 21st century business will be whether smart and talented people continue to choose us as a place to work and pursue their careers. How can CITIC become a destination and remain a home, as it has been for me, for the young, the bold and the ambitious? How can we equip the people already among us to carry on our traditions while still embracing the new? These are big questions, and they demand our constant attention. We strive every day to answer them through the decisions we make. They guide us in how we develop, manage and reward our people. And they will continue to shape our culture through the generations, regardless of function, geography or leadership.

The Opportunities Ahead

We have built a formidable business. But let there be no doubt about the critical context to our historical growth: the rise and modernisation of China. Being proud of an organisation's past is not enough to ensure its future prosperity. As China's economy transitions to mature growth, we need to recalibrate our business model to capture the new opportunities in our changing business environment. Just as business acumen, active experimentation and engagement with free markets defined our early development, I believe that so too will we be defined in this age by how effectively we embrace digital transformation.

We have already made good progress. I wrote about a number of initial successes in my last annual letter to you. Our future hinges on unlocking the next stage in our growth by applying analytics to and mining insights from the enormous bank of information we have accumulated over decades of operating across diverse sectors. My vision also extends to CITIC playing a leading role in the digitalisation and upgrading of industries in China.

This will not be easy. It can only be achieved by applying the same fundamentals as today: a global mindset, outlook and ambition, as well as a commitment to operating efficiency, strong cash flow and, for you our shareholders, healthy dividends.

CITIC's future will be bigger than any single individual, company or period. But that promise also depends upon our continued institutionalisation of leadership, strategy, governance and culture.

As we prepare for the decades ahead, I am optimistic. We are better prepared than ever for global competition, and we have honed our skills and strengthened our resolve to succeed. We have learned to thrive amidst uncertainty, better navigate complexity, and focus on managing what we can, not what we cannot. Our North Star is as true today as when Deng Xiaoping first inscribed it on a plaque at the fifth anniversary of CITIC in 1984: "Dare to innovate and contribute more."

Thank you for your steadfast support as we continue daring to innovate and contribute more.

Chang Zhenming
Chairman
Hong Kong, 29 March 2019

FINANCIAL SERVICES

Our financial business, which spans the banking, trust, insurance and securities sectors, offers customers a full spectrum of integrated financial solutions.

Major subsidiaries:

CITIC Bank is a fast-growing commercial bank providing corporate banking, retail banking and financial markets services.

CITIC Trust is a leading trust company in China comprising a trust business, a specialised subsidiary business and a proprietary business.

CITIC-Prudential is a joint venture between CITIC Corporation and Prudential, which provides life, health and accident insurance, as well as other reinsurance services.

CITIC Securities is a leading securities company in China with business interests in investment banking, brokerage, securities trading, and asset management.

HK$ million	2018	2017	Change
Revenue	**202,949**	190,028	7%
Profit attributable to ordinary shareholders	**41,704**	39,506	6%
Total assets	**7,067,565**	6,925,076	2%
Capital expenditure	**7,651**	14,880	(49%)

In 2018, CITIC Limited's financial services business recorded revenue of HK$202.9 billion, an increase of 7% from the year before. Profit attributable to ordinary shareholders increased by 6% to HK$41.7 billion.

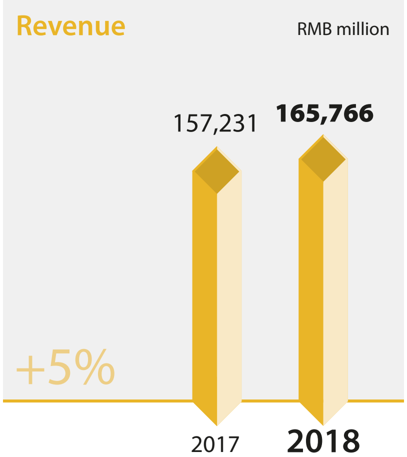
CITIC Bank's profit grew by 5%, while the Insurance business achieved a steady growth of 5% in profit as it continued to optimise the business structure. In the year's sluggish capital market, profit from CITIC Securities decreased by 18%. Profit from the Trust business declined by 6%, mainly due to a lower investment gain, although its fee income recorded satisfactory performance.

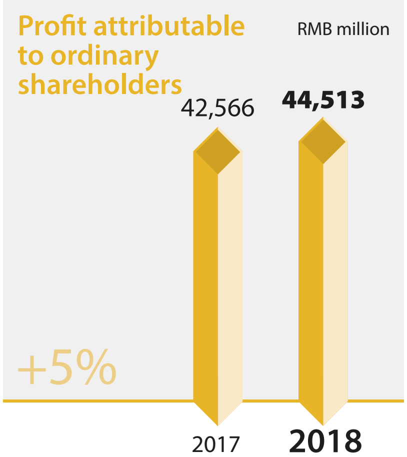
CITIC Bank

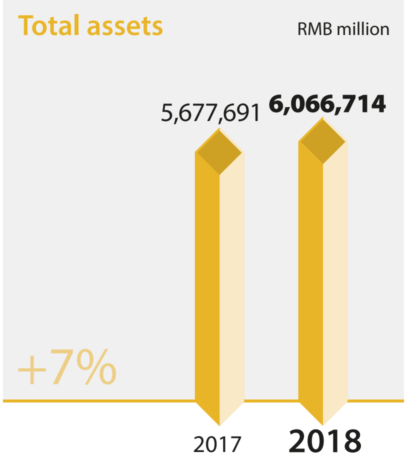
CITIC Bank is a joint-stock commercial bank in China engaged in corporate banking, retail banking and financial markets services.

Year in review

In 2018, CITIC Bank maintained stable growth to achieve the balanced development of earnings, quality and scale. Total revenue recorded RMB165.8 billion, a year-on-year increase of 5%. Profit attributable to ordinary shareholders grew by 5% to RMB44.5 billion. Net interest income was up 5%, resuming the growth momentum, mainly due to the growing loan balance and wider NIM. Non-interest income retained the steady growth of 6% YoY and its contribution maintained a stable level of 37%.







Asset and liability management

TOTAL LOANS

+13%

CITIC Bank's total assets steadily picked up the growth momentum with a full year increase of 7% for 2018. For the asset allocation, the bank placed more resources to credit business. The total loans increased by 13% year-to-date and its proportion of total assets rose from 56% at the end of 2017 to 59% at the end of 2018. On the liability side, total deposits increased by 6% for 2018 while the interbank deposits and placements reduced by 2%. Our capital strength is improving gradually. Our capital adequacy ratio and core tier-1 capital adequacy ratio increased by 82 bps and 13 bps to 12.47% and 8.62% respectively at the end of 2018. RMB50 billion of tier 2 capital bonds have been issued in 2018 while the issuance of RMB40 billion convertible bonds has been completed in March 2019 to further replenish the capital.

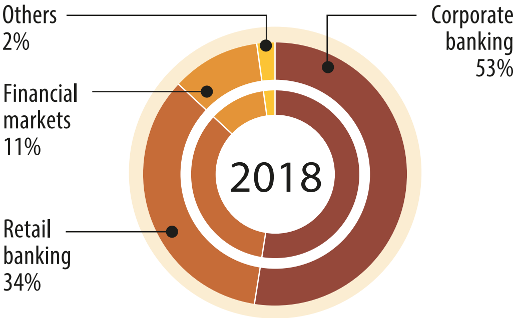
Risk management

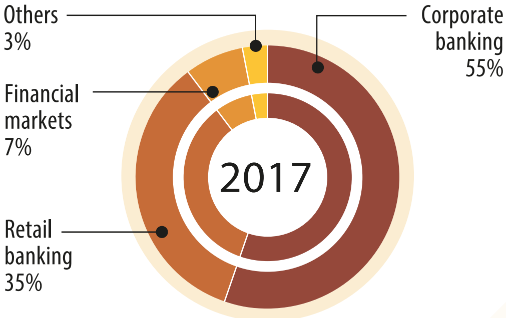
Asset quality is facing the pressure as NPL ratio increased by 9bps to 1.77% at the end of 2018. CITIC Bank is continuously increasing the disposal and write-off of non-performing assets. Meanwhile, through debt equity swaps and asset securitisation, the bank is freeing more resources to support real economy. The bank maintained its risk resistance at a solid level that its allowance coverage ratio was at 158% and allowance to loan ratio was at 2.80%.

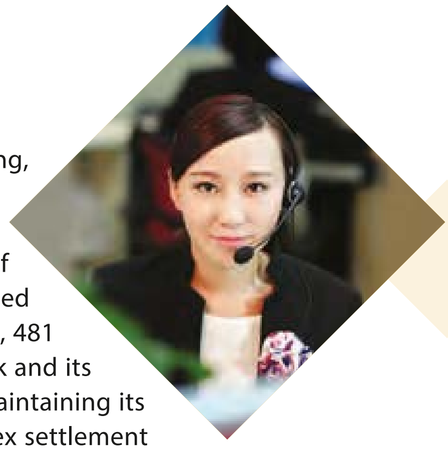
Business highlights

The corporate banking business recorded revenue of RMB87.2 billion, contributing 53% of total revenue. The retail banking sector's revenue was RMB57.1 billion and its contribution was stable at 34%. The bank stepped up the transformation of financial market business and steadily improved its market competitiveness. The revenue generated by financial markets recorded RMB18.1 billion, up 63% and its contribution increased to 11%.

Revenue contribution by business







Corporate Banking: Transaction banking, investment banking, international business and asset custody business all performed steadily during the year. The development of transaction banking business is accelerating as its number of customers grew 22% to 454 thousand and its revenue climbed 3% to RMB691 million. For the investment banking business, 481 debt financing instruments were underwritten by CITIC Bank and its total amount was RMB375.5 billion as at the end of 2018, maintaining its market leading position. The total amount of the bank's forex settlement and sales reached USD139.8 billion, becoming the top 1 among all joint-stock banks with a market share of 4%. Against the backdrop of the overall weakening performance of custody business, CITIC Bank's total custody assets continued to grow by 5% to RMB8.4 trillion while its revenue increased by 7%, particularly that its pension business recorded a YoY increase of 16% in revenue. CITIC Bank also provided fully support for micro and small-sized enterprises. As at the end of last year, the total loans to micro and small-sized enterprises[1] recorded RMB136.4 billion, up 48% YoY, with the quality of these loans remaining solid in line with regulatory requirements.

Retail banking: Personal deposits grew by 35% to RMB590.1 billion, achieving a new breakthrough. The private banking business is on good progress. Its number of clients expanded by 27% to 33,900 while its revenue achieved double digit growth. Credit card business maintained a fast pace of growth. The transaction turnover increased by 39% to RMB2.08 trillion while the number of newly issued cards increased by 43% to 17.49 million. The revenue of credit card business was RMB46 billion, up 18% YoY. The bank is also actively developing asset securitisation. RMB105.3 billion of ABS products backed by credit card instalments and RMB1.43 billion of ABS products backed by credit card NPL were issued respectively, which effectively accelerated the asset turnover. The number of clients of mobile banking reached 36.7 million, up 34% during the year. The transaction volume of the mobile banking reached 186 million, up 46% while its turnover increased by 49% to RMB6 trillion. CITIC Bank is very good at overseas finance service. The total number of customers exceeded 5 million and total personal Forex loan balance was USD5.2 billion, up 32% YTD.

Financial markets: The bank retained its leading position in terms of interbank Forex market-making business as its transaction volume of Forex market-making was close to USD2 trillion, a YoY increase of 11%. "CITIC Interbank+" platform had over 1,216 financial institutions, up 49% during the year of 2018 while the transaction turnover reached RMB1.4 trillion, up 13% YoY. To meet China's tightened asset management rules, CITIC Bank further optimised its asset management business. The total amount of non-risk-bearing wealth management products declined by 3% YTD to RMB925.3 billion at the end of 2018. The amount of net-worth products accounted for 26%, maintaining prudent and healthy style. In the near future, a wholly owned asset management subsidiary with the registered capital of less than RMB5 billion will be set up subject to the regulatory approval.

Note:

(1) As defined by China Banking and Insurance Regulatory Commission, companies with a credit line under RMB10 million are called micro and small-sized enterprises.

Special column

CITIC AiBank

CITIC AiBank Corporation Limited ("CITIC AiBank") was launched on 18 November 2017, with CITIC Bank holding a 70% stake and Baidu holding 30%. CITIC AiBank issued new shares in 2018 doubling the registered capital to RMB4 billion, with the shareholding structure remaining unchanged.

CITIC AiBank recorded rapid growth in its first annual reporting period. As at the end of 2018, CITIC AiBank's total assets reached RMB35.9 billion while its total number of users exceeded 12 million. It issued loans totaling nearly RMB80 billion to more than 4 million individual clients and 580 thousand small and micro enterprises. CITIC AiBank met all regulatory requirements for key indicators including Capital Adequacy Ratio, Allowance to Loan Ratio and Allowance Coverage Ratio.

CITIC AiBank aims to create an online banking ecosystem that delivers greater value with improved service. This ecosystem combines 'online+offline' and 'bank+business' models, leveraging data and technology developments to bring innovations to customers. Last year, CITIC AiBank partnered with iQIYI to launch an online wallet integrating entertainment and financial services. An on-line time deposit product was introduced together with Baidu and a mobile phone app delivering a range of services was launched in collaboration with CITIC Press. CITIC AiBank improves the customer experience within our ecosystem which creates value for both customers and business partners.

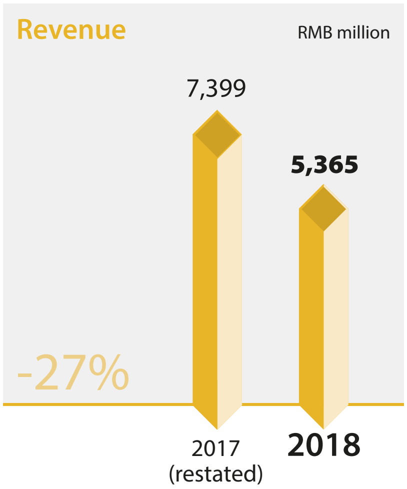
CITIC AiBank focuses on leveraging big data and artificial intelligence to build new business models and solid risk control systems. At the leading edge of technology, CITIC AiBank will upgrade to a consolidated online platform offering a wide range of financial products and services.

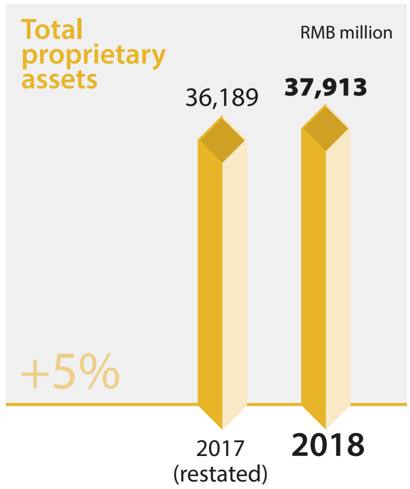
FINANCIAL SERVICES
RESOURCES & ENERGY
MANUFACTURING
ENGINEERING CONTRACTING
REAL ESTATE
OTHERS

CITIC Trust

CITIC Trust is a leading non-bank financial institution in China, comprising a trust business, a specialised subsidiary business and a proprietary business. Our core business and financial indicators have led the industry for more than a decade. CITIC Trust also has the highest regulatory rating in the sector. In 2018, CITIC Trust was designated Asia's Best Trust Company and China's Best Charity Trust by Singapore magazine *Asian Banker*, the first to achieve these awards in China's trust industry.

Year in Review





For CITIC Trust, 2018 presented a challenging macro-economic environment compounded by tightening financial regulatory conditions. Assets under management (AUM) and earnings for the industry as a whole declined. As an institution with a broad financial platform, CITIC Trust continued to focus on trust businesses and services as well as to support investment in the real economy.

FEE INCOME

+22%

CITIC Trust's revenue in 2018 was RMB5.4 billion and its net profit was RMB3.4 billion, the highest in the sector. To meet regulatory requirements, total AUM decreased 17% year-on-year to RMB1,652.2 billion. Nevertheless, the trust business maintained robust performance with improved margins. CITIC Trust's fee income grew 22% to RMB5.6 billion, a record high in the industry. Total proprietary assets amounted to RMB37.9 billion, up 5% year-on-year. Affected by market fluctuations, equity investment gain was reduced while fixed income investment gain in the proprietary business remained flat.

Business Development

Trust Business

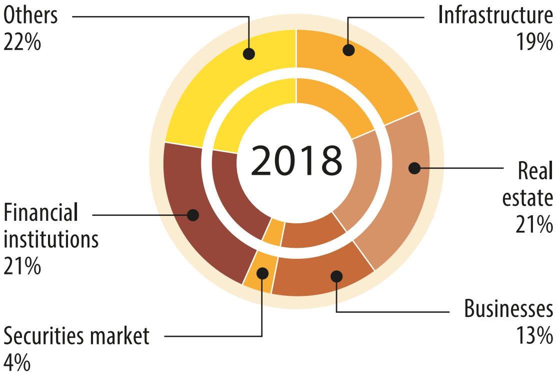
CITIC Trust continued to shift its model with a substantially higher focus on active management and enhanced asset management. The proportion of trust assets under active management increased 10 percentage points over the year to 34%. Trust profit attributable to beneficiaries grew 11% in 2018 to a record high of RMB81.3 billion.

PERCENTAGE OF ACTIVELY MANAGED ASSETS

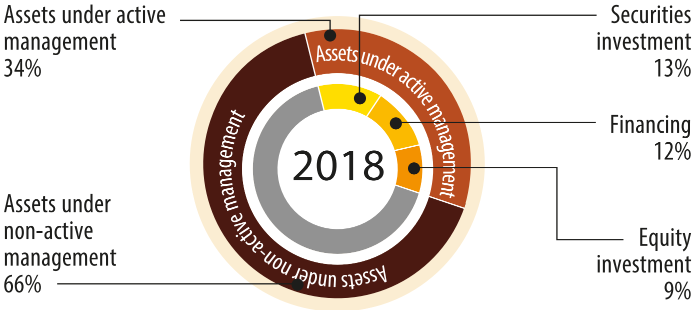
34%

Allocation of trust assets

By Industry



By Type



Financing service: CITIC Trust delivers a wide array of financial trust solutions to clients, including governments, enterprises, financial institutions and other institutional investors. During the year, we continued to support the development of the real economy and deepen collaboration with local governments and large-scale companies in Guizhou, Jiangsu, Sichuan, Zhejiang and Guangdong. As of the end of 2018, approximately RMB1.15 trillion in trust assets were invested in the real economy, including Belt and Road projects, infrastructure development, and a broad range of livelihood projects. The trust assets allocated to infrastructure-related projects exceeded RMB250 billion.

Wealth management: CITIC Trust provides diversified wealth management services for high net worth individuals and institutional clients, with a wide range of products across currency markets, fixed income and equity investment. These offerings include family trusts, insurance trusts and tailored wealth management products. In 2018, improved service at our wealth management centres contributed to higher direct sales. Direct sales clients increased 14% compared with 2017, with the direct sales of actively managed trust products increasing 49%. As of the end of 2018, CITIC Trust served 1,500 clients, up 66%, with total AUM of over RMB18 billion, up 50%, maintaining leadership in the family trust business in China.

Trust service: To ensure asset isolation and safety, CITIC Trust provides a number of important trust-related services such as custodial account management, execution and supervision, settlement and clearing, equity allocation and contract custody, among others.

In 2018, CITIC Trust was among the first institutions to qualify as an official underwriter of corporate debt financing instruments for non-financial clients and as a manager of Asset-Backed Securities (ABS). With RMB112.9 billion in assets in 2018, CITIC Trust's asset securitisation business was the largest trust business in China for a sixth consecutive year. We also acted as the underwriter of Asset-Backed Medium-term Notes (ABN) for targeted investors for the first time, with a total underwriting of more than RMB3 billion. Additionally, CITIC Trust introduced clearing and settlement services for Totrade.cn, an online trade platform for suppliers of industrial materials. CITIC Trust also set up a consumer finance subsidiary during the year as a personal lending business.

CITIC Trust issued the first charity report in the Chinese trust sector during the year and amassed the largest personal charity trust in the market amounting to RMB30 million. As at the end of 2018, we had already established 12 charity trust projects. Total charity funds under management reached RMB537 million with 14,744 donation recipients.

Proprietary Business

CITIC Trust manages assets and liabilities to maintain a solid capital position and moderate leverage ratio in support of its business development. In 2018, our total proprietary assets amounted to RMB37.9 billion, up 5% over the previous year. The equity investment gain substantially declined by 93%, mainly due to significant market fluctuations. The fixed income investment gain remained flat.

Specialised Subsidiary Business

CITIC Trust has established a number of special companies, including the CIT Capital overseas investment platform and CITIC Juxin private equity platform, to provide comprehensive financial services such as equity investment funds, mutual funds, money markets and overseas investment. As at the end of 2018, total assets managed by our specialised subsidiaries exceeded RMB260 billion, which were mainly allocated to high-end manufacturing, education and healthcare sectors.

Risk and Capital

CITIC Trust maintains a stringent risk management system. In 2018, there were 754 trust projects completed with no defaults recorded and RMB604.6 billion of principal distributed. CITIC Trust manages growth and risk to maintain a solid capital base. As of the end of 2018, the net capital adequacy ratio remained solid at 190%, comfortably above regulatory requirements. The balance of net capital was RMB16.8 billion, providing a strong foundation for long-term growth.

Indicator	End of 2018	End of 2017	YoY Change	Regulatory Requirement
Net capital (RMB billion)	**16.8**	16.1	4%	≥RMB200 million
Total risk capital (RMB billion)	**8.8**	9.6	(8%)	N/A
Net capital adequacy ratio	**190%**	167%	+23 ppts	≥100%
Net capital/Net asset	**69%**	75%	-6 ppts	≥40%

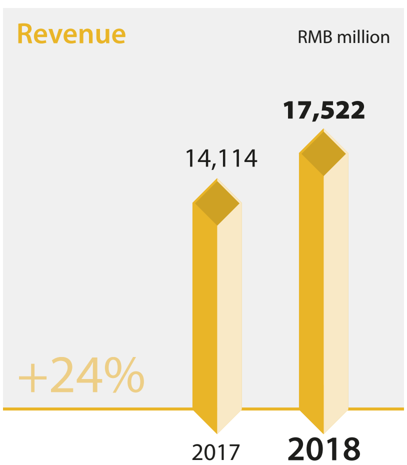
CITIC–Prudential

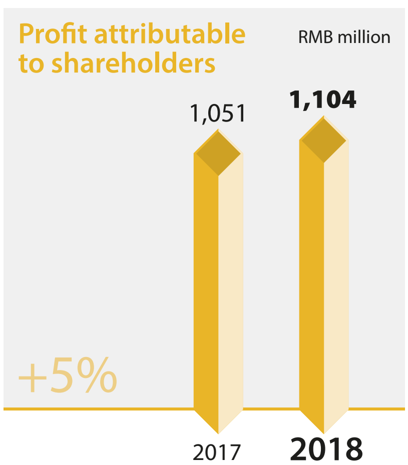
CITIC-Prudential, a fifty-fifty joint venture between CITIC Corporation and Prudential Corporation Holdings Limited, offers life, health and accident insurance, as well as reinsurance services. As of the end of 2018, CITIC-Prudential operated in 87 cities across China.

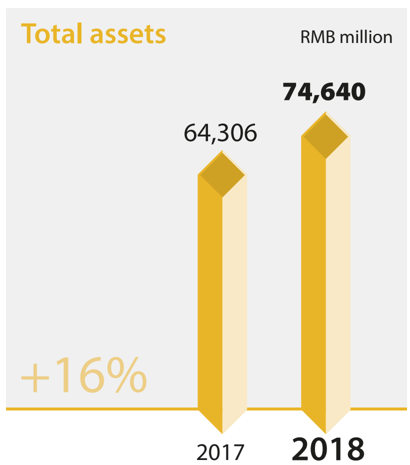
Year in review

In 2018, the merging of the China Insurance Regulatory Commission (CIRC) and China Banking Regulatory Commission (CBRC) marked a milestone in China's financial reform. Tightened financial regulations coupled with accelerating industry restructuring created an opportunity to build a solid foundation for the healthy development of the business.

Against a backdrop of slowing industry growth, CITIC-Prudential in recent years has shifted its business focus towards protection products and prudent risk management. In 2018, it recorded operating revenue of RMB17.5 billion, representing a year-on-year increase of 24%, while net profit increased by 5% to reach RMB1.1 billion. Premium income grew by 28% year-on-year to RMB15.4 billion, which was much higher than the sector. Return on equity was 20%, while total assets as of the end of 2018 increased by 16% to RMB74.6 billion.







Risk Management

In 2018, CITIC-Prudential maintained a solid capital base to achieve balanced growth with less capital consumption. As of the end of 2018, CITIC-Prudential had an aggregated solvency adequacy ratio of 271%, higher than both the regulatory requirements and the industry average. It has also been rated "Class A" by the Chinese Insurance Regulatory Commission (CIRC) in every quarterly Integrated Risk Rating (IRR) since 2016, and ranked high in two recent Solvency Aligned Risk Management Requirements and Assessment (SARMRA).

Products

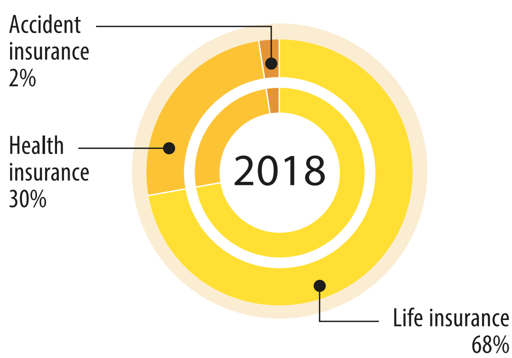
CITIC-Prudential aims for value growth with a focus on life and health insurance, complemented by savings insurance and accident insurance products. In 2018, CITIC-Prudential's premium income from life insurance was RMB10.4 billion, up 28% year-on-year, while premium income from health insurance was RMB4.6 billion, representing a year-on-year increase of 28%.

PREMIUM INCOME
+28%

Improved protection products together with its long-term investment insurance business enables CITIC-Prudential to provide full life-cycle solutions and a comprehensive product structure for clients. In the agency channel, CITIC-Prudential maintained its focus on protection products. Eighteen new products were launched in 2018 to cover a wide range of client needs, including critical illness insurance, an education savings plan and prestigious medical insurance. In bancassurance, several participatory insurance products and regular-pay investment-linked products were upgraded. During the year, premiums from regular-pay products increased substantially.

Premium income by product type

RMB million	**2018**	2017	YoY%
Life insurance	**10,402**	8,136	28%
Health insurance	**4,630**	3,619	28%
Accident insurance	**352**	267	32%
Total premium income	**15,384**	12,022	28%



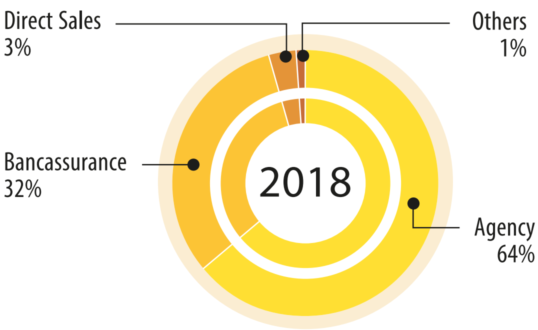
Distribution

Agency and bancassurance are CITIC-Prudential's two primary distribution channels. In 2018, premium income from the agency channel was RMB9.9 billion, up 21% to contribute 64% of total premium income. The 13-month persistency ratio was stable at 91.7%. At the end of the year, our total agent force increased by 7% to 48,096, among which 5,325 were designated Stars of CITIC-Prudential, representing an increase of 23% and a 1.4 percentage point increase in its proportion.

FINANCIAL SERVICES
RESOURCES & ENERGY
MANUFACTURING
ENGINEERING CONTRACTING
REAL ESTATE
OTHERS

The transformation of the bancassurance channel progressed over the year, with the segment recording premium income of RMB4.9 billion, a year-on-year increase of 44%, which was higher than the industry average. In 2018, the product portfolio distributed through bancassurance improved. Regular-pay premiums from new business accounted for 63% of total new business premium income from the bancassurance channel, which was 18 percentage points higher than the previous year. In 2018, collaboration with banks helped to establish new channels for the business, which remained solid with a 13-month persistency ratio of 92.3%.

Premium income by distribution channel



RMB million	**2018**	2017	YoY%
Agency	**9,854**	8,111	21%
Bancassurance	**4,884**	3,382	44%
Direct Sales	**503**	476	6%
Others	**143**	53	170%
Total premium income	**15,384**	12,022	28%

Note: The distribution channel was classified by CIRC base. Group business was mainly in Direct Sales.

Investment of Insurance Funds

Although the insurance industry slowed down in 2018, CITIC-Prudential was nevertheless able to record steady growth in assets. Investment grew 11% to RMB66.2 billion, of which non-investment-linked accounts increased 15% to RMB56.6 billion. The overall investment portfolio largely remained unchanged. To optimise the portfolio and stabilise long-term returns, CITIC-Prudential increased its investment in lower risk bonds and maintained low exposure to stock markets. In the sluggish equity market, investment income from non-investment-linked accounts was largely flat at RMB2.4 billion.

During the year, CITIC-Prudential received approval to make direct investments in the stock market and set up an asset management subsidiary. With the acquisition of the relevant investment licenses, CITIC-Prudential's investment capability was further enhanced for managing insurance funds.

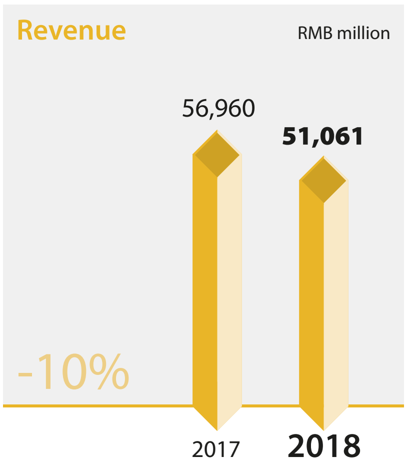
Supported by a stable supply of insurance funds, CITIC-Prudential invested in infrastructure and public service projects through debt, trust schemes and equity funds over the year. As of the end of 2018, over 30% of its investment assets were allocated, under stringent risk controls, to projects related to the Belt and Road initiative, urban construction, military and civilian integration, poverty reduction, and rural infrastructure projects, all of which provided strong support to the real economy.

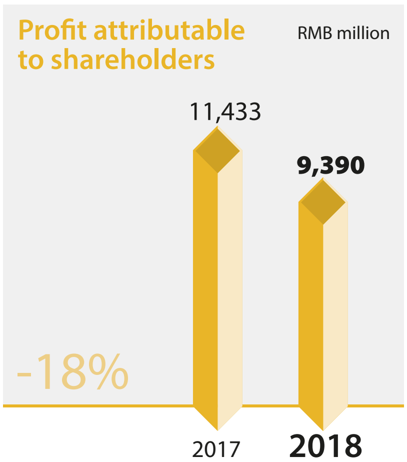
CITIC Securities

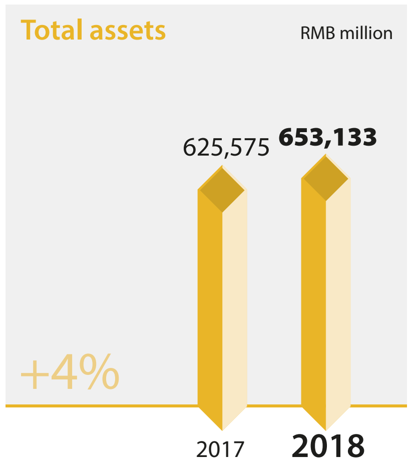
CITIC Securities is one of the leading securities companies in China, with businesses covering investment banking, brokerage services, securities trading and asset management.

Year in review

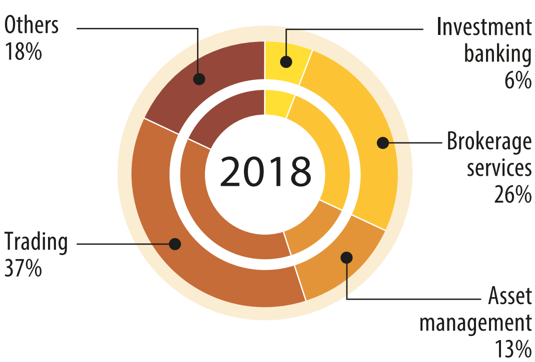
In 2018, CITIC Securities' net profit decreased 18% amid tough challenges in both domestic and international markets. Despite a drop in profit, the company continued to maintain its market-leading position across its various business lines.







Revenue distribution



Trading

CITIC Securities' trading business comprises both flow-based and proprietary businesses. The flow-based business offers financial services, including equity flow-based, fixed income, commodity trading and securities financing. In 2018, the company maintained its market-leading position in total sales of interest rate products and received Bond Connect's award for excellence in domestic quotations.

Brokerage

BROKERAGE
MARKET RANK
No. 2

CITIC Securities remained focused on offering value-added services to its brokerage clients, particularly in light of the decline in trading volume and brokerage commission income during the reporting period. In 2018, the company continued to expand its corporate and wealth management businesses. At the close of 2018, the total trading volume of stocks and funds was RMB11 trillion (excluding trading volume of exchange-traded money-market funds), representing a market share of 6.1% and a year-on-year increase of 7%, the second highest in the industry.

Asset management

ASSET MANAGEMENT
MARKET RANK
No. 1

CITIC Securities' asset management business covers both institutional and retail clients, with a focus on the corporate sector. The business closed the year with total assets under management (AUM) of RMB1,343.1 billion, giving it a market share of 10.4%, and total funds under active management of RMB552.8 billion, making it the industry leader in both measures.

As of the end of reporting period, the AUM of ChinaAMC was RMB879.7 billion, of which the AUM of public funds increased 13% by value in comparison with 2017. The AUM of the company's equity funds was the largest in the industry, and the AUM of institutional businesses maintained its leading position.

Investment Banking

CITIC Securities' equity financing team continued to expand its client base by targeting key industry players as well as influential and high growth companies in regional markets. In 2018, the company focused on developing its business by supporting overseas listings of Chinese companies in the new economy sector, mixed-ownership reform of state-owned enterprises and debt-reduction and restructuring for debt-ridden private Chinese companies. CITIC Securities completed a total of 54 A-share lead underwriting projects during the year, with an aggregate value of RMB178.3 billion (including private placements for asset transactions), achieving an industry-topping market share of 14.8%.

CITIC Security's domestic debt and structured financing business was also the market leader in China, in terms of both underwriting value and the number of underwriting projects. In 2018, the company completed a total of 1,391 lead underwriting debenture projects in the amount of RMB765.9 billion, representing, a 5.1% market share.

During the year, CITIC Securities restructured the material assets of A-share companies worth RMB72.3 billion, the second highest in the industry. The company was also involved in developing cross-border mergers and acquisitions, ranking second among Chinese brokers in terms of completed transactions for Chinese enterprises.

In China's New OTC Market, CITIC Securities focused on creating value by identifying companies with high growth potential. In 2018, the company acted as the lead sponsor for 26 enterprises seeking to list on China's National Equities Exchange and Quotation Exchange (NEEQ). The company ranked at the top in the NEEQ's evaluation of quality service provided by lead sponsors.

International business

As the international arm of CITIC Securities, CLSA covers major world stock markets with a focus on institutional clients. In 2018, CLSA completed 31 IPOs around the world. The company also ranked second in terms of the total volume of IPOs that it sponsored and was top-ranked with 16 IPOs in which it participated as global coordinator on the Main Board of the Hong Kong Stock Exchange. This increased the company's market share in IPOs to 9.3% in 2018 from 3.5% in 2017.

RESOURCES & ENERGY

Our resources and energy business comprises the exploration, mining, processing and trading of energy products and mineral resources, as well as power generation. We hold interests in projects in China, Australia, Brazil, Peru, Gabon, Indonesia and Kazakhstan.

Major subsidiaries:

CITIC Resources has interests in the exploration, development and production of oil, coal mining, the import and export of commodities, aluminium smelting, bauxite mining, alumina refining, and manganese mining and processing. The company is listed on The Stock Exchange of Hong Kong Limited.

CITIC Mining International through its Australian subsidiary CITIC Pacific Mining develops and operates the Sino Iron project, the largest magnetite operation in Australia.

CITIC Metal invests in minerals projects and trades commodities.

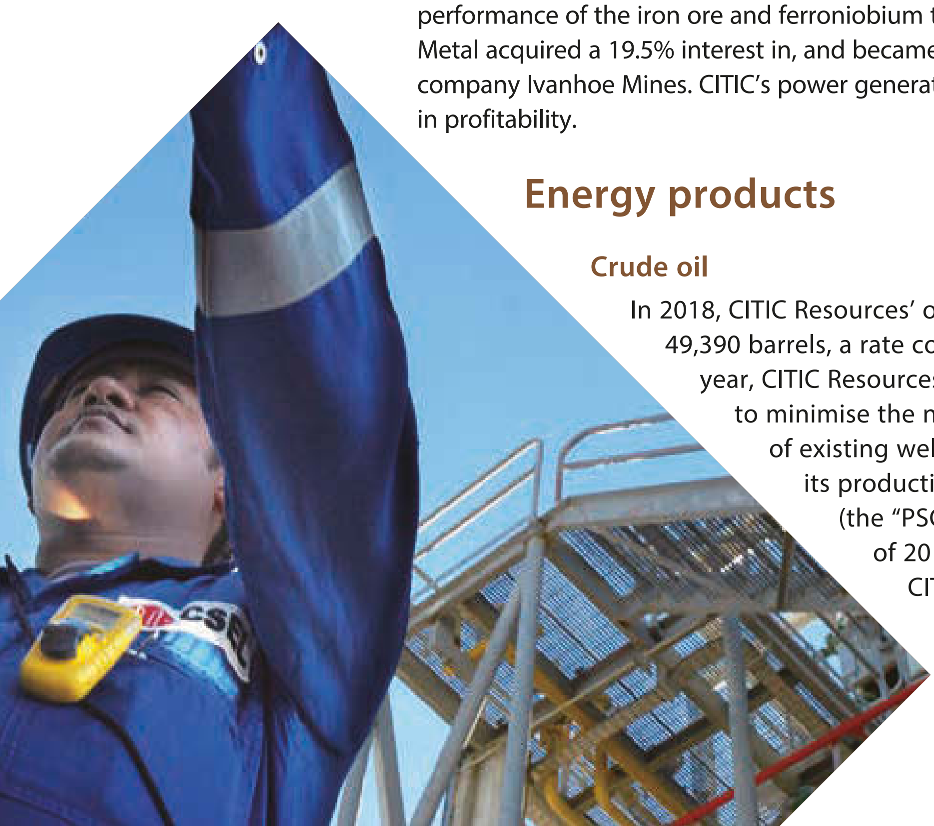
Sunburst Energy invests in and manages power plants. It also has an interest in a coal mine in Shandong Province in China.

HK$ million	**2018**	2017	Change
Revenue	**78,722**	63,456	24%
Profit attributable to ordinary shareholders	**2,102**	(9,900)	Turn to profit
Total assets	**131,842**	129,438	2%
Capital expenditure	**7,001**	5,429	29%

Year in review

In 2018, the resources and energy business realised a profit of approximately HK$2.1 billion, compared with a loss of HK$9.9 billion in 2017. This significant enhancement in profit was due to greater improvements in the operating results of all businesses as compared with 2017 when a loss in profitability was recorded, mainly because of an impairment charge of HK$7.2 billion on Sino Iron.

In 2018, CITIC Resources achieved a profit attributable to shareholders of HK$910 million, a rise of 75% from 2017. This was primarily due to higher crude oil and commodity prices during most of the year as well as stringent ongoing cost controls and efficiency improvements. CITIC Metal's profit rose 23% to HK$1.7 billion, primarily due to the better performance of the iron ore and ferroniobium trading business. During the year, CITIC Metal acquired a 19.5% interest in, and became the largest single shareholder of, Canadian company Ivanhoe Mines. CITIC's power generation business also recorded an improvement in profitability.



Energy products

Crude oil

In 2018, CITIC Resources' overall average daily oil production was 49,390 barrels, a rate comparable with that in 2017. During the year, CITIC Resources optimised its maintenance plans in order to minimise the negative impact of the natural depletion of existing wells. CITIC Resources successfully renewed its production sharing contract for the Seram Block (the "PSC") during the reporting period for a term of 20 years, commencing 1 November 2019. CITIC Resources now has a 41% participating interest in the PSC and remains the operator of the Seram Block. After the renewal of the PSC, CITIC Resources will consider resuming exploration of the Lofin area of the Seram Block.

The crude oil business as a whole achieved a substantial improvement in operating results, attributable to a higher average crude oil price and improved production management.

Oilfields	CITIC Resource's interest	Daily production in 2018 (100% basis)	Proven oil reserve estimates as of 31 December 2018 (100% basis)
Karazhanbas oilfield	50%	39,600 barrels	194.7 million barrels
Yuedong oilfield	90%	7,890 barrels	31.9 million barrels
Seram Block	41% (in respect of the PSC after contract renewal)	1,900 barrels	0.5 million barrels (in respect of the PSC before contract renewal)

Coal

CITIC Limited holds a participating interest in the Coppabella and Moorvale coal mines joint venture as well as interests in a number of coal exploration operations in Australia via CITIC Resources. It also holds a 30% interest in Xin Julong coal mine in Shandong Province, China via Sunburst Energy.

Power generation

CITIC Limited, through Sunburst Energy, invests in and manages coal-fired power stations in mainland China, with a total installed capacity of over 6,400MW. Among these power stations, Ligang Power Plant in Jiangsu Province is one of the largest coal-fired power stations in China, with an installed capacity of 4,040MW. In 2018, a total of 30.9 billion kWh of electricity was generated, slightly less than 2017, and 19.8 million GJ of heat was supplied, 38% more than last year. Both were contributed primarily by the Ligang Power Plant.

Metals and minerals

Magnetite iron ore

CITIC Limited, through CITIC Mining International, has the right to mine two billion tonnes of magnetite ore at Cape Preston in Western Australia's Pilbara region, and has exercised the option to acquire another one billion tonnes of magnetite ore. With a mine life of approximately 30 years, Sino Iron is the largest magnetite mining and processing operation in Australia.

RECORD HIGH PRODUCTION

In 2018, Sino Iron again achieved record production levels, shipping more than 19 million wet metric tonnes to CITIC's special steel plants and other Chinese and Asian steel mills. More than 50 million tonnes of concentrate have been shipped since exports commenced. Sino Iron is now a major seaborne supplier of magnetite concentrate to China, accounting for approximately 22% of trade by volume.

Costs continued to trend downwards during the reporting period, assisted by economies of scale associated with increased production and performance of the six processing lines, better integration between departments responsible for the mining, processing and shipping of product, and various ongoing cost-reduction measures.

Despite these achievements, continuity of operations at Sino Iron remains at risk due to the inability to secure the approvals and tenure required for long term operation. Resolution of this impasse is time-critical and requires the cooperation of all affected parties.

Copper

In 2018, the Las Bambas copper mine project in Peru, in which CITIC Metal holds a 15% interest, produced copper concentrates containing 385,300 metric tonnes of copper.

Through this partnership, CITIC Metal has also secured distribution rights on around 26% of the copper concentrates extracted from the site. In 2018, a total of 312,500 metric tonnes of copper concentrates were distributed through CITIC Metal.

Ferroniobium

CITIC Metal indirectly holds a 5% interest in Brazilian miner CBMM, which produces about 80% of the world's ferroniobium. Through the partnership, CITIC Metal has exclusive distribution rights on this resource in China. CITIC Metal primarily supplies ferroniobium to medium and large steel mills as it is used in the production of high strength and high performance steels.

Manganese

CITIC Dameng is a Hong Kong listed company and one of the largest vertically-integrated manganese producers in the world, engaged in the production and sale of manganese products. CITIC Dameng owns the largest manganese mine in China and has interests in several other mines in China and Gabon, West Africa.

Trading

CITIC Limited's major traded commodities include iron ore, ferroniobium, copper, aluminium, coal and steel. CITIC Metal's iron ore trading volume increased to 45 million tonnes in 2018, making it a tier-one iron ore trader in the industry in China.

MANUFACTURING

Our manufacturing business includes the manufacture of special steel, lightweight automotive parts and advanced equipment, all of which enjoy leading market positions in their respective segments in China.

Major subsidiaries:

CITIC Pacific Special Steel is the largest dedicated manufacturer of special steel in China.

CITIC Dicastal is the world's largest aluminium automotive parts manufacturer.

CITIC Heavy Industries is a leading manufacturer of heavy machinery and special robotics in China.

HK$ million	**2018**	2017	Change
Revenue	**121,939**	97,432	25%
Profit attributable to ordinary shareholders	**6,008**	3,318	81%
Total assets	**134,882**	130,381	3.5%
Capital expenditure	**7,832**	5,861	34%

In 2018, the manufacturing businesses recorded revenue of HK$122 billion, representing a year-on-year increase of 25%. Profit attributable to ordinary shareholders was HK$6 billion, up 81% from last year.

CITIC Pacific Special Steel achieved record sales, revenue and profit during the year. In the second half of 2018, CITIC Pacific Special Steel acquired Jingjiang Special Steel from Valin Group and announced a restructuring of Xingcheng and Daye Special Steel to unlock value. CITIC Dicastal overcame the headwinds of falling car purchases to continue outperforming the market. In 2018, the company achieved several breakthroughs in smart production and application of new materials. CITIC Heavy Industries' traditional business recovered in 2018 as the sales of specialty robots accelerated rapidly nationwide.

CITIC Pacific Special Steel

PRODUCTION CAPACITY OVER

13 million tonnes

CITIC Pacific Special Steel is the largest dedicated manufacturer of special steel in China, with a total production capacity of more than 13 million tonnes per annum. The company operates four steel mills—Jiangyin Xingcheng Special Steel, Hubei Xinyegang Steel, Qingdao Special Steel and Jingjiang Special Steel. There are also coking coal and an iron ore processing plants at Tongling and Yangzhou respectively.

CITIC Pacific Special Steel produces bars, plates, seamless steel tubes, wires, forged steel and casting billets for customers in the auto components, energy, machinery manufacturing, oil and petrochemicals, transport, shipbuilding and other industrial sectors. Its products are sold in China and more than 60 other markets, including the US, Japan, Europe and Southeast Asia.

XINGCHENG SPECIAL STEEL

Total production capacity: **6 million tonnes per year**

- Located in Jiangyin, Jiangsu
- 9 bar, wire, plate and coil production lines
- Owns two 100,000-tonnage ports
- A leader in bearing steel, continuously cast round billet, spring steel and other products

XINYEGANG STEEL

Total production capacity: **3 million tonnes per year**

- Located in Huangshi, Hubei
- 12 bar, tube and forged steel production lines
- Its ultra-high-strength steels and high-temperature alloys are widely used in the aeronautics and aviation industry

QINGDAO SPECIAL STEEL

Total production capacity: **3 million tonnes per year**

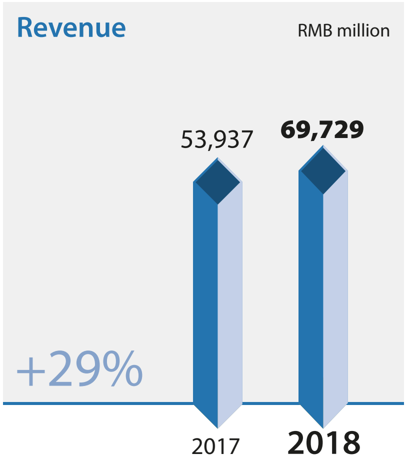
- Joined CITIC Pacific Special Steel in May 2017
- Located next to Dongjiakou Port, one of the busiest and largest hubs in Qingdao, Northern China
- 6 wire, bar and flat steel production lines
- A leader in tie cord steel

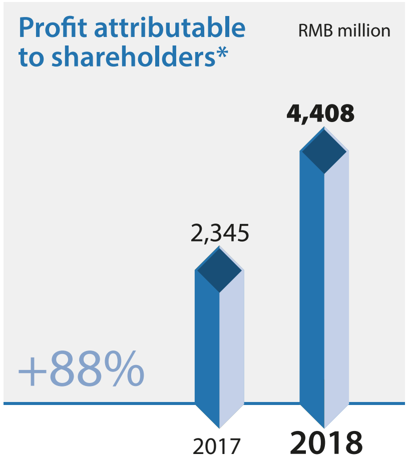
JINGJIANG SPECIAL STEEL

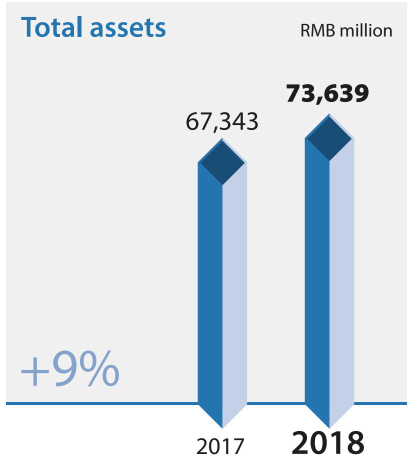
Total production capacity: **1.2 million tonnes per year**

- Located in Jingjiang, Jiangsu
- Joined CITIC Pacific Special Steel in June 2018
- 2 bar and tube production lines
- Access to a CITIC-owned 3-million-tonne trade terminal on the Yangtze river

Year in review







* Profit on 100% basis

RECORD HIGH RESULTS

In 2018, CITIC Pacific Special Steel posted record high revenue of RMB69.7 billion and net profit of RMB4.4 billion, fuelled by resilient domestic steel prices and increased contribution from Qingdao Special Steel, an increase of 29% and 88% respectively. Annual sales of steel products were about 12 million tonnes, a 23% increase year-on-year. Following the acquisition of Qingdao Special Steel in 2017, the company acquired Jingjiang Special Steel in 2018 to cement its market-leading position.

Facing changing international market dynamics, CITIC Pacific Special Steel focused on expanding its onshore market share and premium offerings through technological innovation, quality improvements and product certification. Overall domestic sales remained strong, accounting for 80% of total sales, while high-end products exceeded 42% of total output.

Despite intensifying global trade disputes and declining industry-wide steel exports from China, the company's export volume increased 26% year-on-year to 1.68 million tonnes. Additionally, 139 new international customers were secured, an 86% increase from the year before.

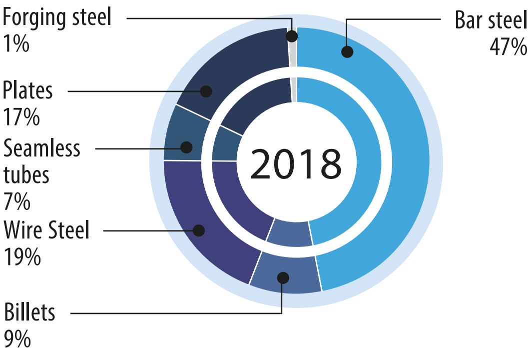
During the year, the price of iron ore—a major raw material in steel production—went up. In response, the procurement centre carried out both fundamental and tactical assessments of the ferrous market in order to lower the cost of raw materials, which fell by 3.4%. The company's average selling price, sales volume and profit margin all increased year-on-year.

BEARING STEELS
GLOBAL
No. 1

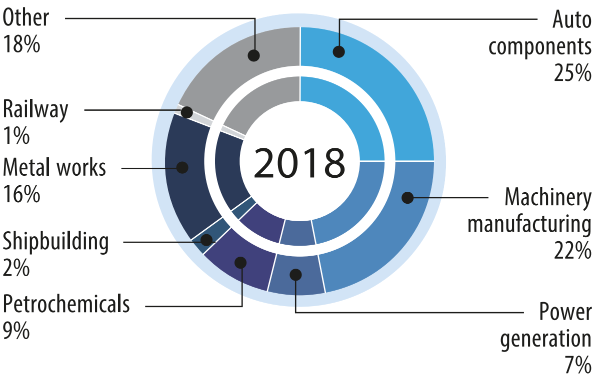
In January 2019, CITIC announced the restructuring of its special steel business, effectively consolidating the assets of this business under the Shenzhen listed entity Daye Special Steel (000708.SZ).

More than half of CITIC's special steel products were sold to the automotive components and machinery manufacturing sectors. CITIC's bearing steel maintained the highest global market share for 10 consecutive years, and its automotive steel has led the domestic market for the last 12 years. The company has also developed new products, which accounted for 13.5% of total sales in 2018, equivalent to 1.59 million tonnes or an increase of 11% over the previous year. Plans for the future include expanding the tube, wire and forged steel segments and exploring further downstream opportunities.

Sales by product



Sales by industry



Products

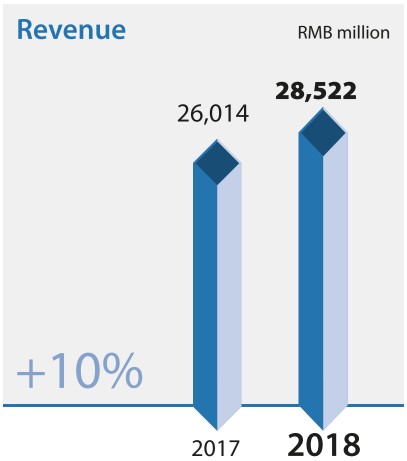
Categories	Production capacity ('000 tonnes)	Practical examples	Applied industries
Bars	5,700	Bearing steel Gear steel Spring steel Alloy tube billet Oilfield steel	Automobile Machinery Power Petroleum & petrochemicals
Special plates	2,600	High-rise building steel High-strength plate High-strength corrosion-resistant bridge plate Special wear plate Plastic mould plate	Power Construction Shipbuilding Machinery Petroleum & petrochemicals
Seamless steel tubes	1,500	Petroleum pipe Engineering pipe Ultra-high-strength steel pipe	Petroleum & petrochemicals Machinery Automobile
Wires	2,500	Alloy structural steel Bearing steel Spring steel Cutting wire steel Tire cord steel High-strength cable steel	Automobile Metal works Machinery Construction
Casting billets	580	Alloy structural steel Gear steel Bearing steel	Power Petroleum & petrochemicals
Special forged steel	120	Tool and die steel Ultra-high-strength stainless steel High-temperature alloys	Machinery Aerospace Automobile

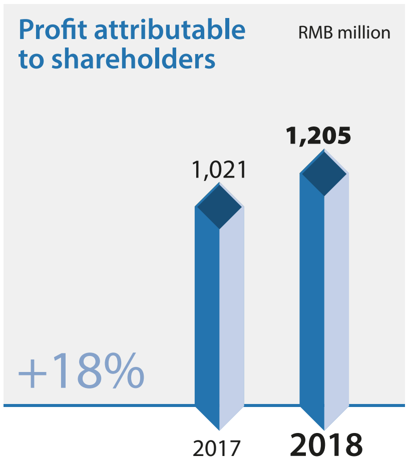
CITIC Dicastal

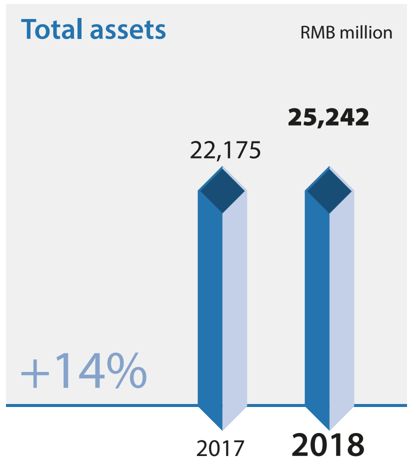
A wholly-owned subsidiary of CITIC Limited, CITIC Dicastal is the world's largest producer of aluminium parts, including wheels and lightweight cast components for powertrains, chassis and body systems. There are 25 Dicastal manufacturing facilities across China, North America and Europe. Total annual production capacity is 58 million wheels and 110,000 tonnes of castings.

With engineering, research and manufacturing teams across major markets, CITIC Dicastal focuses on accelerating the research and development of integrated lightweight solutions and the commercial application of new materials that will drive the future of transport in the auto industry and beyond.

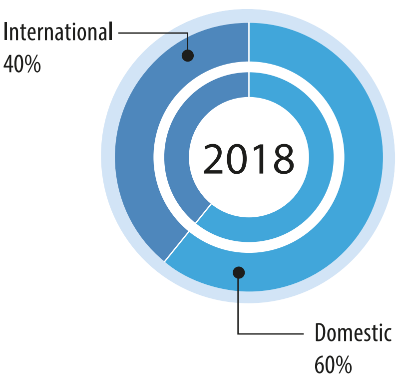
Year in review







Sales by area



With global auto sales trending down during the year, total auto production volume in China decreased 4.2% to 27.8 million. Against this backdrop, CITIC Dicastal optimised its product mix with more high margin products, while implementing new automated manufacturing processes to lower production costs and increase productivity. Overall profitability remained robust, outperforming the market.

Increased wheel and castings turnover pushed up total revenue by 10% to RMB28.5 billion and net profit to RMB1.2 billion, an increase of 18%. During the year, CITIC Dicastal sold 54 million wheels, a 5.3% increase over 2017. Castings sales remained flat at approximately 77,200 tonnes.

SALES OF WHEELS
54,010,000 units

SALES OF CASTINGS
77,200 tonnes

In 2018, CITIC Dicastal completed construction of the Line 6 wheel production line at its Qinhuangdao headquarters. Equipped with Dicastal's proprietary advanced robotics and smart production backend, Line 6 is a fully automated, highly efficient and flexible facility for manufacturing state-of-the-art automotive products. The designed annual production capacity of this industrial frontier is three million units.

In aluminium castings, the company has been developing new products with its wholly-owned German subsidiary, KSM Castings, to shorten the lead cycle while also extending KSM's sales network from Europe to North America and Asia. As passenger cars are increasingly equipped with aluminium components, the company's subframe and battery case products have been adopted by major automakers.

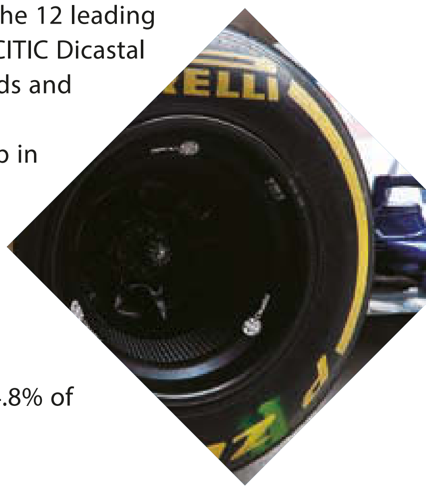
To meet international demand, CITIC Dicastal directed the construction of two manufacturing bases in Monaco, with a total annual production capacity of six million units. Phase one construction commenced in September 2018 and is scheduled for completion in mid-2019. The new facility will have an annual production capacity of three million wheels.

CITIC Dicastal also revamped its integrated service unit in order to strengthen its relationship with global customers and better cater to their needs, reinforcing Dicastal's leading market position.

Products

Customers

Major customers for CITIC Dicastal's aluminium wheels include the 12 leading global automakers, as well as the 6 major Chinese automakers. CITIC Dicastal is also a global strategic partner of several top automotive brands and the only Chinese supplier of magnesium wheels in Formula One racing—a testament to the company's world-class craftsmanship in auto engineering.



Major customers for lightweight aluminium cast components include Daimler, Volkswagen and parts manufacturers such as TRW, ZF and Bosch.

In 2018, CITIC Dicastal's top 10 customers accounted for over 34.8% of total sales.

Research and development

In 2018, CITIC Dicastal upgraded its capabilities in new product development and successfully completed the customisation of a wheel designed for new energy cars.

In new materials, the company undertook the world's first OEM project for developing forged-magnesium alloy wheels and continued to explore commercial applications for carbon fibre composites.

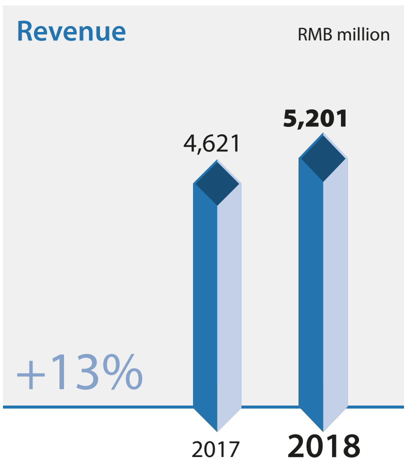
CITIC Heavy Industries

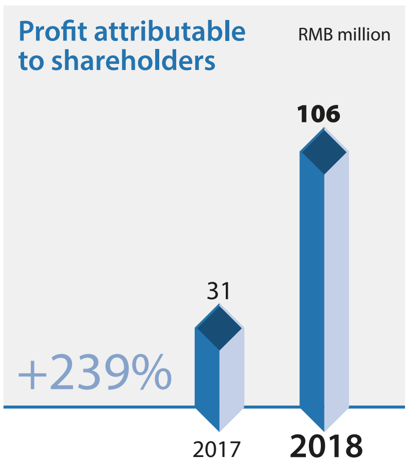
CITIC Heavy Industries is one of the world's leading suppliers and service provider of heavy mining and cement equipment, as well as one of China's largest heavy machinery manufacturers.

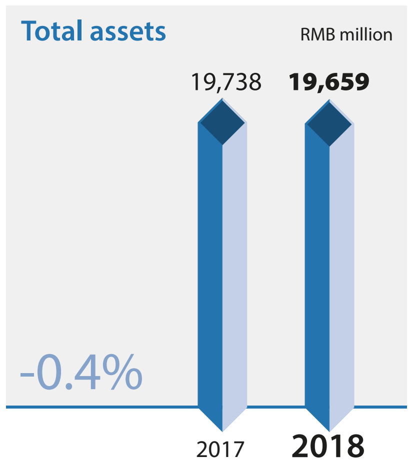
The company designs and produces advanced industrial equipment for clients. Major products, associated services and solutions include heavy machinery, key technical components and support, EPC, specialised robotics and intelligent equipment.

CITIC Heavy Industries' main production facilities are located in Luoyang, Henan; Tangshan, Hebei; Lianyungang, Jiangsu; and Vigo, Spain.

Year in Review







CORE MANUFACTURING + INTEGRATED SERVICE

The business of CITIC Heavy Industries is based on a "core manufacturing + integrated service" model, with a focus on advanced equipment, intelligent manufacturing and robotics, as well as Chinese civil-military integration. In 2018, heavy machinery manufacturing recovered as a result of business reengineering initiatives, while the rapidly expanding robotics and intelligent manufacturing segment contributed strong growth to become a core profit driver for the company.

CITIC Heavy Industries maintained its leading edge in heavy machinery manufacturing during the year thanks to its advanced technical capabilities. The company delivered key equipment in 2018 for the copper/cobalt mine in Deziwa, Congo, owned by China Nonferrous Mining Corporation, as well as tunnel boring machines for Luoyang Metro.

The company also signed a five-year retainer contract with Henan Guolian Mining for the operation and maintenance of a 20-million-tonne aggregate production line, following its delivery. Capitalising on the Internet of Things (IoT) gateway powered by the CITIC Cloud, CITIC Heavy Industries set out the blueprint for its digital transformation and paved the way for a new, steady stream of service income.

As the market leader in special robotics, Kaicheng Intelligence now offers 5 categories of robots and 30 individual products. CITIC's firefighters, which were used in more than 100 fire and emergency rescue incidents during the year, continued to be widely deployed in fire service departments and hazardous chemical processing companies across dozens of provinces and cities in China, including Tangshan, Luoyang, Xuzhou, Beijing and Ningbo.

In 2018, CITIC Heavy Industries established a joint venture, CITIC Am Intelligence Equipment, with CITIC Construction and JSC Amkodor-Belvar at China-Belarus Industrial Park. The JV assembles robots for fire safety and inspections.

Customers

As one of the few cement and mining equipment manufacturers certified in both the United States and Europe, CITIC Heavy Industries serves leading industrial companies. These include Lafarge, Holcim, Cemex, Heidelberg Cement, Italcementi, VALE, BHP Billiton, China Shenhua Energy, China Huaneng Group, China National Gold Group, West Mining, Conch Cement and Ta Pai.

The company also sells robotics products to fire service departments in different provinces, municipalities and autonomous regions across the country, as well as to major petroleum refinery and coal mining companies in China.

Research and development

In 2018, CITIC Heavy Industries upgraded the core equipment of its 10,000-tonne cement production line, significantly improving its operating efficiency. The company also launched a proprietary large-scale vertical mill, LGMC5725, for finish grinding. This mill is the first Chinese integrated system adopted by the Pakistani cement industry and serves as a substitute for similar systems imported from overseas.

In September 2018, CITIC Heavy Industries established CITIC CT with Zhengzhou Xinda Institute of Advanced Technology to develop industrial cone beam computed tomography for non-destructive testing and related applications, which will be added to CITIC's equipment business.

Kaicheng Intelligence became the second national corporate technology centre under CITIC Heavy Industries and was acclaimed as one of China's top special intelligent robot enterprises.

By the end of 2018, CITIC Heavy Industries owned 892 valid patents in China, of which 306 were invention patents.

892 Valid Patents

306 Inventions

ENGINEERING CONTRACTING

Our engineering contracting business provides services for infrastructure, housing, industrial construction, and municipal engineering projects.

Major subsidiaries:

CITIC Construction is a provider of integrated engineering construction services. Its EPC (engineering, procurement and construction) business covers general engineering contracting for infrastructure, civil construction and industrial projects. The company has also been developing businesses in energy, resources and agriculture.

CITIC Engineering is an EPC service provider with a strong engineering capability. This business focuses on building construction, municipal infrastructure and environmental protection.

HK$ million	2018	2017	Change
Revenue	**19,700**	14,653	34%
Profit attributable to ordinary shareholders	**2,053**	1,731	19%
Total assets	**55,432**	46,127	20%
Capital expenditure	**2,952**	1,784	65%

In 2018, revenue from the engineering contracting business was HK$19.7 billion, representing a year-on-year increase of 34%. Net profit attributable to ordinary shareholders was HK$2.1billion, 19% more than last year. This strong performance resulted from CITIC Engineering's EPC projects in Wuhan, as well as tax savings and investment gains from CITIC Construction.

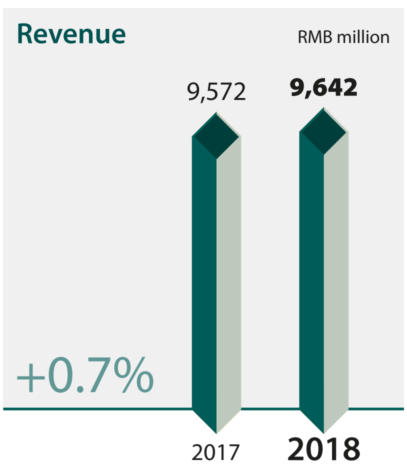
CITIC Construction

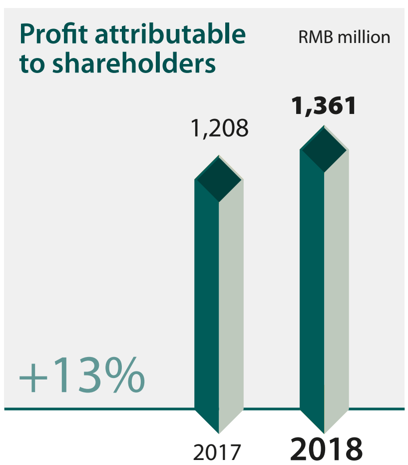
CITIC Construction is a leading international provider of integrated engineering construction services. With key markets in Africa, Latin America and countries along the Belt and Road, the company is expanding into developed overseas markets such as Great Britain and growing its business in mainland China, particularly through Public Private Partnership (PPP) projects. In addition to its existing infrastructure, housing and industrial construction businesses, the company has been increasing its involvement in resources, energy, agriculture and environmental protection.

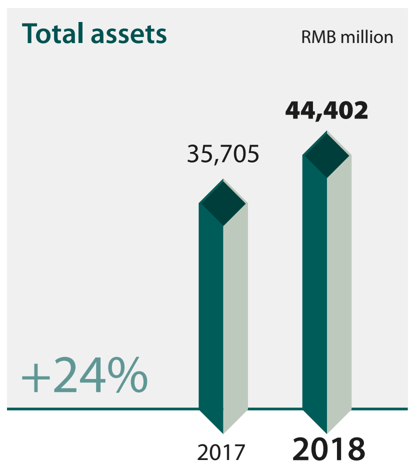
In addition to providing EPC services, CITIC Construction uses CITIC's vast resources and network to offer a range of value-added services, including project planning, design, investment, financing, management, procurement, operations and maintenance. The wide scope of these services gives the company a significant competitive advantage in developing countries.

Through the successful delivery of important large-scale projects, the company has established a strong brand and reputation. It is widely regarded today as a highly successful Chinese engineering contracting enterprise.

Year in review





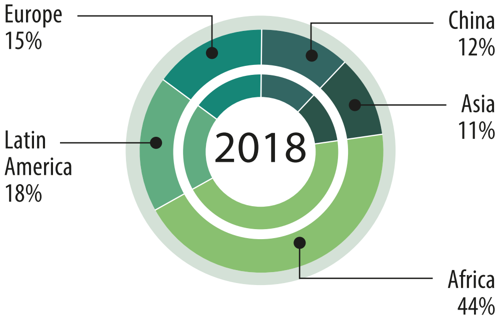


In 2018, CITIC Construction recorded revenue of RMB9,642 million and a net profit attributable to shareholders of RMB1,361 million, which was largely contributed by tax savings and investment gains. The total value of signed contracts during the reporting period was approximately RMB37.1 billion, an increase of 61% year-on-year. Year to date, the total aggregate value of signed contracts was RMB248.3 billion.

During the year, CITIC Construction continued to develop markets along the Belt and Road corridor and expanded into India, Sri Lanka, Maldives and other countries along the Maritime Silk Road. Construction of the TKU Expressway upgrade project in the key market of Kazakhstan was well under way. Work also began on the new project to upgrade the Karaganda-Balkhash section of the Kazakhstan national highway. In Belarus, CITIC Construction started work on the Agricultural and Industrial Complex project. In the UK, the Royal Albert Dock entered the commissioning phase after the completion of the main construction.

With years of experience in Africa, CITIC Construction continued to develop business opportunities in Angola and surrounding Western Africa countries, as well as in Algeria. After completing the west section of the Algerian East-West Expressway, construction began on the 84km east section in January 2018. In Angola, the construction of 100,000 units of RED social housing made good progress, and several parcels of land in Zangu and Lubango were delivered. In Latin America, construction of the desalination plant on Malay Island, Venezuela, was completed.

Contract value breakdown



In addition to its strong overseas business, CITIC Construction saw steady growth in its domestic business, with a number of new projects in the pipeline. New projects commencing construction in the year included a PPP project for the Industrial New Town of Tianfu International Airport Linkong Economic Zone at Ziyang City, the Longquan Community of Yellow River International Eco-city, and the Penglai Section of Binhai Road in Shandong province. The company also secured projects in new sectors, including agriculture with the signing of a large-scale livestock isolation and slaughterhouse project in Alashankou, Xinjiang.

During the year, the company received prestigious industry awards in recognition of its commitment to safety and quality. The west section of the Algerian East-West Expressway project was awarded the 15th Tien-Yow Jeme Civil Engineering Prize, and CITIC Bank's Information Technology Research and Development Centre in Beijing was the recipient of the 2017—2018 Structural Great Wall Cup's Quality Engineering Project.

FINANCIAL SERVICES
RESOURCES & ENERGY
MANUFACTURING
ENGINEERING CONTRACTING
REAL ESTATE
OTHERS

Major projects

TKU Expressway Upgrade, Kazakhstan

TKU Expressway is part of Kazakhstan's national highway network, stretching from Taldykorgan, capital of the Almaty Region, to Oskemen (formerly Ust-Kamenogorsk), the administrative centre of the East Kazakhstan Region. After the upgrade, the expressway will be 763 km long.

Contract signing date:	May 2016
Contract value:	Approximately US$936 million
Contract period:	54 months
Commencement of construction:	November 2017
Progress as of the end of 2018:	8% complete

Phase I, Royal Albert Dock Project, UK

The Royal Albert Dock project is a signature real estate development to be delivered in the UK by a Chinese construction company. It is an integrated office, retail, and apartment development in the London Borough of Newham in East London, envisaged as a bridge for Asian and European economic collaboration. It covers an area of fourteen hectares with a GFA of 420,000 m^2, including the biggest landscaped area of any project in London. The first phase, with a GFA of 638,900 ft2, consists of twenty type A buildings and one type B office building, an energy centre, restoration of two historic buildings, and supporting infrastructure.

Contract signing date:	November 2016
Contract value:	£222 million
Contract period:	Approximately 23 months
Commencement of construction:	April 2017
Progress as of the end of 2018:	88% complete

East Section of the Algerian 84km East-West Expressway

The project stretches from the interchange of Drean in southern Annaba to the Tunisian border in the east, including nine interchanges. The expressway will be 84 km long.

Contract signing date:	December 2017
Contract value:	Approximately US$680 million
Contract period:	16 months
Commencement of construction:	January 2018
Progress as of the end of 2018:	15% complete

Agro-industrial Complex Project in Belarus

Located in the Pukhovichi District of Minsk Oblast, Belarus, this agro-industrial complex processes wheat using modern biotechnology to produce irreplaceable amino acids and high-tech formula feed. The construction scope includes an amino acid factory, feed plant, silo construction, power plant, and ancillary facilities including a railway, highway, natural gas pipeline and electric transmission line.

Contract signing date:	November 2016
Contract value:	RMB4,290 million
Contract period:	36 months
Commencement of construction:	July 2018
Progress as of the end of 2018:	17% complete

Phase I, Industrial New Town of Linkong Economic Zone, Ziyang City, China

The construction of five roads undertaken by the project initially includes Chengzi Avenue, Sanxian Road, Zonger Road, Zongsan Road and Zongsi Road. The completed project will have a total length of approximately 39 km.

Contract signing date:	July 2018
Contract value:	RMB7,270 million
Commencement of construction:	July 2018
Progress as of the end of 2018:	19% complete

Longquan Community of Yellow River International Eco-city, China

This project in Qihe County, Shandong province, comprises three land lots with a total GFA of approximately 450,000 m^2. It primarily includes resettlement housing, schools, community facilities such as recreation and sports centres, and commercial facilities.

Contract signing date:	August 2018
Contract value:	RMB1,240 million
Contract period:	Approximately 37 months
Commencement of construction:	August 2018
Progress as of the end of 2018:	24% complete

Penglai Section of Binhai Road, Yantai City, China

This is a major transportation infrastructure project in the city of Yantai. The width is 25 metres for the main road, 3 metres for the sidewalk on both sides of the road, and 10 metres for each green belt. It is constructed according to the two-way four-lane first-class highway standard, with a design speed of 80 km/h. The total length of the road will be 15 km.

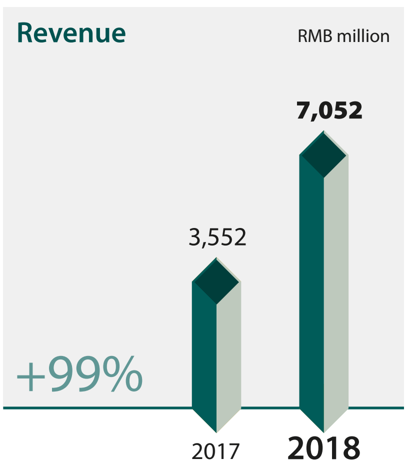
Contract signing date:	May 2018
Contract value:	RMB550 million
Contract period:	12 months
Commencement of construction:	June 2018
Progress as of the end of 2018:	75% complete

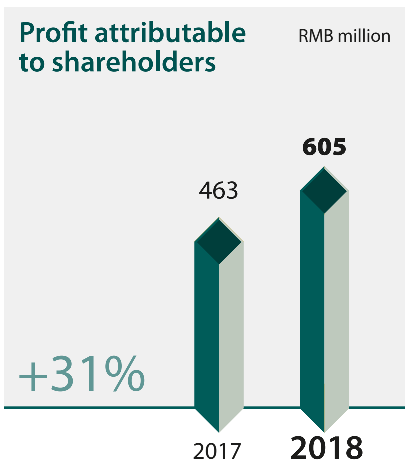
CITIC Engineering

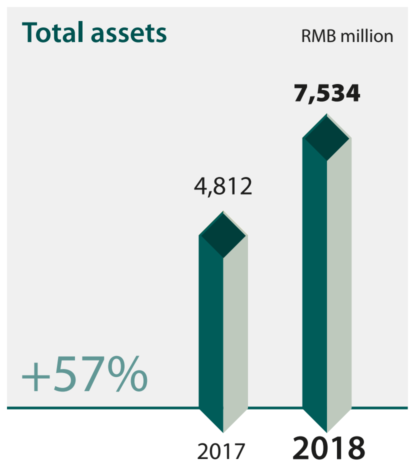
CITIC Engineering is a leading technology-based EPC (Engineering, Procurement and Construction) service provider in China with a strong engineering capability. Its main business focuses on urban planning and ecological preservation, including projects in building construction, municipal infrastructure and environmental protection. The company provides investment as well as EPC and operation services.

With operations across China, CITIC Engineering's subsidiary, Central & Southern China Municipal Engineering Design and Research Institute Co.,Ltd (CSMEDI), is at the forefront of municipal engineering design in China. The company's other subsidiary, CITIC General Institute Architecture Design and Research Co., Ltd (CADI), has ranked in the Top 60 Chinese Design Firms by the global industry authority Engineering News Record (ENR) for several consecutive years. It has also been ranked first among the 2018 China's Most Efficient Engineering Design Firms.

Year in review







With the continuing growth and development of the Chinese economy, CITIC Engineering is benefiting from the country's substantial ongoing investment in infrastructure. In addition, CITIC Engineering's expertise in environmental protection and ecological preservation complements the national leadership's objective of mitigating the impacts of rapid development on the environment. CITIC Engineering's annual revenue was RMB7,052 million in 2018, an increase of 99%. Net profit attributable to shareholders was RMB605 million, an increase of 31%. The growth of the business was mainly attributable to the EPC projects in Wuhan, which include the Clean Water Project in Jiangxia District, Forest Avenue in the Donghu New Technology Development District and the National Network Security Talents and Innovation Base in the Economic Development Zone of Wuhan Airport.

During the year, CSMEDI continued to develop its core survey and design business. The number of new EPC contracts signed in 2018 exceeded the total of all previous years combined. Among these new projects was the first municipal environmental protection project at Xiong'an New Area—the Chengxi Sewage Treatment Plant in Rongcheng County. Based on its strong capability in integrated design, CADI won its largest design contract ever to build a logistics centre in Hubei province for RMB700 million.

Major projects

The Clean Water Project in Jiangxia District, Wuhan City

This project will provide a comprehensive solution comprising sewage collection and treatment, flood control and drainage, water supply, and the treatment of water from the lake and river, environmental water management and water information management. CITIC Engineering's involvement in this PPP project includes investment and financing, planning, design, construction and operation. The entire project will be completed in five phases.

Contract signing date:	October 2016
Contract value:	RMB5,110 million, including RMB1,050 million for Phase I, and RMB650 million for Phase II.
Contract period:	Phase I: 45 months / Phase II: 22 months
Commencement of construction:	Phase I: September 2015 Phase II: December 2016
Progress as of the end of 2018:	80% completed for Phase I and 100% completed for Phase II

The National Network Security Talents and Innovation Base Project

This project, located in the Economic Development Zone of Wuhan Airport, was undertaken in response to China's strategy to develop national cybersecurity. It comprises construction of public buildings, infrastructure, an international talent community and infrastructure in the airport area.

Contract signing date:	November 2018
Contract value:	RMB8,620 million
Contract period:	36 months
Commencement of construction:	July 2017
Progress as of the end of 2018:	19% complete

Forest Avenue at Donghu New Technology Development District, Wuhan City

Forest Avenue will serve as a crucial link connecting Wuhan City and Ezhou City. This important project includes the construction of roads, bridges, drainage and landscaping. When completed, the project will be 18.4 km in length and 40 to 60 metres in width.

Contract signing date:	October 2016
Contract value:	RMB2,380 million
Contract period:	24 months
Commencement of construction:	June 2016
Progress as of the end of 2018:	71% complete

REAL ESTATE

CITIC's real estate business comprises the development, sale and management of commercial properties and integrated property projects in mainland China and Hong Kong.

Major subsidiaries:

CITIC Pacific Properties is a property developer focusing on urban complexes, and high-end commercial and mid- to high-end residential properties.

CITIC Urban Development & Operation is a property developer focusing on real estate finance, urban renewal, and urban development and operations.

HK$ million	2018	2017	Change
Revenue	**8,968**	3,227	178%
Profit attributable to ordinary shareholders	**5,353**	7,660	(30%)
Total assets	**154,631**	159,664	(3%)
Capital expenditure	**2,318**	2,436	(5%)

In 2018, the real estate business recorded revenue of almost HK$9 billion. Profit attributable to ordinary shareholders was about HK$5.4 billion, 30% less than that of 2017. The profit in 2017 included profit from the delivery of two office buildings at Lujiazui in Shanghai to Industrial and Commercial Bank of China (ICBC) and China Life.

Year in Review

In 2018, the growth of the real estate industry slowed down, and more developers diversified their businesses. To maintain the sustainability of its real estate business, the Company optimised the mix of its property projects, explored the feasibility of combining property development with finance and urban development, and expedited the development of existing projects.

During the year, the company started sales of the residential part of the Shanghai Shipyard Project and some of the residential units of the second and third phases of the Yangzhou Meijin Project. Construction of the residential part of the Jinan CBD Project commenced, as well as for the tunnels of CITIC Coast New Town in Shantou after removing a large number of boulders. For this latter project, improvements were made to the municipal roads, public facilities, and the value of the land. Future developments undertaken by the Company will include sports centres, exhibition centres, retail complexes, and hotels.

In Hong Kong, the luxury residential project, KADOORIA, at Kadoorie Hill, Kowloon, has been well received by the market since its sales launch at the end of 2017. In 2018, 46 of the total 77 units were sold and their profit booked. The superstructure of our residential project, The Entrance, in Lok Wo Sha, Ma On Shan, was topped out and fit-out works are in progress. The project, which has a gross floor area of approximately 21,000 m², is scheduled for completion by the end of 2019. This Discovery Bay development is 50% owned by CITIC. Phase 16, a high-rise development of 17,000 m², Phase 17, a detached villa development of 4,000 m², and Phase 18, a low-rise development of 4,000 m², are under construction and scheduled for completion in 2019. The Hong Kong investment property portfolio continued to provide stable rental income in 2018, with an overall average occupancy of approximately 96%.

Key development projects

CITIC Tower, Beijing (100% owned)

Located in Chaoyang District, CITIC Tower is 528 metres in height, making it the tallest building in Beijing.

It received a Provisional Acceptance Certificate on 28 December 2018 and has started opening in phases. CITIC Tower is the tallest building completed in 2018 worldwide. It is the eighth tallest building in the world and the fourth tallest in China.

Site area:	11,478 m²
Gross floor area:	437,000 m²
Purpose:	Office

Lujiazui Harbour City, Shanghai (50% owned)

Lujiazui Harbour City, previously used as a shipyard by Shanghai Shipyard Co., is located on the south shore of the Huangpu River in central Shanghai. This project comprises eight high-end office buildings, a five-star hotel and serviced apartments, luxury residences, and recreational, commercial, dining and entertainment facilities.

Seven office buildings in this project have been delivered to China Construction Bank, Agricultural Bank of China, United Overseas Bank, China Industrial Bank, Shanghai HY Investments Company, ICBC, and China Life, respectively. Sales of the residential units of the project began in 2018. The Mandarin Oriental Hotel and its serviced apartments located within this project are currently in operation.

Site area:	249,400 m^2
Gross floor area:	872,800 m^2
Purpose:	Office, retail, hotel and residential

CITIC Pacific Technology and Fortune Plaza, Shanghai (50% owned)

Located in the western part of Shanghai, this mixed-use office and retail development will integrate high rises and community and commercial centres at street level. Construction of the project is under way.

Site area:	60,335 m^2
Gross floor area:	229,372 m^2
Purpose:	Office and retail

Harbour City, Wuhan (65% owned)

Located between the first and second ring roads of Wuhan, the Riverside Commercial Zone is situated in the CBD, which has the highest growth potential in the city. The project comprises 14 easily-accessible lots at the core of the CBD, with 600 metres of the project's east boundary facing the river. Construction is under way.

Site area:	229,040 m^2
Gross floor area:	1,173,000 m^2
Purpose:	Office, apartment, retail, residential

Optics Valley Xintiandi, Wuhan (50% owned)

This project is an urban complex developed by a 50:50 company founded by CITIC and Shui On Group. It is located in the east of Wuhan and the central area of the East Lake High-tech Development Zone. Construction is under way.

Site area:	353,760 m^2
Gross floor area:	1,197,400 m^2
Purpose:	Office, residential, SOHO, retail

Slender West Lake, Yangzhou (100% owned)

Site area:	119,700 m^2
Gross floor area:	120,100 m^2
Purpose:	Elderly care, residential

The land for this project was acquired in 2018. The site is located in the tourist area of Slender West Lake, 3km from the downtown area. It will be developed into an elderly care home and residential apartments.

Major investment properties

Property	Purpose	Ownership	Approx. gross area (m^2)
CITIC Square, Shanghai	Office and retail	100%	132,300
Capital Mansion, Beijing	Office	100%	140,200
International Building, Beijing	Office	100%	62,200
CITIC Tower, Hong Kong	Office and retail	100%	52,000

OTHERS

Information Services

CITIC Limited provides information services through two subsidiaries: CITIC Telecom International and AsiaSat.

Listed on The Stock Exchange of Hong Kong, CITIC Telecom International (CITIC Telecom) is an Internet-oriented telecommunications enterprise providing comprehensive services. Its offers international telecommunications services, such as mobile international roaming, international voice, international SMS, international data and international value-added telecommunications services, to global carriers (including mobile operators, fixed line operators, virtual network operators, Internet operators and OTT operators).

The company is one of the largest telecommunications hubs in Asia Pacific, including self-developed products such as DataMall, the world's first mobile trading platform, and SIMN. It owns CITIC Telecom Tower and has established two large-scale data centres in Hong Kong.

CITIC Telecom's wholly-owned subsidiary, Acclivis Technologies and Solutions Pte. Ltd. (Acclivis), is based in Singapore with businesses in Malaysia, Indonesia and Thailand. As one of the leading IT services provider in the region, Acclivis is a trusted advisor to government and enterprises. It delivers digital transformation projects and smart solutions that harness CITIC Telecom's end-to-end ICT capabilities, with a focus on cloud solutions, managed services and enterprise connectivity. Acclivis also owns the Pacific Internet service brand in Singapore and Thailand and has established data centres and cloud computing centres across key cities in Southeast Asia.

Through its wholly-owned subsidiary, CITIC Telecom International CPC Limited (CPC), CITIC Telecom provides one-stop ICT solutions to multinational and business enterprises, including private network solutions, EPL, Internet access, cloud computing, information security, cloud data centre and a series of value-added services. CPC is one of the most trusted partners of leading multinational and business enterprises in Asia Pacific. CPC has gained a foothold in the mainland China market through its subsidiary, China Enterprise ICT Solutions Limited (CEC), providing comprehensive ICT services for multinational and business enterprises in mainland China. CEC has various nationwide licenses in value-added telecommunications services in mainland China, including nationwide ethernet VPNs, and has built cloud data centres in various cities such as Beijing, Shanghai and Guangzhou.

NETWORK COVERING
130+
countries and regions

CITIC Telecom holds a 99% equity interest in Companhia de Telecomunicações de Macau, S.A.R.L. (CTM). CTM is one of the leading integrated telecommunications services providers and the only full telecommunications services provider in Macau, as well as the major smart city operator of Digital Macau. As a market leader, CTM has long provided quality telecommunications and ICT services to residents, the government and enterprises in Macau and plays an important role in its ongoing development.

As of 31 December 2018, CITIC Telecom had branch organisations in 21 countries and regions. The company employs over 2,500 staff and has a network covering more than 130 countries and regions, with over 600 global operators serving around 3,000 MNCs and 40,000 local businesses. CITIC Telecom has R&D teams in various cities including Hong Kong, Macau, Zhuhai, Chengdu. In addition to its ISO quality and network security accreditations, the company has received numerous awards for its employment and green practices over the years.

SERVING
3,000+
MNCs

AsiaSat's business involves the leasing and sale of satellite transponders, broadcasting, communications and data uploading and downloading services.

Infrastructure

CITIC Limited's infrastructure business is concerned with the investment and management of ports and port terminals as well as regional development in China through CITIC Industrial Investment. CITIC Limited also has an interest in the Western Harbour Tunnel in Hong Kong.

The regional development business refers to the Xidian New Town Project in Ningbo, Zhejiang Province, for which CITIC Industrial is constructing seashore polders, land consolidation, urban infrastructure and supporting projects such as water engineering and green land development. The planned land area is approximately 6,480 mu and the planned gross floor area is approximately four million square metres.

The port terminals business mainly consists of investment in and the proprietary operation of liquefied oil terminals and storage, as well as the operation of other types of berths, such as container berths. At present, CITIC has completed three grid-layout investment projects in the Yangtze River Delta and the Yangtze River Economic Belt, where it operates liquefied oil ports with a handling capacity of about 37.7 million tonnes and a storage capacity of about 2.1 million cubic metres. In the future, CITIC will expand into investment projects with a focus on liquefied oil in the Pearl River Delta and Bohai Economic Rim. Its ultimate goal is to be a port and storage investor and operator, particularly of domestic ports, with a leading position and influence in this market segment. In addition, CITIC plans to offer a supply chain management service through a facility network.

Project	Ownership	Handling capacity/storage capacity
Port Storage		
PetroChina Fuel Oil Port	51%	12 million tonnes
Guanwai Liquefied Products Port	51%	1.8 million tonnes
Xinrun Petrochemical Storage and Transport	90%	5 million tonnes/600,000 m^3
Xinyuan Port	51%	7.2 million tonnes
Hengyang Storage Project	49%	6.65 million tonnes/890,000 m^3
Xinhai Oil Terminal	30%	600,000 m^3
Port of Gangfa Crude Oil	20%	5 million tonnes
Container Ports of China Merchants Holdings (International) Company Limited	20%	2.4 million TEU
Tunnels		
The Western Harbour Tunnel, Hong Kong	35%	Franchise till 2023

General Trading

1,000+
brand partners

Dah Chong Hong (DCH) is engaged in the distribution and sale of motor vehicles and associated services, food and FMCG, healthcare and electrical products, as well as the provision of logistics services. As the preferred partner of over 1,000 brands in more than 30 countries and regions, DCH has well-established networks in Asia Pacific offering a wide range of supply chain solutions.

In 2018, DCH delivered stable results with the expansion of its motor business. Profit attributable to ordinary shareholders increased by 2.2%, despite economic headwinds in the second half of the year. It also continued to restructure the China food and FMCG business during the year.

Environmental Services

CITIC Environment Investment Group (CITIC Environment) is CITIC Limited’s specialised investment and operational platform for environmental protection. Its business covers three major sectors, namely water treatment, solid waste treatment, and energy saving services.

WATER TREATMENT
6 million tonnes

Since CITIC’s completion of the acquisition of Singapore listed CITIC Envirotech in 2015, CITIC Environment has been expanding this business by taking advantage of the internal and external resources of the Group. As at the end of 2018, the total average designed daily handling capacity of its water treatment facilities exceeded 6 million tonnes.

CITIC Envirotech continued to expand its business in countries along the Belt and Road. On 22 November 2018, in a ceremony with Premier Li Keqiang and the Prime Minister of

Kazakhstan during his visit to China, a memorandum of cooperation was signed between the two countries. The agreement paves the way for investments in key projects, including the KBM water recycling project signed between CITIC Envirotech and Kazakhstan Karazhanbas Oil Company. Currently, the KBM water recycling project has completed most of the preliminary works and is scheduled to commence production in the first half of 2020.

In response to Premier Li Keqiang's call to win "three tough battles" (reduce poverty, control pollution and reduce risks), CITIC Envirotech designed an ecological environment system for 36 towns covering an area of 20 million square metres in Meigu County, Liangshan Yi Autonomous Prefecture for environmental and ecological restoration.

CITIC Envirotech's membrane production subsidiary in the United States—Memstar USA—started production in November 2018. CITIC Envirotech has thus become one of the very few companies in the world capable of carrying out MF, UF, NF and RO membrane research, development and production. With the help of Memstar USA, CITIC Envirotech will be able to expand its international market for this technology.

INVESTED IN
33 BOT projects

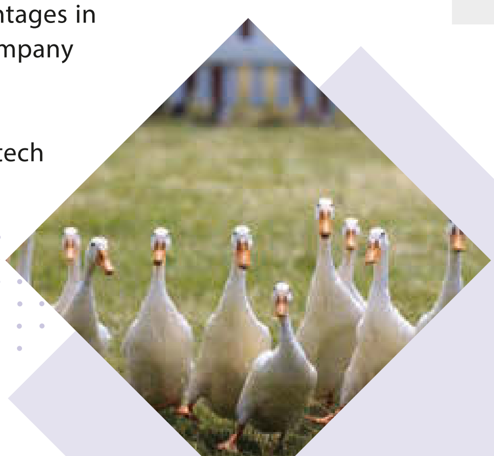
In 2018, CITIC Environment continued to increase its shareholding in Chongqing Sanfeng Environmental Industrial Group (Sanfeng) by means of equity acquisition and project asset injection, and has been assisting this company to expand its domestic and foreign household waste incineration business. At the end of 2018, Sanfeng had invested in 33 Build-Operate-Transfer (BOT) projects with a treatment capacity of 42,600 tonnes per day (TPD), maintaining its leading position in the domestic industry. Sanfeng's technology and equipment during the year was in use on 255 incineration lines in 145 incineration projects across 9 countries, including China, the United States, Germany, India and Brazil. With a treatment capacity of 13,700 TPD, Sanfeng ranked first in the grate furnace market in China.

CITIC Environment also expanded its hazardous waste disposal business during the year. By the end of 2018, it had acquired 10 high quality hazardous waste disposal projects in Xinjiang, Shandong, Guangdong, Jiangsu and other key areas, with a designed annual treatment capacity of more than 1.2 million tonnes.

Modern Agriculture

CITIC Agriculture focuses on agricultural science and technology as part of its strategy of becoming a flagship for seed companies. Leveraging CITIC Limited's advantages in this sector, CITIC Agriculture has become a globally competitive agri-tech company focused on its seed industry platform.

In 2018, CITIC Agriculture announced it would buy shares of Longping High-tech previously held by other CITIC entities. Following the completion of several key projects, CITIC Agriculture's venture now has plant breeding, animal breeding, and animal health operations across China. It also purchased



16.67% of the shares of Beijing Capital Agribusiness and acquired 30% of the shares of China Agriculture Vet with CITIC Agri Fund during the reporting period.

LongPing High-tech (SZ stock code: 000998) achieved record revenue during the year to remain the number one seed company in China. Its market share in corn seeds ranked first after its acquisition of Beijing Lantron Seed.

Also during the year, CITIC Agri Fund continued to develop its agricultural biotechnology business and became the largest shareholder of Ausnutria (stock code: 01717.HK). Its shareholding is now approximately 23.95% of the company, following a joint capital injection of HK$1,963 million with domestic and overseas investors.

Publishing

CITIC Press is a major provider of integrated content and associated services in mainland China, principally engaged in book publishing, digital publishing, bookstore retailing, education and training services, and IP operations. For its publication, distribution and retail operations, CITIC Press has obtained all licenses issued by the State Administration of Press, Publication, Radio, Film and Television. Today, it ranks second in the Chinese book market in terms of sales revenue at fixed prices.

CITIC Press was listed on the National Equities Exchange and Quotations at the end of 2015, becoming the first listed state-owned company in the publishing industry. In May 2017, the IPO application to list CITIC Press on the Growth Enterprise Market of the Shenzhen Stock Exchange was officially filed with the China Securities Regulatory Committee.

General Aviation

CITIC Offshore Helicopter (COHC) operates a full-service general aviation business in China. Among its main businesses are offshore oil helicopter operation services; general aviation services such as aerial photography, maritime patrol, polar survey operations, HPS, forest fire prevention and powerline operations; general aviation maintenance; and financing and rental services. COHC's offshore oil helicopter services enjoy the leading position in the industry in terms of market share. It is the only general aviation company engaged in helicopter pilotage and the only general aviation enterprise offering an overseas in-flight service for offshore petroleum exploration.

Based in Shenzhen, COHC's operations cover the South China Sea, East China Sea, Bohai Sea, and domestic areas except Tibet, the South Pole and the North Pole. COHC also operates a service centre for Airbus Helicopters in China.

Financial Review

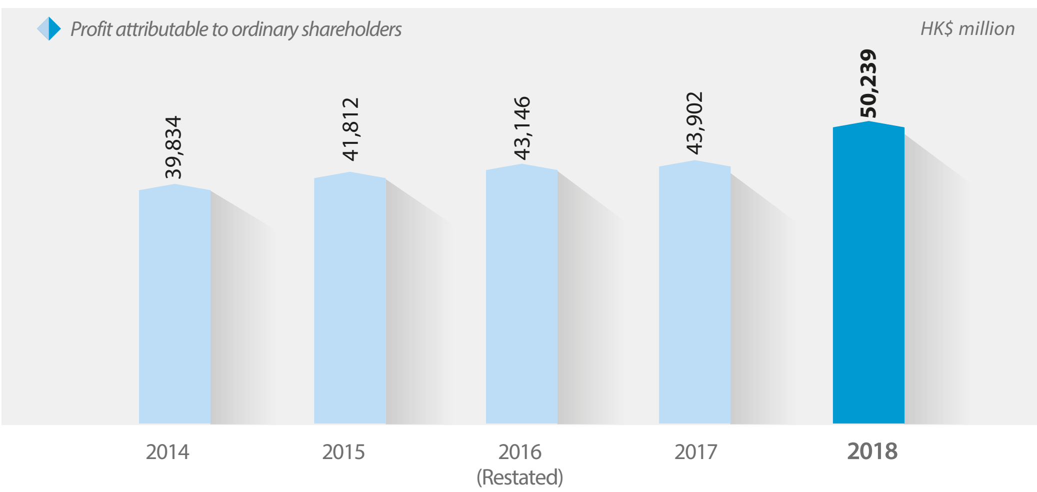
Overview

Profit attributable to ordinary shareholders

In 2018, the Group achieved a net profit attributable to ordinary shareholders of HK$50,239 million, an increase of HK$6,337 million, or 14%, from the previous year.

The financial services segment recorded net profit attributable to ordinary shareholders of HK$41,704 million, an increase of 5.6% from 2017. Our banking business showed steady growth, with a year-on-year increase in net profit attributable to the bank's shareholders of 4.6%. Our insurance business optimised its business structure and maintained rapid premium growth, with net profit increasing by 5.0%. Our security and trust businesses continued to maintain a leading position in the market, although net profit was affected by the downturn in the capital market.

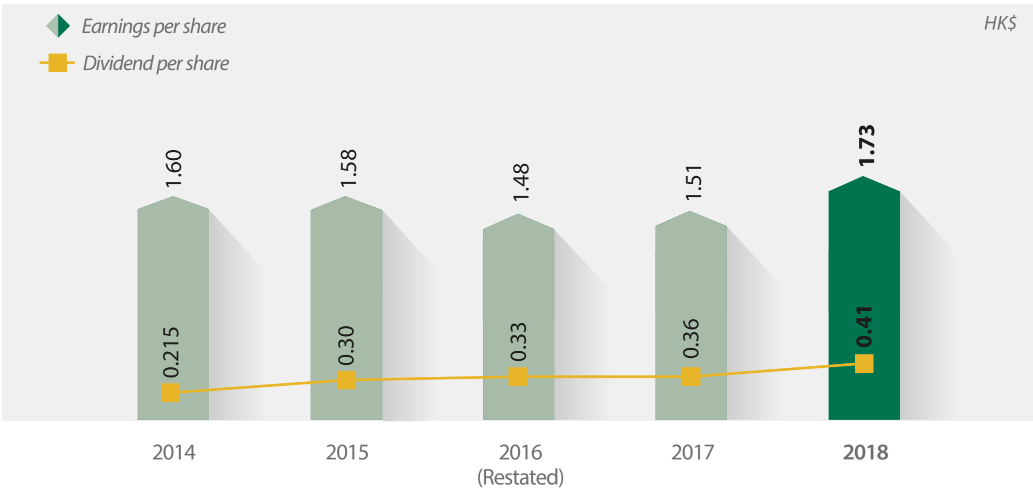
The non-financial segments, benefited from higher production volumes and lower costs in the Sino Iron Project, the growth of the mental trade business driven by the effective marketing strategies as well as the improved performance of the crude oil business due to the increase in the crude oil prices, our resource and energy business turned from loss to profit, with a net profit attributable to ordinary shareholders of HK$2,102 million. The manufacturing business recorded a net profit attributable to ordinary shareholders of HK$6,008 million, an increase of 81%. This was mainly due to higher sales volumes and prices in the special steel and aluminium wheels businesses and steady growth in the robotics and intelligent equipment business. The real estate business recorded a net profit attributable to ordinary shareholders of HK$5,353 million, a year-on-year decrease of 30%,which was mainly due to a shared profit of approximately HK$2,900 million from the Lujiazui Project of Shanghai Ruibo Real Property Co., Ltd recorded for the previous year. Our engineering contracting business recorded a net profit attributable to ordinary shareholders of HK$2,053 million, a year-on-year increase of 19%. This was mainly due to the profit increase from EPC projects and survey and design services, a tax gain following the adjustment in the PRC's income tax policy on overseas projects, and an increase in investment income. The profit of other businesses, such as McDonald's, international telecommunications, environmental protection, and publishing, all grew steadily during the year.



Earnings per share and dividends

Earnings per share of profit attributable to ordinary shareholders was HK$1.73 in 2018, an increase of 14% from HK$1.51 in 2017. As at 31 December 2018, the number of ordinary shares outstanding was 29,090,262,630.

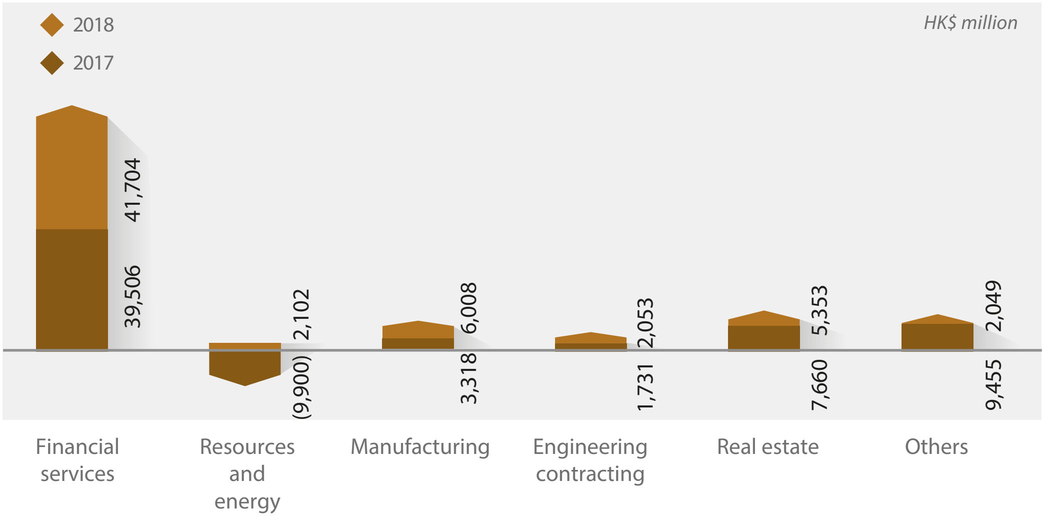
At the forthcoming annual general meeting, the Board will recommend a final dividend of HK$0.26 per share to ordinary shareholders. Together with the interim dividend of HK$0.15 per share paid in October 2018, the total ordinary dividend will be HK$0.41 (2017: HK$0.36 per share). This equates to an aggregate cash distribution of HK$11,927 million.



Profit/(loss) and assets by segment

	Profit/(loss) Year ended 31 December		Assets as at 31 December	
HK$ million	**2018**	2017	**2018**	2017
Financial services	**61,695**	57,579	**7,067,565**	6,925,076
Resources and energy	**2,972**	(9,484)	**131,842**	129,438
Manufacturing	**6,686**	3,524	**134,882**	130,381
Engineering contracting	**2,057**	1,729	**55,432**	46,127
Real estate	**5,937**	7,941	**154,631**	159,664
Others	**4,097**	11,045	**151,071**	163,835
Total	**83,444**	72,334	**7,695,423**	7,554,521
Operation management	**(7,564)**	(7,286)		
Elimination	**(855)**	48		
Net profit attributable to non-controlling interests and holders of perpetual capital securities	**24,786**	21,194		
Net profit attributable to ordinary shareholders	**50,239**	43,902		

Profit/(loss) attributable to ordinary shareholders



Financial services

In 2018, this segment recorded a net profit attributable to ordinary shareholders of HK$41,704 million, a year-on-year increase of HK$2,198 million, or 5.6%.

CITIC Bank focused on its loan business, which contributed to a steady increase in assets. Due to efforts in pricing management, net interest margin rebounded by 0.15 percentage point to 1.94%. Asset quality was further enhanced, with the ratio of loans overdue for more than 90 days to non-performing loans decreasing by 17.0 percentage points to 92.4% from the end of the previous year. As a result, net profit attributable to shareholders of the bank recorded a year-on-year increase of 4.6%. All major businesses of CITIC Securities continued to retain their leading industry positions, but net profit fell by 18% year-on-year due to the downturn in the capital market. CITIC Prudential continued to optimise its business structure and established its differentiation advantage in marketing channel, with both renewal premiums and new premiums recording double-digit growth and an increase in net profit increasing of 5.0%. CITIC Trust continued to improve quality and efficiency, while increasing the proportion of its active management business. Trust fee income was the highest in the industry as was net profit, although net profit declined by 6.3% year-on-year due to a decrease in intrinsic equity investment income in a capital market downturn.

Resources and energy

In 2018, this business segment turned from loss to profit, recording net profit attributable to ordinary shareholders of HK$2,102 million.

The Sino Iron project achieved a substantial reduction in net loss as compared with previous year by actively promoting the measures of increasing production volume, improving product quality and reducing costs. The production volume of iron ore concentrate reached approximately 19.2 million wet metric tonnes, representing an increase of around 19% as compared with previous year, while the average iron ore grade has reached over 65%, and the FOB prices increased by approximately 16% year-on-year. The Sino Iron project did not provide for impairment this year.

Due to the higher crude oil prices and ongoing cost control measures, the profitability of the crude oil business continued to grow rapidly during the year. CITIC Metal Group recorded a year-on-year increase in net profit of HK$315 million, due mainly to a significant increase in the profit of niobium product and iron ore trading business. The Las Bambas copper mine in Peru, which is 15% owned by CITIC Metal Group, has contributed a net profit of approximately HK$226 million to the Group. The power generation business continued to provide steady cash flow.

Manufacturing

In 2018, the manufacturing business recorded a net profit attributable to ordinary shareholders of HK$6,008 million, a year-on-year increase of HK$2,690 million, or 81%. Through steady improvements in product quality and product mix together with enhanced production-marketing integration, the special steel business achieved a year-on-year increase in sales volume and sales prices of 23% and 11%, respectively, and a year-on-year increase in net profit of 88%. The newly-acquired Qingdao Special Steel and Jingjiang Special Steel have realised a turning from loss into profit, contributing a profit of approximately RMB680 million and about RMB40 million, respectively. CITIC Dicastal's net profit increased by 18% year-on-year, with sales of more than 54 million aluminium wheels, a year-on-year increase of 5.3%, and achieved a first-place ranking worldwide for ten consecutive years. Also in 2018, CITIC Dicastal optimised its global production layout, and achieved a 65% year-on-year growth in the production volume at its American plants. At CITIC Heavy Industries, where the robotics and intelligent equipment business remained the principal source of profit, the heavy equipment business turned a profit after the loss of the previous year and new orders effective in 2018 grew by 27% year-on-year.

Engineering contracting

The engineering contracting business recorded a net profit attributable to ordinary shareholders of HK$2,053 million in 2018, an increase of HK$322 million, or 19%, over 2017. The net profit of CITIC Construction increased 13% from 2017, which was mainly attributable to a tax gain following the adjustment in the PRC's income tax policy on overseas projects and an increase in investment income. The net profit of CITIC Engineering increased 31% year-on-year due to the rapid growth of EPC projects and survey and design services, driven by appropriate investment under the business model of PPP + Fund + EPC.

Real Estate

The real estate business recorded a net profit attributable to ordinary shareholders of HK$5,353 million in 2018, a year-on-year decrease of HK$2,307 million, or 30%, due to a share of net profit of approximately HK$2,900 million from the Lujiazui Project of Shanghai Ruibo Real Property Co., Ltd recorded for the previous year. The net profit for the current year mainly consisted of the shared profit from COLI, the sale of residential units in the Kadooria project in Hong Kong and the settlement of a land development project, CITIC Coast New Town in Shantou.

The occupancy rate for investment properties was approximately 95% as at 31 December 2018, which was comparable with preceding years.

Others

The net profit attributable to ordinary shareholders in 2018 amounted to HK$2,049 million, a decrease of HK$7,406 million, or 78%, as compared with previous year. This was mainly due to one-off revaluation gains of approximately HK$5,900 million recorded for the previous year as well as an increased share of the loss from associates such as Guoan Football Club in 2018.

The McDonald's business in mainland China and Hong Kong recorded significant growth by expanding outlets, actively promoting delivery service as well as digital ordering and personalised products and services. CITIC Environment recorded a significant increase in net profit, which was mainly attributable to increased sales in its bio-membrane business, the growth of the water treatment business and decreased finance costs due to valuation adjustments of put options. CITIC Press maintained fast growth in its publication business. Besides, the net profit mainly came from international telecommunication business and Dah Chong Hong.

Group Financial Results

Revenue

In 2018, CITIC Limited recorded revenue of HK$533,285 million, an increase of HK$82,749 million, or 18%, from the previous year.

The financial services segment recorded revenue of HK$202,949 million, a year-on-year growth of 6.8%. The banking business remained the principal source of income for the Group as CITIC Bank placed more resources to credit assets and accelerated the development of its intermediary business, leading to the growth in both net interest income and non-interest income.

The resources and energy business reported revenue of HK$78,722 million, an increase of HK$15,266 million, or 24%, from last year. Owing to the increased downstream demand and customer development, the trading businesses of iron ore, niobium product and coal recorded growth. The Sino Iron Project reported revenue of approximately HK$12,700 million, representing an increase of approximately 30% as compared with last year. Revenue growth was also recorded in our crude oil business, which was driven by the rise in crude oil prices.

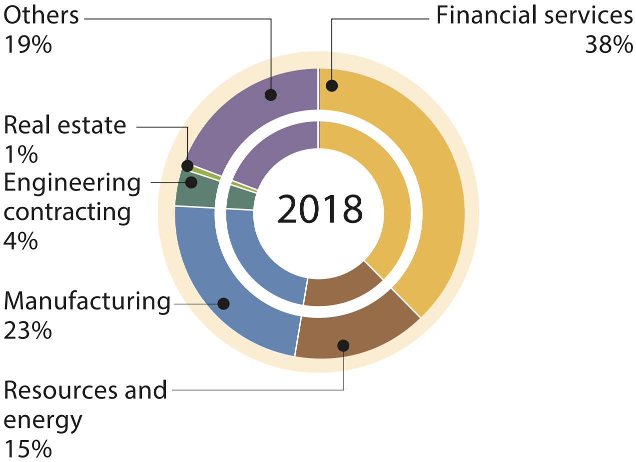
The manufacturing business reported revenue of HK$121,939 million, an increase of HK$24,507 million, or 25%, from last year. Through acquisitions, our special steel business reported growth in sales volume along with product structural optimisation and improvement, contributing a year-on-year increase in revenue of 29%; The aluminium wheels and castings business recorded an increase in both sales volume and price, while further expanding market share. Both the heavy equipment business and robotics and intelligent equipment business grew steadily during the year.

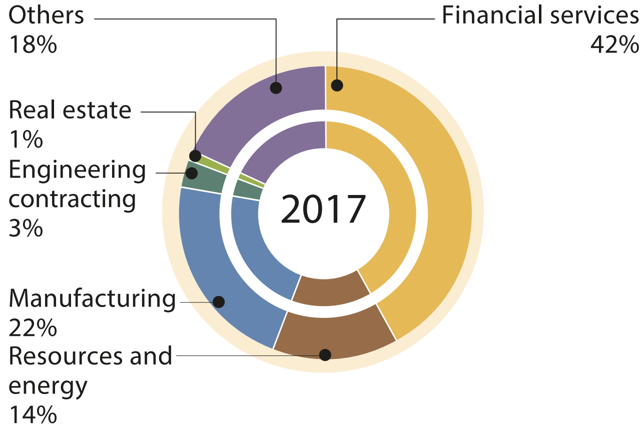
The engineering contracting business reported revenue of HK$19,700 million, an increase of HK$5,047 million, or 34%, from last year. This was mainly due to the rapid development of the EPC and survey and design businesses. Pending Projects and the value of signed new contracts also recorded year-on-year increases.

The real estate business reported revenue of HK$8,968 million, an increase of HK$5,741 million, or 178%, from last year. This was mainly due to the sale of residential units in the Kadooria project in Hong Kong and the settlement of a land development project, CITIC Coast New Town in Shantou.

Revenue from other businesses amounted to HK$100,920 million, a year-on-year increase of HK$19,247 million, or 24%. Our McDonald's business in mainland China and Hong Kong realised rapid increase in number of retail outlets and became one of the drivers of our revenue growth. The sales of equipment and mobile handsets, together with our environmental protection, publication and other businesses, also experienced rapid growth.

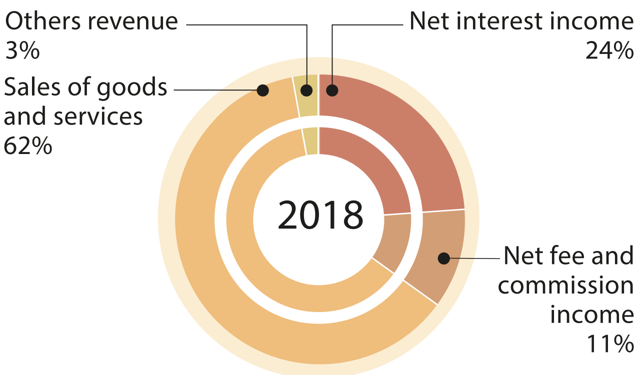
	Year ended 31 December		**Increase/(Decrease)**	
HK$ million	**2018**	2017	Amount	%
Financial services	**202,949**	190,028	12,921	6.8%
Resources and energy	**78,722**	63,456	15,266	24%
Manufacturing	**121,939**	97,432	24,507	25%
Engineering contracting	**19,700**	14,653	5,047	34%
Real Estate	**8,968**	3,227	5,741	178%
Others	**100,920**	81,673	19,247	24%

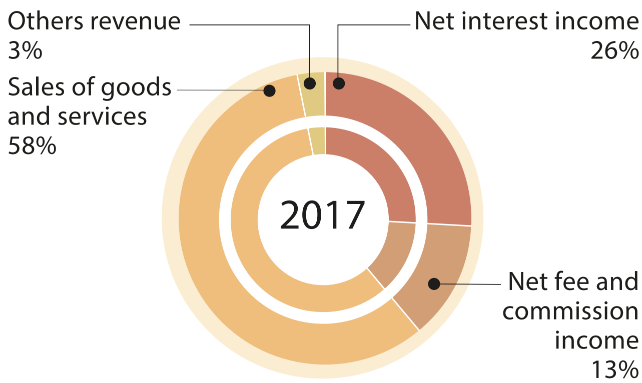




By nature

HK$ million	Year ended 31 December 2018	2017	Increase/(Decrease) Amount	%
Net interest income	**126,253**	116,682	9,571	8.2%
Net fee and commission income	**60,029**	59,180	849	1.4%
Sales of goods and services	**330,288**	260,481	69,807	27%
– Sales of goods	**281,911**	217,333	64,578	30%
– Revenue from construction contracts	**19,906**	16,766	3,140	19%
– Revenue from other services	**28,471**	26,382	2,089	7.9%
Other revenue	**16,715**	14,193	2,522	18%





Expected credit losses and other impairment losses

In 2018, expected credit losses and other impairment losses of HK$75,570 million were recorded, a decrease of 4.3% from the year before. CITIC Bank accounted for HK$68,937 million of these losses, including HK$56,530 million expected credited losses in its loans and advances to customers.

Net finance charges

The finance costs of the Group in 2018 amounted to HK$12,294 million, a year-on-year increase of HK$797 million, or 6.9%. Although total debts were effectively controlled during the year, the average debt level increased compared with last year.

In 2018, the finance income of the Group amounted to HK$2,729 million, mainly from interest income on bank deposits in the operation management segment, a year-on-year increase of HK$1,317 million, or 93%.

Interest expense capitalised

In 2018, the Group recorded capitalised interest expenses of HK$175 million, a decrease of 52% as compared with last year, mainly due to the completion of some mainland China real estate projects.

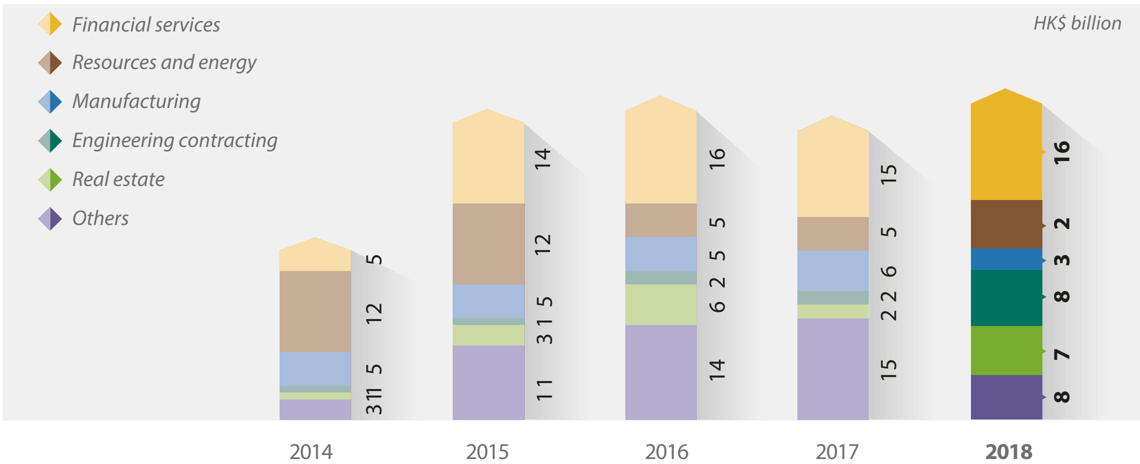
Income tax

In 2018, income tax of the Group was HK$18,944 million, an increase of HK$1,257 million as compared with last year. This was consistent with the increase in profit before taxation.

Group Cash Flows

HK$ million	CITIC Limited Year ended 31 December 2018	2017	Increase/ (Decrease)	%	CITIC Bank Year ended 31 December 2018	2017	Increase/ (Decrease)	%
Net cash generated from operating activities	**151,899**	107,133	44,766	42%	**121,123**	62,337	58,786	94%
Net cash used in investing activities	**(177,691)**	(186,601)	8,910	4.8%	**(171,147)**	(154,126)	(17,021)	(11%)
Including: Proceeds from disposal and redemption of financial investments	**1,691,875**	1,214,792	477,083	39%	**1,652,604**	1,161,160	491,444	42%
Payments for purchase of financial investments	**(1,845,989)**	(1,374,211)	(471,778)	(34%)	**(1,817,692)**	(1,304,519)	(513,173)	(39%)
Net cash generated from financing activities	**79,014**	53,350	25,664	48%	**87,652**	45,473	42,179	93%
Including: Proceeds from new bank and other loans and new debt instruments issued	**1,229,775**	1,117,983	111,792	10%	**1,091,664**	994,755	96,909	10%
Repayment of bank and other loans and debt instruments issued	**(1,088,334)**	(1,024,877)	(63,457)	(6.2%)	**(965,078)**	(923,922)	(41,156)	(4.5%)
Interest paid on bank and other loans and debt instruments issued	**(38,103)**	(31,797)	(6,306)	(20%)	**(25,850)**	(20,404)	(5,446)	(27%)
Dividends paid to ordinary shareholders	**(11,637)**	(9,891)	(1,746)	(18%)	**(17,042)**	(14,002)	(3,040)	(22%)
Dividends/distribution paid to non-controlling interests/ holders of perpetual capital securities	**(9,738)**	(8,838)	(900)	(10%)	–	–	–	–
Net increase/(decrease) in cash and cash equivalents	**53,222**	(26,118)	79,340	304%	**37,628**	(46,316)	83,944	181%
Cash and cash equivalents at 1 January	**491,363**	494,179	(2,816)	(0.6%)	**404,248**	430,801	(26,553)	(6.2%)
Effect of exchange rate changes	**(21,777)**	23,302	(45,079)	(193%)	**(12,740)**	19,763	(32,503)	(164%)
Cash and cash equivalents at 31 December	**522,808**	491,363	31,445	6.4%	**429,136**	404,248	24,888	6.2%

Capital Expenditure



HK$ million	Year ended 31 December 2018	2017	Increase/(Decrease) Amount	%
Financial services	**7,651**	14,880	(7,229)	(49%)
Resources and energy	**7,001**	5,429	1,572	29%
Manufacturing	**7,832**	5,861	1,971	34%
Engineering contracting	**2,952**	1,784	1,168	65%
Real estate	**2,318**	2,436	(118)	(4.8%)
Others	**16,048**	14,933	1,115	7.5%
Total	**43,802**	45,323	(1,521)	(3.4%)

Capital Commitments

As at 31 December 2018, the contracted capital commitments of the Group amounted to approximately HK$28,970 million. Details are disclosed in note 50(f) to the financial statements.

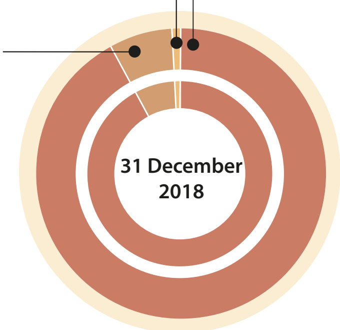
Group Financial Position

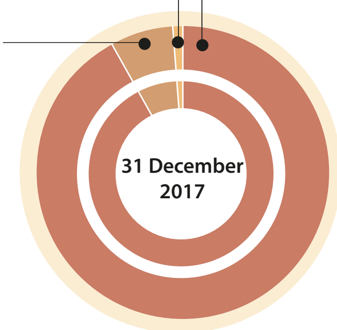
HK$ million	**As at 31 December 2018**	As at 31 December 2017	**Increase/(Decrease)** Amount	%	Note to the Financial Statements
Total assets	**7,660,713**	7,520,739	139,974	1.9%	
Loans and advances to customers and other parties	**4,024,401**	3,721,886	302,515	8.1%	28
Investments in financial assets	**1,884,427**	N/A	N/A	N/A	29
Available-for-sale financial assets	**N/A**	807,912	N/A	N/A	
Investments classified as receivables	**N/A**	644,789	N/A	N/A	
Held-to-maturity investments	**N/A**	261,654	N/A	N/A	
Cash and deposits	**832,968**	924,584	(91,616)	(10%)	20
Placements with banks and non-bank financial institutions	**200,030**	205,346	(5,316)	(2.6%)	21
Fixed assets	**189,647**	196,047	(6,400)	(3.3%)	36
Total liabilities	**6,850,053**	6,727,098	122,955	1.8%	
Deposits from customers	**4,159,924**	4,056,158	103,766	2.6%	44
Deposits from banks and non-bank financial institutions	**888,966**	954,638	(65,672)	(6.9%)	40
Debt instruments issued	**745,031**	653,371	91,660	14%	46
Borrowing from central banks	**327,629**	284,818	42,811	15%	
Trade and other payables	**171,093**	226,110	(55,017)	(24%)	42
Bank and other loans	**156,678**	142,442	14,236	10%	45
Total ordinary shareholders' funds and perpetual capital securities	**558,545**	550,951	7,594	1.4%	

Total assets

Total assets increased from HK$7,520,739 million as at 31 December 2017 to HK$7,660,713 million as at 31 December 2018, mainly attributable to an increase in loans and advances to customers and other parties.

By geography





Loans and advances to customers and other parties

As at 31 December 2018, loans and advances to customers and other parties of the Group amounted to HK$4,024,401 million, an increase of HK$302,515 million, or 8.1%, as compared with 31 December 2017. The proportion of loans and advances to customers and other parties to total assets was 52.53%, an increase of 3.04 percentage points as compared with 31 December 2017.

HK$ million	**As at 31 December 2018**	As at 31 December 2017	**Increase/(Decrease)** Amount	%
Loans and advances to customers and other parties measured at amortised cost				
Corporate loans	**2,160,645**	2,231,671	(71,026)	(3.2%)
Discounted bills	**169,204**	130,190	39,014	30%
Personal loans	**1,694,236**	1,473,346	220,890	15%
Accrued interest	**10,016**	N/A	N/A	N/A
Total loans and advances to customers and other parties measured at amortised cost	**4,034,101**	3,835,207	198,894	5.2%
Impairment allowances	**(119,857)**	(113,321)	(6,536)	(5.8%)
Carrying amount of loans and advances to customers and other parties measured at amortised cost	**3,914,244**	3,721,886	192,358	5.2%
Loans and advances to customers and other parties measured at fair value through other comprehensive income				
Corporate loans	**156**	N/A	N/A	N/A
Discounted bills	**110,001**	N/A	N/A	N/A
Carrying amount of loans and advances to customers and other parties measured at fair value through other comprehensive income	**110,157**	N/A	N/A	N/A
Net loans and advances to customers and other parties	**4,024,401**	3,721,886	302,515	8.1%

Deposits from customers

As at 31 December 2018, deposits from customers of the Group's financial institutions were HK$4,159,924 million, an increase of HK$103,766 million, or 2.6%, as compared with 31 December 2017. The proportion of deposits from customers to total liabilities was 60.73%, an increase of 0.43 percentage point as compared with 31 December 2017.

HK$ million	**As at 31 December 2018**	As at 31 December 2017	**Increase/(Decrease)** Amount	%
Corporate deposits				
Time and call deposits	**1,577,529**	1,463,098	114,431	7.8%
Demand deposits	**1,725,834**	1,947,517	(221,683)	(11%)
Subtotal	**3,303,363**	3,410,615	(107,252)	(3.1%)
Personal deposits				
Time and call deposits	**513,066**	357,069	155,997	44%
Demand deposits	**300,114**	281,084	19,030	6.8%
Subtotal	**813,180**	638,153	175,027	27%
Outward remittance and remittance payables	**5,504**	7,390	(1,886)	(26%)
Accrued interest	**37,877**	N/A	N/A	N/A
Total	**4,159,924**	4,056,158	103,766	2.6%

Bank and other loans

HK$ million	**As at 31 December 2018**	As at 31 December 2017	**Increase/(Decrease)** Amount	%
Financial services	**5,898**	7,176	(1,278)	(18%)
Resources and energy	**40,885**	43,900	(3,015)	(6.9%)
Manufacturing	**31,923**	28,130	3,793	13%
Engineering contracting	**2,657**	1,267	1,390	110%
Real estate	**9,402**	7,898	1,504	19%
Others	**34,825**	41,934	(7,109)	(17%)
Operation management	**67,778**	34,605	33,173	96%
Elimination	**(37,778)**	(22,468)	(15,310)	(68%)
Subtotal	**155,590**	142,442	13,148	9.2%
Accrued interest	**1,088**	N/A	N/A	N/A
Total	**156,678**	142,442	14,236	10%

Debt instruments issued

HK$ million	**As at 31 December 2018**	As at 31 December 2017	**Increase/(Decrease)** Amount	%
Financial services	**628,169**	529,238	98,931	19%
Resources and energy	**–**	598	(598)	(100%)
Manufacturing	**144**	2,632	(2,488)	(95%)
Engineering contracting	**–**	–	–	–
Real estate	**–**	–	–	–
Others	**3,849**	5,175	(1,326)	(26%)
Operation management	**106,561**	115,728	(9,167)	(7.9%)
Elimination	**–**	–	–	–
Subtotal	**738,723**	653,371	85,352	13%
Accrued interest	**6,308**	N/A	N/A	N/A
Total	**745,031**	653,371	91,660	14%

Total ordinary shareholders' funds and perpetual capital securities

As at 31 December 2018, total ordinary shareholders' funds and perpetual capital securities of the Group amounted to HK$558,545 million, an increase of HK$7,594 million as compared with 31 December 2017. This was mainly attributable to the growth in net profits, offset by dividend payments and redemption of perpetual capital securities with a nominal value of USD1 billion (equivalent to HK$7.8 billion).

Risk Management

CITIC Limited has established a risk management and internal control system covering all business segments to identify, assess and manage various risks in the Group's business activities. The business, operating results, financial position and profitability of CITIC Limited may be subject to a number of risk factors and uncertainties, directly or indirectly, relating to the Group. The risk factors set out below are not exhaustive and CITIC Limited, in addition to these risk factors, may also be exposed to other unknown risks or risks that may not be material at present but may become material in future.

Financial Risk

As a sub-committee of the Executive Committee, the Asset and Liability Management Committee ("ALCO") has been established to monitor financial risks of the Group in accordance with the relevant treasury and financial risk management policies.

Asset and liability management

CITIC Limited's sources of funds for different businesses include long-term and short-term debt and equity, of which ordinary shares, preferred shares and perpetual securities are the alternative forms of equity financing instruments. CITIC Limited manages its capital structure to finance its overall operations and growth by using different sources of funds. The type of funding is targeted to match the characteristics of our underlying business.

1. **Debt**

   ALCO centrally manages and regularly monitors the existing and projected debt levels of CITIC Limited and its major non-financial subsidiaries to ensure that the Group's debt size, structure and cost are at reasonable levels.

   As at 31 December 2018, consolidated debt of CITIC Limited(1) was HK$894,313 million, including loans of HK$155,590 million and debt instruments issued(2) of HK$738,723 million. Debt of the head office of CITIC Limited(3) accounted for HK$104,198 million and debt of CITIC Bank(4) HK$625,801 million. In addition, the head office of CITIC Limited had cash and deposits of HK$6,393 million and available committed facilities from banks of HK$25,200 million.

   The details of debt are as follows:

As at 31 December 2018		*HK$ million*
Consolidated debt of CITIC Limited		894,313
Among which:	Debt of the head office of CITIC Limited	104,198
	Debt of CITIC Bank	625,801

Note:

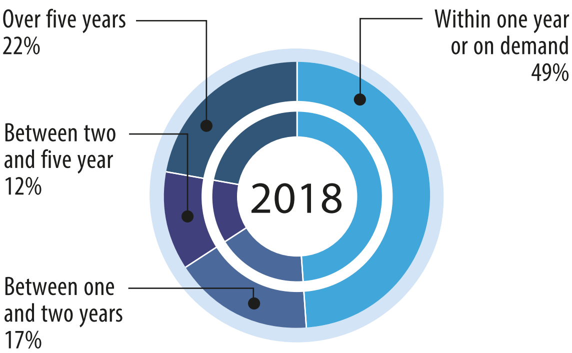
(1) Consolidated debt of CITIC Limited is the sum of "bank and other loans" and "debt instruments issued" in the Consolidated Balance Sheet of CITIC Limited excluding interest accrued;

(2) Debt instruments issued include corporate bonds, notes, subordinated bonds, certificates of deposit and certificates of interbank deposit issued excluding interest accrued;

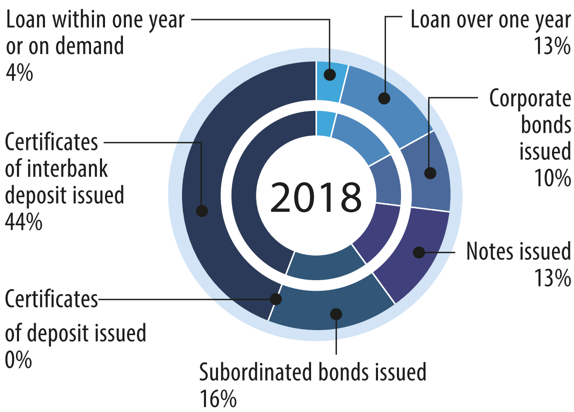
(3) Debt of the head office of CITIC Limited is the sum of "bank and other loans", "long-term borrowings" and "debt instruments issued" in the Balance Sheet of CITIC Limited excluding interest accrued;

(4) Debt of CITIC Bank refers to CITIC Bank's consolidated debt securities issued, including long-term debt securities, subordinated bonds, certificates of deposit and certificates of interbank deposit issued excluding interest accrued.

Consolidated debt by maturity as at 31 December 2018



Consolidated debt by type as at 31 December 2018



The debt to equity ratio of CITIC Limited as at 31 December 2018 is as follows:

In HK$ million	**Consolidated**	**Head office**
Debt	894,313	104,198
Total equity(5)	810,660	393,005
Debt to equity ratio	110%	27%

Note:

(5) Total consolidated equity is based on the "total equity" in the Consolidated Balance Sheet; Total equity of head office is based on the "total ordinary shareholders' funds and perpetual capital securities" in the Balance Sheet.

2. Liquidity risk management

The objective of liquidity risk management is to ensure that CITIC Limited always has sufficient cash to repay its maturing debt, perform other payment obligations and meet other funding requirements for normal business development.

CITIC Limited's liquidity management involves the regular cash flow forecast for the next three years and the consideration of its liquid assets level and new financings necessary to meet future cash flow requirements.

CITIC Limited centrally manages its own liquidity and that of its major non-financial subsidiaries and improves the efficiency of fund utilisation. With flexible access to domestic and overseas markets, CITIC Limited seeks to diversify sources of funding through different financing instruments, in order to raise low-cost funding of medium and long terms, maintain a mix of staggered maturities and minimise refinancing risk.

Details of liquidity risk management are set out in Note 51(b) to the consolidated financial statements.

3. Contingent liabilities and commitments

Details of contingent liabilities and commitments of CITIC Limited as at 31 December 2018 are set out in Note 50 to the consolidated financial statements.

4. Pledged loan

Details of cash and deposits, inventories, trade and other receivables, fixed assets, intangible assets and the equity of subsidiary pledged as security for CITIC Limited's loan as at 31 December 2018 are set out in Note 45(d) to the consolidated financial statements.

5. Credit ratings

	Standard & Poor's	Moody's
31 December 2018	BBB+/Stable	A3/Stable

Treasury risk management

Treasury risk management essentially covers the following financial risks inherent in CITIC Limited's businesses:

- Interest rate risk
- Currency risk
- Counterparty risk for financial products
- Commodity risk
- Market price risk

CITIC Limited manages the above risks by using appropriate financial derivatives or other means, and priority will be given to simple, cost-efficient and effective hedge instruments which meet the HKFRS 9 in performing treasury risk management responsibilities. To the extent possible, gains and losses of the derivatives offset the losses and gains of the assets, liabilities or transactions being hedged.

CITIC Limited is committed to establishing a comprehensive and uniform treasury risk management system. Within the group-wide treasury risk management framework, member companies are required to, according to their respective business characteristics and regulatory requirements, implement suitable treasury risk management strategies and procedures and submit reports on a regular and ad hoc basis.

1. Interest rate risk

CITIC Limited regularly monitors current and projected interest rate changes, with each of the operating entities of the Group implementing its own interest rate risk management system covering identification, measurement, monitoring and control of market risks. Interest rate risk is managed by taking into account market conditions and controlled at a reasonable level.

For our financial subsidiaries, repricing risk and benchmark risk are the main sources of interest rate risk. Observing the principle of prudent risk appetite, they closely track changes in the macroeconomic situation and internal business structure, continue to optimise the maturity structure of deposits, make timely adjustments to the loan repricing lifecycle, and take the initiative to manage sensitive gaps in interest rates for the overall objective of achieving steady growth both in net interest income and economic value within a tolerable level of interest rate risk.

For our head office and non-financial subsidiaries, the interest rate risk arises primarily from debt. Borrowings at floating rates expose CITIC Limited to cash flow interest rate risk, while borrowings at fixed rates expose CITIC Limited to fair value interest rate risk. Based on its balance sheet and market conditions, CITIC Limited and its non-financial subsidiaries will conduct analysis and sensitivity testing on interest rate risk, adopt a flexible approach in choosing financing instruments at floating and fixed rates, or choose to employ, at the suitable time, the interest rate swaps and other derivative instruments approved for use by the ALCO to manage interest rate risk.

Details of interest rate risk management are set out in Note 51(c) to the consolidated financial statements.

2. **Currency risk**
CITIC Limited has major operations in mainland China, Hong Kong and Australia, with Renminbi ("RMB"), Hong Kong dollar ("HKD") and United States dollar ("USD") as functional currencies respectively. The Group's member companies are exposed to currency risk from gaps between financial assets and liabilities, future commercial transactions and net investments in foreign operations that are denominated in a currency that is not the member company's functional currency. The reporting currency of the consolidated financial statements of CITIC Limited is HKD. Translation exposures from the consolidation of subsidiaries, whose functional currency is not HKD, are not hedged by using derivative instruments as no cash exposures are involved.

CITIC Limited measures its currency risk mainly by currency gap analysis. Where it is appropriate, the Group seeks to lower its currency risk by matching its foreign currency denominated assets with corresponding liabilities in the same currency or using forward contracts and cross currency swaps, provided that hedging is only considered for firm commitments and highly probable forecast transactions.

Details of currency risk management are set out in Note 51(d) to the consolidated financial statements.

3. **Counterparty risk for financial products**
CITIC Limited has business with various financial institutions, including deposits, interbank lending, financial investment products and derivative financial instruments. To mitigate the risk of non-recovery of deposited funds or financial instrument gains, member companies of CITIC Limited approve and adjust the list of counterparties and credit limits of approved financial institutions through internal credit extension processes. A regular report is required.

4. **Commodity risk**
Some businesses of CITIC Limited involve the production, procurement, and trading of commodities, and they face exposure to price risks of commodities such as iron ore, crude oil, gas and coal.

To manage some of its raw material exposures such as supply shortages and price volatility, CITIC Limited has entered into long-term supply contracts for certain inputs or used plain vanilla futures or forward contracts for hedging. While CITIC Limited views that natural offsetting is being achieved to a certain extent across its different business sectors, it performs a continual risk management review to ensure commodity risks are well understood and controlled within its business strategies.

5. **Market price risk**
CITIC Limited holds investments in financial assets classified as Derivative financial instruments or Investments in financial assets in the consolidated balance sheet. To control price risks arising from such investments, the Group actively monitors the price changes and diversifies the relevant investment risks through appropriate asset allocation.

Economic Environment

CITIC Limited operates diversified businesses globally in various countries and regions. As a result, its financial condition, operational results and business prospects are, to a significant degree, subject to the development of both international and domestic economies, as well as the political and legislative environment.

As China's economy is undergoing structural changes, the formation of new growth drivers involves further reforms in a variety of areas, including politics, economy, technology, culture and society. The global economy is still on the way of recovery, but the performances in main economic entities and regions are divergent, and challenges from trade friction and other aspects are increasing. The growth prospect is with uncertainty. If negative economic factors appear in countries and regions in which CITIC Limited operates, there might be an adverse impact on its operational results, financial condition and profitability.

Operational Risk

The financial services segment of the Group covers various sectors, including banking, securities, trust, insurance and asset management. As information technology is widely applied in the modern financial services industry, the reliability of computer systems, computer networks and information management software is essential to both traditional financial and innovative businesses. Unreliable information technology systems or underdeveloped network technologies may result in inefficient trading systems, business interruption, or loss of important information, thus affecting the reputation and service quality of financial institutions and even incurring economic losses and legal disputes.

CITIC Limited carries out resources and energy, manufacturing, engineering contracting, real estate, and other businesses in countries and regions across the world, and these businesses might continue to encounter a diversity of operational difficulties. Certain difficulties, if beyond the control of CITIC Limited, might result in production delays or increases in production costs. These operational risks include delay of government payments, deterioration of tax policies, labour disputes, unforeseen technical failures, various disasters and emergencies, unexpected changes in mineral, geological or mining conditions, pollution and other environmental damage, as well as potential disputes with foreign partners, customers, subcontractors, suppliers or local residents or communities. Such risks would cause damage or loss to the relevant businesses of CITIC Limited, which in turn could adversely affect its operations, financial condition and profitability.

Credit Risk

With the proliferation of new market entities, innovative business models, new products, businesses and counterparties, credit risks could increase in both width and complexity. In this unpredictable economic climate, with extensive business operations and counterparties, the Group pays close attention to market developments and credit risks arising from business partners. If the Group fails to investigate and prevent such risks, they may have an adverse impact on its operations, financial condition and profitability.

Competitive Markets

CITIC Limited operates in highly competitive markets. Failure to compete in terms of product specifications, service quality, reliability or price may have an adverse impact on the Group.

- The financial services business faces fierce competition from domestic and international commercial banks and other financial institutions.
- The engineering contracting business is challenged by global peers as well as China's large state-owned enterprises and private companies.
- Resources and energy, manufacturing, real estate operations, and other businesses in different sectors also face severe competition over resources, technologies, prices and services.

Intensification of competition might result in lower product prices, narrower profit margins as well as loss of market share for CITIC Limited.

Other External Risks and Uncertainties

Impact of local, national and international laws and regulations

CITIC Limited faces local business risks in different countries and regions. Such risks might have a significant impact on the financial condition, operations and business prospects of CITIC Limited in the relevant markets. The investments of CITIC Limited in countries and regions across the world might at present or in future be affected by changes in local, national or international political, social, legal, tax, regulatory and environmental requirements from time to time. In addition, new government policies or measures, if introducing changes in fiscal, tax, regulatory, environmental or other aspects that may affect competitiveness, could result in an additional or unforeseen increase in operating expenses and capital expenditures, produce risks to the overall return on investment of CITIC Limited, and delay or impede its business operations and hence adversely affect revenue and profit.

Impact of new accounting standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") issues new and revised Hong Kong Financial Reporting Standards ("HKFRSs") from time to time. As the accounting standards continue to evolve, HKICPA might further issue new and revised HKFRSs in the future. The new accounting policies, if required to be adopted by CITIC Limited, could have a significant impact on its financial condition and operations.

Natural disasters or events, terrorism and diseases

The business of CITIC Limited could be affected by events such as earthquakes, typhoons, tropical cyclones, inclement weather, acts or threats of terrorism, or outbreaks of highly contagious diseases, which would directly or indirectly reduce the supply of essential goods or services or reduce economic activities on a local, regional or global scale. Any of these disasters might damage the businesses of CITIC Limited, which would have a material adverse impact on the financial condition and operations of CITIC Limited.

Five Year Statistics

Operating Results

HK$ million	2014	2015 (Restated)	2016 (Restated)	2017	2018
	Year ended 31 December				
Revenue	402,124	395,310	381,662	450,536	533,285
Profit before taxation	77,800	78,645	70,791	82,783	93,969
Profit attributable to ordinary shareholders	39,834	41,812	43,146	43,902	50,239
Basic earnings per share (HK$)	1.60	1.58	1.48	1.51	1.73
Diluted earnings per share (HK$)	1.60	1.57	1.48	1.51	1.73
Dividend per share (HK$)	0.215	0.30	0.33	0.36	0.41
Return on net assets (%)	10.1%	9.3%	9.0%	8.6%	9.1%
Dividend payout ratio (%)	13%	19%	22%	24%	24%

Financial Condition

HK$ million	As at 31 December 2014	As at 31 December 2015	As at 31 December 2016 (Restated)	As at 31 December 2017	As at 31 December 2018
Total assets	5,947,831	6,803,309	7,239,489	7,520,739	7,660,713
Total liabilities	5,372,324	6,140,140	6,542,816	6,727,098	6,850,053
Total ordinary shareholders' funds and perpetual capital securities	431,960	492,902	491,002	550,951	558,545
Ordinary shareholders' funds per share (HK$)	16.79	16.47	16.61	18.67	19.20
Credit ratings					
– Standard & Poor's	BBB+/Stable	A-/Stable	A-/Negative	BBB+/Stable	BBB+/Stable
– Moody's	A3/Stable	A3/Stable	A3/Negative	A3/Negative	A3/Stable

Capital Expenditure

HK$ million	Year ended 31 December 2014	2015	2016	2017	2018
Capital Expenditure	26,645	45,704	48,264	45,323	43,802
– Financial services	5,046	13,819	16,350	14,880	7,651
– Resources and energy	12,257	12,059	4,874	5,429	7,001
– Manufacturing	4,619	4,937	5,405	5,861	7,832
– Engineering contracting	541	508	1,564	1,784	2,952
– Real estate	642	3,013	5,979	2,436	2,318
– Others	3,540	11,368	14,092	14,933	16,048

Corporate Governance

Corporate Governance Practices

CITIC Limited is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to promote investor confidence and protect the interests of our shareholders. We attach importance to our people, our code of conduct, and our corporate policies and standards, which together form the basis of our governance practices. We respect and are committed to comply with the laws, rules and regulations of each country and area in which we operate, and we strive to ensure for our people a healthy and safe working environment which is our paramount concern. We endeavour to contribute to the sustainable development of CITIC Limited, with particular focus on our accountability to shareholders and stakeholders. This report describes how CITIC Limited has applied its corporate governance practices to its everyday activities.

Save as disclosed below, CITIC Limited has applied the principles and complied throughout the year 2018 with all the code provisions of the corporate governance code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in force prior to 1 January 2019. Dr Xu Jinwu (independent non-executive director) was not able to attend the annual general meeting of CITIC Limited held on 14 June 2018 due to other engagements.

For the year 2018, CITIC Limited made further progress with its corporate governance practices, including the adoption of our Director Nomination Policy and Dividend Policy.

Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments.

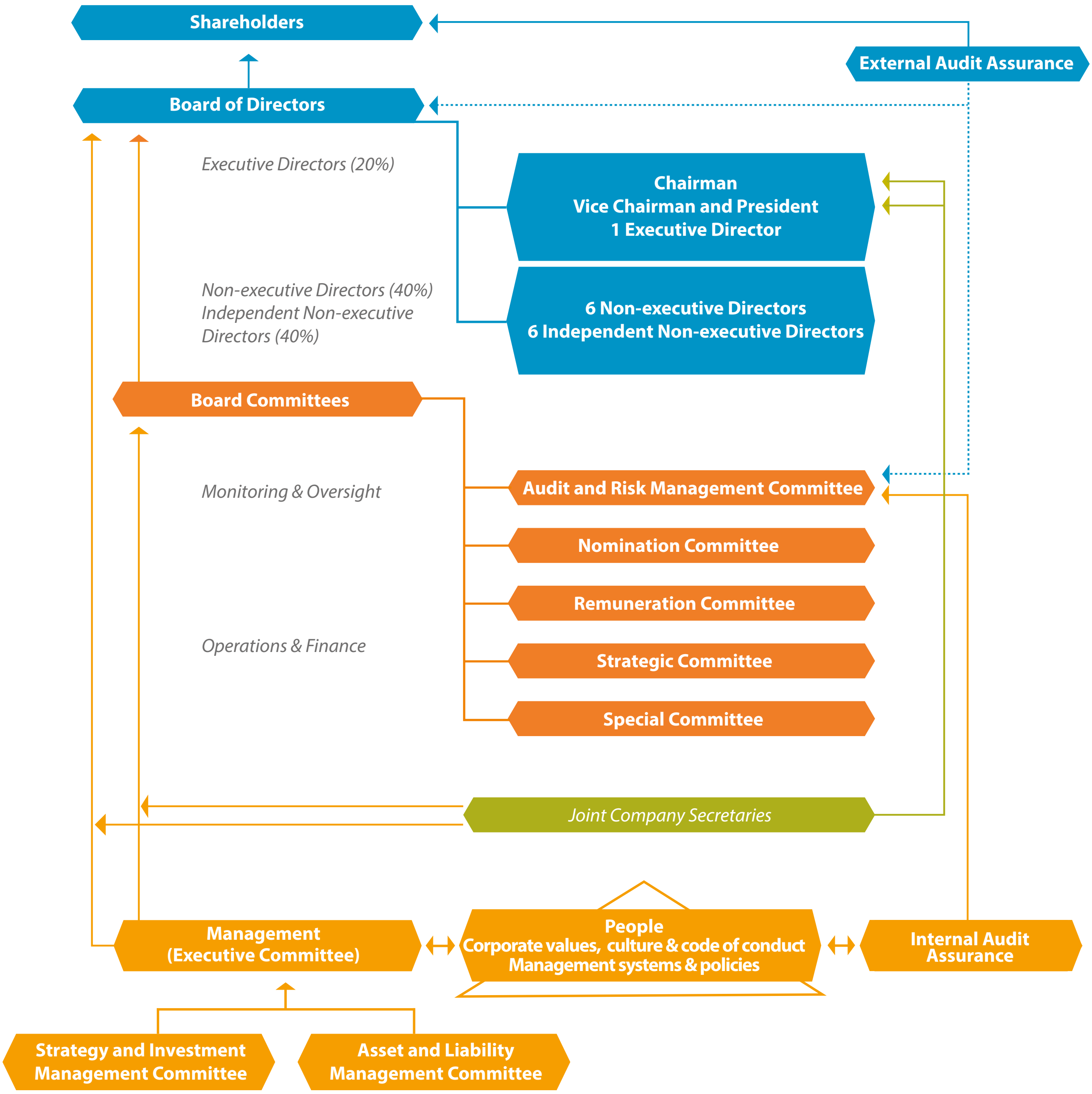
Preservation of Value and Strategy

CITIC Limited is one of China's largest conglomerates and a constituent of the Hang Seng Index. Among its diverse global businesses, CITIC Limited focuses primarily on financial services, resources and energy, manufacturing, engineering contracting and real estate. When we analyse a business, we look at its market position, competitiveness and future prospects.

CITIC Limited enjoys leading market positions in sectors well matched to China's economy. CITIC's rich history, diverse platform and strong corporate culture across all businesses ensure that CITIC Limited is unrivalled in capturing opportunities arising in China.

Going forward, the Group will continue to take a strategic approach in developing our businesses, riding on our professional management team, strong capital base, diverse business interests and synergies with our assets. Our expectation is that CITIC Limited's businesses will generate a return on capital invested above the cost of our capital and generate cash flow to the benefit of CITIC Limited and its shareholders. By pursuing this strategy, CITIC Limited expects to generate and preserve value for all its shareholders.

Corporate Governance Structure



Board of Directors

Overall accountability

The members of the board of directors are individually and collectively accountable to the shareholders for the success and sustainable development of CITIC Limited. The board provides direction and approval in relation to matters concerning CITIC Limited's business strategies, policies and plans, while the day-to-day business operations are delegated to the executive committee. In discharging their corporate accountability, directors of CITIC Limited are required to pursue excellence in the interests of the shareholders and fulfil their fiduciary duties by applying the required levels of skill, care and diligence to a standard in accordance with the statutory requirements.

During the year under review, the board performed a self-evaluation of its performance and reviewed the contribution required from a director to perform his/her responsibilities. The board is of the view that all directors have given sufficient time and attention to CITIC Limited's affairs and the board operates effectively as a whole. The board also noted the time involved by the directors in CITIC Limited and other public companies held by the directors. Mr Francis Siu Wai Keung, an independent non-executive director, has devoted sufficient time to the board notwithstanding that he currently holds directorships in six public companies (including CITIC Limited). He is the chairman of the audit and risk management committee and a member of a number of board committees which he attended and actively provided guidance and recommendations in each committee meeting. He also attended all board meetings and the annual general meeting in 2018 as well as attended site visits and the strategic committee and board retreat meeting. CITIC Limited considered that he has given sufficient time and attention to CITIC Limited's affairs as an independent non-executive director.

Board composition and changes

CITIC Limited announced the following changes in board composition.

On 20 March 2018, Mr Wu Youguang was appointed as a non-executive director of CITIC Limited and he subsequently resigned on 29 January 2019.

On 18 April 2018, Mr Noriharu Fujita resigned as an independent non-executive director and a member of the strategic committee of CITIC Limited. On the same day, Mr Shohei Harada was appointed as an independent non-executive director and a member of the strategic committee of CITIC Limited.

On 24 May 2018, Mr Liu Yeqiao resigned as a non-executive director and a member of the audit and risk management committee of CITIC Limited. On the same day, Mr Peng Yanxiang was appointed as a non-executive director and a member of the audit and risk management committee of CITIC Limited.

On 21 February 2019, Mr Pu Jian resigned as an executive director, vice president, a member of the executive committee and vice chairman of the strategy and investment management committee of CITIC Limited.

On 28 March 2019, Ms Lee Boo Jin resigned as an independent non-executive director and a member of the nomination committee of CITIC Limited. On the same day, Mr Gregory Lynn Curl was appointed as an independent non-executive director and a member of the nomination committee of CITIC Limited.

The appointment of the above directors were recommended by the nomination committee.

The board currently has 15 directors, comprising three executive directors, six non-executive directors and six independent non-executive directors. Non-executive directors (including independent non-executive directors) comprise four-fifths of the board, of which independent non-executive directors satisfy the Listing Rules requirement of representing at least one-third of the board. CITIC Limited believes that the board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of CITIC Limited's business.

In relation to the six non-executive directors who are not independent (as considered by The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange")), Mr Song Kangle, Ms Yan Shuqin, Mr Liu Zhuyu and Mr Peng Yanxiang are all non-executive directors of CITIC Group Corporation (the controlling shareholder of CITIC Limited) whilst Mr Liu Zhongyuan holds an executive position in the National Council for Social Security Fund (a shareholder of CITIC Limited) and Mr Yang Xiaoping is the senior vice chairman of the Charoen Pokphand Group.

CITIC Limited has received from each independent non-executive director a confirmation of his/her independence and considers that all independent non-executive directors are independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. Brief biographical particulars of the directors, together with information about the relationships among them, are set out on pages 115 to118.

All directors, including the non-executive directors, have a specific term of appointment, which is not more than three years since his/her re-election by shareholders at the general meeting. Each director has entered into an appointment letter with CITIC Limited. Pursuant to Article 104(A) of CITIC Limited's articles of association, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every three years. One-third of the directors, or if their number is not three or a multiple of three, then the number nearest to one-third, must retire from office at each annual general meeting. Retiring directors are eligible for re-election at the annual general meeting during which they retire. Separate resolutions are proposed for the election of each director and his/her re-election is subject to a vote of shareholders.

Pursuant to Article 95 of the articles of association of CITIC Limited, any director appointed by the board subsequent to the last annual general meeting either to fill a casual vacancy or as an additional director shall hold office only until the next following annual general meeting, or if earlier, the next following extraordinary general meeting of CITIC Limited and shall then be eligible for re-election at such meeting. Thereafter, they shall be subject to retirement by rotation and re-election in accordance with CITIC Limited's articles of association. Induction materials will be provided to the newly appointed directors upon their appointment.

Board responsibilities and delegation

The board collectively determines the overall strategies of CITIC Limited, monitors performance and the related risks and controls in pursuit of the strategic objectives of CITIC Limited. Day-to-day operation and management powers are delegated to the executive committee which reports to the board. All board members have separate and independent access to the management, and are provided with full and timely information about the conduct of the business and development of CITIC Limited, including reports and recommendations on significant matters. All board members are provided with monthly management updates on the latest development of CITIC Limited's businesses. Should separate independent professional advice be considered necessary by the directors, independent professional services would be made available to the directors upon request.

The board is also responsible for CITIC Limited's risk management and internal control systems and reviewing their effectiveness. The audit and risk management committee which acts on behalf of the board conducts a review of the effectiveness of the risk management and internal control systems annually and reports to the board on such review. Details are set out in the section below headed "Risk management and internal control".

The board has delegated certain functions to the respective committees, the details of which are set out below. Matters specifically reserved for the board include approval of financial statements, dividend policy, significant changes in accounting policies, material contracts, changes to appointments such as directors, company secretary and external auditor, remuneration policy for directors and senior management, terms of reference of board committees, as well as major corporate policies such as the code of conduct and whistle-blowing policy.

CITIC Limited has arranged Directors & Officers Liability and Company Reimbursement Insurance for its directors and officers.

Details of the responsibilities, membership, attendance and activities during the year under review of each board committee are set out on pages 91 to 100.

Board meetings and attendance

The board meets regularly to review the financial and operating performance of CITIC Limited and to discuss future strategy. Four regular board meetings were held in 2018. At the board meetings, the board reviewed significant matters including the CITIC Limited's annual and half-year financial statements, annual budget, proposals for final and interim dividends, annual report and half-year report, and any notifiable transactions, connected transactions and continuing connected transactions. At each of the regular board meetings, the board received a written report from the president on CITIC Limited's major businesses, investments and projects, and corporate activities.

A schedule of board meeting dates is fixed for each year in advance. At least 14 days' formal notice of all regular board meetings is given to all directors, and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and board papers for each meeting are sent to all directors at least three days in advance of every regular board meeting. All minutes of the board meetings are kept at the company secretariat office. Copies are provided to directors and the original minutes are available to all directors for inspection. During the year under review, in addition to the board meetings, the chairman also met with the non-executive directors (including independent non-executive directors) without the presence of executive directors. Starting from the financial year 2019, the chairman will meet with the independent non-executive directors without the presence of other directors as required under the revised code provision of the CG Code which took effect from 1 January 2019.

The attendance record of each director at board meetings and general meeting in 2018 is set out below:

	Attendance	
	Board Meeting	Annual General Meeting on 14 June 2018
Number of Meetings	4	1
Current Directors		
Executive Directors		
Mr Chang Zhenming (Chairman)	4/4	✓
Mr Wang Jiong (Vice Chairman and President)	3/4	–
Ms Li Qingping	3/4	–
Non-executive Directors		
Mr Song Kangle	4/4	✓
Ms Yan Shuqin	4/4	✓
Mr Liu Zhuyu	3/4	✓
Mr Peng Yanxiang(4)	3/3	✓
Mr Liu Zhongyuan	4/4	✓
Mr Yang Xiaoping	4/4	✓
Independent Non-executive Directors		
Mr Francis Siu Wai Keung	4/4	✓
Dr Xu Jinwu	4/4	–
Mr Anthony Francis Neoh	4/4	✓
Mr Paul Chow Man Yiu	4/4	✓
Mr Shohei Harada(2)	3/3	✓
Mr Gregory Lynn Curl(8)	N/A	N/A
Resigned Directors		
Executive Director		
Mr Pu Jian(6)	3/4	✓
Non-executive Directors		
Mr Liu Yeqiao(5)	1/1	N/A
Mr Wu Youguang(1)	4/4	✓
Independent Non-executive Directors		
Ms Lee Boo Jin(7)	4/4	✓
Mr Noriharu Fujita(3)	1/1	N/A

Notes:
(1) appointed on 20 March 2018 and subsequently resigned on 29 January 2019
(2) appointed with effect from 18 April 2018
(3) resigned with effect from 18 April 2018
(4) appointed with effect from 24 May 2018
(5) resigned with effect from 24 May 2018
(6) resigned with effect from 21 February 2019
(7) resigned with effect from 28 March 2019
(8) appointed with effect from 28 March 2019

Chairman and the president

Mr Chang Zhenming serves as the chairman of CITIC Limited. Mr Wang Jiong is the president of CITIC Limited. The chairman and the president have separate defined responsibilities whereby the chairman is primarily responsible for leadership and effective functioning of the board, ensuring key issues are promptly addressed by the board, as well as providing strategic direction for CITIC Limited. The president is responsible for the day-to-day management of CITIC Limited and the effective implementation of corporate strategy and policies. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the board.

Directors' continuous professional development programme

CITIC Limited has a continuous professional development programme ("CPD Programme") for directors with an aim to improve their general understanding of CITIC Limited's businesses, to refresh their knowledge and skills as well as to receive updates on developments in corporate governance practices. Directors may also choose to attend external courses, conferences and luncheons organised by various local organisations.

In addition, each newly appointed director is provided with a package comprising comprehensive induction materials such as the duties and responsibilities of directors under the Listing Rules and the Companies Ordinance, guidelines for directors issued by the Companies Registry of Hong Kong, legal and other regulatory requirements and the governance policies of CITIC Limited to ensure that he/she has a proper understanding of his/her responsibilities under the relevant laws, rules and regulations. During the year under review and up to the date of this report, four directors were appointed. CITIC Limited has arranged for briefing given by external legal counsel to the new directors.

Under the CPD Programme of CITIC Limited for the year 2018, directors were provided with the monthly business updates and other reading materials concerning the latest developments in corporate governance practices and relevant legal and regulatory developments. Further, CITIC Limited has organised talks given by PricewaterhouseCoopers about application of Robotic Process Automation and also sent invitation to independent non-executive directors to an exclusive Ernst & Young's annual boardroom briefing seminar at which Freshfields Bruckhaus Deringer LLP gave a talk on "What INEDs need to know in 2018". In addition, CITIC Limited has forwarded director training webcasts as well as e-training course launched by the Hong Kong Stock Exchange to the directors for them to fulfil their duties. Directors attended the strategic committee and board retreat meeting held in November 2018 to discuss the corporate strategy and business development of CITIC Limited. Directors also made site visits to projects and subsidiaries of CITIC Limited in Chengdu (China CITIC Bank Corporation Limited, Western China International Expo City and CITIC Urban Development & Operation Co., Ltd.) in November 2018 arranged by CITIC Limited.

According to the record of the directors' participation in CITIC Limited's CPD Programme kept at the company secretariat office, a summary of training received by the directors for the period from 1 January 2018 to 31 December 2018 is as follows:

	Reading Materials/ Regulatory Updates/ Monthly Management Updates	Briefings/ Seminars	Strategic Committee and Board Retreat Meeting	Site Visits
Executive Directors				
Mr Chang Zhenming	✓		✓	✓
Mr Wang Jiong	✓		✓	
Ms Li Qingping	✓		✓	✓
Mr Pu Jian(6)	✓			
Non-executive Directors				
Mr Song Kangle	✓		✓	✓
Ms Yan Shuqin	✓	✓	✓	✓
Mr Liu Zhuyu	✓		✓	✓
Mr Peng Yanxiang(4)	✓	✓	✓	✓
Mr Liu Zhongyuan	✓		✓	
Mr Yang Xiaoping	✓		✓	
Mr Liu Yeqiao(5)	✓			
Mr Wu Youguang(1)	✓	✓	✓	
Independent Non-executive Directors				
Mr Francis Siu Wai Keung	✓	✓	✓	✓
Dr Xu Jinwu	✓		✓	
Mr Anthony Francis Neoh	✓		✓	✓
Ms Lee Boo Jin(7)	✓			
Mr Paul Chow Man Yiu	✓		✓	✓
Mr Shohei Harada(2)	✓	✓	✓	
Mr Noriharu Fujita(3)	✓			
Mr Gregory Lynn Curl(8)	N/A	N/A	N/A	N/A

Notes:

(1) appointed on 20 March 2018 and subsequently resigned on 29 January 2019; induction materials and briefing by external legal counsel were provided in respect of his appointment

(2) appointed with effect from 18 April 2018; induction materials and briefing by external legal counsel were provided in respect of his appointment

(3) resigned with effect from 18 April 2018

(4) appointed with effect from 24 May 2018; induction materials and briefing by external legal counsel were provided in respect of his appointment

(5) resigned with effect from 24 May 2018

(6) resigned with effect from 21 February 2019

(7) resigned with effect from 28 March 2019

(8) appointed with effect from 28 March 2019; induction materials and briefing by external legal counsel were provided in respect of his appointment

Board Committees

The board has appointed a number of committees to discharge the board functions. Sufficient resources are provided to enable the board committees to undertake their specific roles. The respective role, responsibilities and activities of each board committee are set out below:

Audit and risk management committee

The audit and risk management committee oversees the relationship with the external auditor, and reviews CITIC Limited's financial reporting, annual audit and interim report. The committee acts on behalf of the board in providing oversight of CITIC Limited's financial reporting system, risk management and internal control systems, reviews and monitors the effectiveness of the internal audit function, and reviews CITIC Limited's policies and practices on corporate governance. The committee currently consists of two non-executive directors and three independent non-executive directors. The chairman of the committee is Mr Francis Siu Wai Keung, an independent non-executive director. Mr Francis Siu Wai Keung has the relevant professional qualification and expertise in financial reporting matters. The audit and risk management committee holds four regular meetings each year (at least two of which are with CITIC Limited's external auditor). At invitation of the audit and risk management committee, other directors, senior management and other relevant persons, as well as experts or consultants with relevant experience or expertise may also attend the meetings. The audit and risk management committee members also meet in separate private sessions with the external and internal auditors without the presence of executive directors and management at least once a year.

Duties of the audit and risk management committee

The authority, role and responsibilities of the audit and risk management committee are set out in written terms of reference. The committee reviews its terms of reference at least once a year to ensure they remain in line with the requirements of the CG Code. Amendments to the terms of reference are submitted to the board for approval. The terms of reference are available on CITIC Limited's website (https://www.citic.com/en/investor_relation/corporate_governance/AC_ToR_Eng.pdf) and the Hong Kong Stock Exchange's website.

Under its terms of reference, the audit and risk management committee shall

- review and monitor the integrity of CITIC Limited's financial information and provide oversight of the financial reporting system;
- monitor the effectiveness of external audit and oversee the appointment, remuneration and terms of engagement of CITIC Limited's external auditor, as well as its independence;
- oversee CITIC Limited's internal audit, risk management and internal control systems, including the resources for CITIC Limited's internal audit, risk management, accounting and financial reporting functions, staff qualifications and experience, as well as arrangements for concerns raised by staff on financial reporting, internal control and other matters ("whistle-blowing");

- undertake corporate governance functions delegated from the board, including

  (a) reviewing CITIC Limited's policies and practices on corporate governance and making recommendations to the board as well as CITIC Limited's compliance with the CG Code and disclosure in the corporate governance report;

  (b) reviewing and monitoring

    (i) the training and continuous professional development of directors and senior management;

    (ii) CITIC Limited's policies and practices on compliance with legal and regulatory requirements;

    (iii) the code of conduct and compliance manual (if any) applicable to employees and directors; and

    (iv) CITIC Limited's whistle-blowing policy and system.

- undertake other authorities delegated by the board.

Committee composition and meeting attendance

The composition of the audit and risk management committee during the year under review as well as the meeting attendance of the committee members are as follows:

Membership and Attendance

Members	Attendance/ Number of Meetings	Date of appointment/ resignation
Independent Non-executive Directors		
Mr Francis Siu Wai Keung (Chairman)	4/4	
Dr Xu Jinwu	4/4	
Mr Anthony Francis Neoh	4/4	
Non-executive Directors		
Mr Yang Xiaoping	3/4	
Mr Peng Yanxiang	3/3	Appointed on 24 May 2018
Mr Liu Yeqiao	1/1	Resigned on 24 May 2018
Other Attendees		
Representatives of Audit and Compliance Department	4/4	
Representatives of Financial Control Department	4/4	
Representatives of Office of the Board of Directors	4/4	
External Auditor	4/4	

The joint company secretary, Mr Choy Wing Kay, Ricky acts as the secretary to the committee. The committee is supported by a working group which consists of representatives from Audit and Compliance Department, Financial Control Department, Office of the Board of Directors and other departments of CITIC Limited. The working group provides services to the committee to ensure that sufficient resources are made available for the committee to perform its duties. An agenda and committee papers are sent to the committee members at least three days prior to each regular meeting. The draft and final version of minutes are circulated to all committee members for their comments and records within a reasonable time after the meeting. Full minutes of the meetings are kept by the joint company secretary.

The chairman of the committee summarises the activities of the committee and issues arising and reports to the board after each audit and risk management committee meeting.

Work done in 2018

The audit and risk management committee performed the followings in 2018:

Financial reporting	Reviewed the 2017 annual financial statements, annual report and results announcement
	Reviewed the 2018 half-year financial statements, half-year report and results announcement
	Recommended to the board approval of the 2017 annual report and 2018 half-year report
	Examined checklists for compliance with statutory and Listing Rules requirements for ensuring the integrity of the financial statements
External audit and interim review	Reviewed report provided by the external auditor on their statutory audit of the 2017 annual financial statements and their independent review of the 2018 half-year financial statements
	Discussed financial reporting and control matters set out in the report submitted by the external auditor or addressed in representation letters issued by management to the external auditor, and reviewed the status of assurances provided by the business and functional management with respect to the integrity of the financial statements
	Reviewed the external auditor plans for their independent review of CITIC Limited's 2018 half-year financial statements and their statutory audit of the 2018 annual financial statements, including the audit scope and the nature of their work
	Considered the independence of the external auditor of CITIC Limited
Internal control and internal audit	Examined management's annual self-assessments of the effectiveness of the risk management and internal control of the Group, including adequacy of the staff resources, qualifications and experience of CITIC Limited's internal audit, risk management, accounting and financial reporting functions
	Approved annual internal audit plan and reviewed the overall audit work progress in each committee meeting
	Reviewed internal audit's quarterly reports on risk management and internal control findings, recommendations, progress in rectification and other matters
	Noted any significant changes in financial or other risks faced by CITIC Limited and reviewed management's response to them

Corporate governance and code requirements	Reviewed reports submitted by the management on CITIC Limited's compliance with the code of conduct, regulatory and statutory obligations, and internal policies regarding the conduct of business and corporate governance work
	Reviewed the training and continuous professional development of directors
	Reviewed CITIC Limited's compliance with the CG Code and disclosure in the corporate governance report

At the meeting held on 26 March 2019, the audit and risk management committee reviewed and approved CITIC Limited's annual financial statements and annual report for the year ended 31 December 2018, and considered reports from the external and internal auditors. The audit and risk management committee recommended to the board for approval of the 2018 annual report.

Nomination committee

The nomination committee was established by the board with written terms of reference in compliance with the CG Code. The terms of reference are available on CITIC Limited's website (https://www.citic.com/en/investor_relation/corporate_governance/NC_ToR_Eng.pdf) and the Hong Kong Stock Exchange's website.

The nomination committee reports directly to the board and its principal duties are:

- to review the structure, size, composition and diversity of the board at least annually and make recommendations on any proposed changes to the board;
- to identify and nominate qualified candidates to become board members and/or to fill casual vacancies for the approval of the board;
- to assess the independence of independent non-executive directors;
- to make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors; and
- to review the board diversity policy and make recommendation on any required changes to the board.

Director Nomination Policy

The nomination committee is authorised by the board to determine the policy for the nomination of directors. The Director Nomination Policy was formally adopted on 20 November 2018 setting out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship which shall take into consideration the principle of diversity. A summary of the Director Nomination Policy including the objective set and the selection procedures is set out below:–

- The policy is for both nomination of directors and recommendation for re-election of retiring directors.
- The nomination committee shall identify individuals from a number of sources including, without limitation, through referrals and recommendations by the management of CITIC Limited, Human Resources Department and external independent professionals.

- In the identification and evaluation process, the committee shall have regard to the selection criteria which include but not limited to

  (i) qualifications, skills, expertise, independence which contribute to the effective carrying out of the Board responsibilities;

  (ii) commitment in respect of sufficient time and relevant interest devoted to the business and affairs of CITIC Limited; and

  (iii) board diversity including but not limited to skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service.

- The potential candidates are requested to provide the committee with biographical details.

- The nomination committee shall review the qualification, experience, skills, expertise and the factors of the above selection criteria for the nomination of directors, and shall take into account the factors and requirements as set out in the Listing Rules in the case of nominating or recommending for re-election of independent non-executive directors.

- After the assessment and evaluation, if the nomination committee considers the potential candidate is suitable to be nominated as a director, it will make recommendation for the board's consideration and approval.

- The board shall approve the nomination and appoint the proposed qualified candidate as director if it agrees with the nomination committee's recommendation.

- The ultimate responsibility for selection and appointment of directors rests with the entire board.

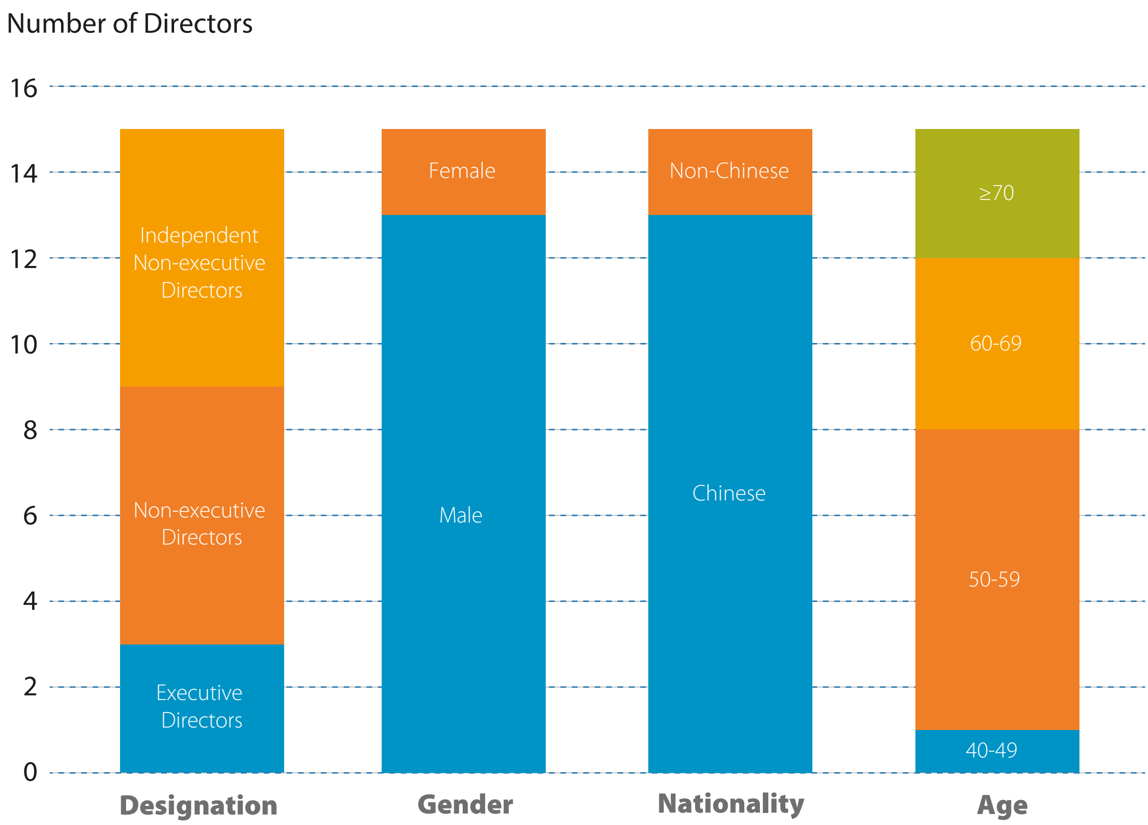
The nomination committee shall monitor the implementation of the policy and conduct a review on an annual basis.

Board Diversity Policy

CITIC Limited recognises and embraces the benefits of diversity in board members. CITIC Limited sees diversity as a whole concept and believes that diversity in all aspects, including experience and expertise, provides CITIC Limited with a high level of corporate governance and penetrating insights into CITIC Limited's businesses and industry.

The Board Diversity Policy which was adopted in 2013 sets out the approach to achieve diversity in the board, which includes and makes good use of the difference in skills, experience and background, geographical and industry experience, ethnicity, gender, knowledge and length of service and other qualities of the members of the board. These differences will be considered in determining the optimum composition of the board and all board appointments will be based on merit, having due regard to the overall effective functioning of the board as a whole. CITIC Limited believes that diversity can strengthen the performance of the board, promote effective decision-making and better corporate governance and monitoring. The nomination committee discusses and agrees annually the relevant measurable objectives that the board has set for implementing this policy and makes recommendation to the board for approval. It also monitors the implementation of this policy and reports to the board on the achievement of the measurable objectives for achieving diversity under this policy.

The following chart shows the diversity profile of the current board members:



The nomination committee currently comprises two executive directors, one non-executive director and four independent non-executive directors, and is chaired by Mr Chang Zhenming, the chairman of the board. The committee meets at least annually and at such other times as it shall require. The joint company secretary, Mr Choy Wing Kay, Ricky acts as the secretary to the committee. The committee is provided with sufficient resources enabling it to perform its duties, and it can seek independent professional advice at CITIC Limited's expense if necessary.

During the year under review, one nomination committee meeting was held and five sets of written resolutions were passed by all the committee members. The joint company secretary prepared full minutes of the nomination committee meeting and the draft minutes were circulated to all committee members within a reasonable time after the meeting.

Committee composition and meeting attendance

The composition of the nomination committee during the year under review as well as the meeting attendance of the committee members are as follows:

Membership and Attendance

Members	Attendance/ Number of Meetings
Executive Directors	
Mr Chang Zhenming (Chairman)	1/1
Mr Wang Jiong	1/1
Non-executive Director	
Ms Yan Shuqin	1/1
Independent Non-executive Directors	
Mr Francis Siu Wai Keung	1/1
Dr Xu Jinwu	1/1
Mr Anthony Francis Neoh	1/1
Ms Lee Boo Jin(Note)	1/1

Note:
On 28 March 2019, Ms Lee Boo Jin resigned as a member of the nomination committee and Mr Gregory Lynn Curl was appointed in her stead.

Work done in 2018

The nomination committee completed the following work in 2018:

– recommended the appointment of two non-executive directors and one independent non-executive director to the board for approval;

– made recommendations to the board on the re-election of directors retiring at the annual general meeting of CITIC Limited held on 14 June 2018;

– reviewed the structure, size, composition and diversity of the board;

– reviewed the board diversity policy and discussed the measurable objectives; and

– approved the Director Nomination Policy and recommended to the board for adoption.

In March 2019, two sets of resolutions were passed by circular by all the committee members, one of which was to recommend to the board the retiring directors for re-election at the forthcoming annual general meeting to be held in 2019 and the other was to recommend to the board the appointment of an independent non-executive director.

Remuneration committee

The principal role of the remuneration committee is to determine the remuneration packages of individual executive directors and senior management including salaries, bonuses, benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of office or appointment). The remuneration committee reviews and approves the management's remuneration proposals with reference to the board's corporate goals and objectives, salaries paid by comparable companies, regulations promulgated by national regulatory authorities on the remuneration of directors and senior management, time commitment and responsibilities and employment conditions elsewhere in the Group, so as to align management incentives with shareholder interests.

The committee currently comprises four independent non-executive directors and a non-executive director. The chairman of the committee is Mr Anthony Francis Neoh, an independent non-executive director. The committee meets at least once a year. A joint company secretary serves as the secretary of the committee. The terms of reference are available on CITIC Limited's website (https://www.citic.com/en/investor_relation/corporate_governance/RC_ToR_Eng.pdf) and the Hong Kong Stock Exchange's website.

During the year under review, one remuneration committee meeting was held and one set of written resolutions was passed by all the committee members. A joint company secretary prepared full minutes of the remuneration committee meeting and the draft minutes were circulated to all committee members within a reasonable time after the meeting.

Committee composition and meeting attendance

The composition of the remuneration committee during the year under review as well as the meeting attendance of the committee members are as follows:

Membership and Attendance

Members	Attendance/ Number of Meetings
Independent Non-executive Directors	
Mr Anthony Francis Neoh (Chairman)	1/1
Mr Francis Siu Wai Keung	1/1
Dr Xu Jinwu	1/1
Mr Paul Chow Man Yiu	0/1
Non-executive Director	
Mr Liu Zhuyu	1/1

Work done in 2018

The remuneration committee completed the following work in 2018:

– reviewed and approved the proposal for monthly salary of two new executive committee members of CITIC Limited

– reviewed and approved the 2017 remuneration for executives in charge (including executive directors and senior management) of CITIC Limited

Details of CITIC Limited's remuneration policies are set out in the Environmental, Social and Governance Report on page 142 and directors' remuneration and retirement benefits are disclosed on pages 241 to 244.

The remuneration paid to the directors, by name, for the year ended 31 December 2018 is set out in Note 14 to the consolidated financial statements.

The remuneration of senior management, by band, for the year ended 31 December 2018 is set out below.

Remuneration of senior management other than directors for the full year 2018

Total Remuneration Bands	Number of Executives
Below HK$500,000	2
HK$500,001 – HK$1,000,000	2
	4

Note:
Although the discretionary bonuses have yet to be confirmed by the relevant regulatory authority, it is expected that the unsealed remuneration will have no material impact on the financial statements of CITIC Limited for 2018.

Strategic committee

A strategic committee has been established to accommodate the strategic development of CITIC Limited and enhance its core competitiveness, make and implement the development plan of CITIC Limited, improve the investment-related decision making procedures and procure well-advised and efficient decision making.

The strategic committee shall be accountable to and report to the board and its powers and functions are:

- considering the major strategic directions of CITIC Limited and making proposals to the board;
- considering the mid-to-long term development plan and 5-year development plan of CITIC Limited and making proposals to the board;
- considering the impact of the macro economic conditions on the development of various business sectors of CITIC Limited and making proposals to the board; and
- other matters in connection with strategy planning pursuant to authorization of the board.

The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members include an executive director, Mr Wang Jiong (being vice chairman and president of CITIC Limited), three non-executive directors, Mr Song Kangle, Ms Yan Shuqin and Mr Yang Xiaoping, and two independent non-executive directors, Mr Anthony Francis Neoh and Mr Shohei Harada (appointed as committee member in place of Mr Noriharu Fujita with effect from 18 April 2018). Mr Li Rucheng (being a former non-executive director of CITIC Limited) serves as a consultant to the committee. During the year under review, one strategic committee meeting was held. The Strategic Development Department prepared full minutes of the strategic committee meeting and the draft minutes were circulated to all the committee members within a reasonable time after the meeting. A joint company secretary is responsible for keeping all the minutes of the meetings.

Special committee to deal with matters relating to investigations of CITIC Limited

A special committee has been established to deal with all matters relating to all investigations (including enquiries) of, and proceedings involving, CITIC Limited and its directors, arising from the 2008 forex incident, including but not limited to by the Market Misconduct Tribunal ("MMT"), the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force (the "Investigation"). The special committee is authorised by the board and empowered to

- approve communications between CITIC Limited and any relevant authorities or third parties in relation to the Investigation;
- consider the issue of legal professional privilege and to make decisions on behalf of CITIC Limited in connection therewith; and
- seek legal and professional advice on behalf of CITIC Limited as well as approve their fees.

The committee currently comprises two members, namely, Mr Zhang Jijing and Mr Francis Siu Wai Keung. No physical committee meetings were held during the year, and the committee members dealt with certain administrative matters by way of circulation.

In respect of the appeal against the Court of First Instance's judgment dated 19 December 2011, the Court of Appeal has on 29 June 2015 handed down a judgment on the first part of the appeal in CITIC Limited's favour with costs. Subsequently, the Police/Department of Justice have agreed not to contest the remainder of the Appeal, and the return of certain CITIC Limited's documents and materials seized by the Police has been carried out in accordance with the Court order. In the absence of any confirmation to the contrary, it is assumed that the Investigation is still ongoing.

In respect of the proceedings brought by the Hong Kong Securities and Futures Commission at the MMT against CITIC Limited and five of its former executive directors (further particulars of which are set out in Note 50(e)(i) to the consolidated financial statements), the hearing was completed in July 2016. On 10 April 2017, the MMT handed down its decision determining that, in the publication of CITIC Limited's circular on 12 September 2008, no market misconduct within the meaning of section 277(1) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) took place.

Management Committees

Executive committee

The Executive Committee is the highest authority of the management of CITIC Limited accountable to the board.

The functions and powers of the executive committee are:

- to formulate CITIC Limited's material strategic plans;
- to formulate CITIC Limited's annual material investment and financing plans (including reviewing material investment plans, feasibility studies, proposed disposals/divestments, mergers and acquisitions and other significant transactions of CITIC Limited);
- to review CITIC Limited's annual business plan and finance plans;
- to review monthly reports of CITIC Limited, and to submit to the board before each month-end the monthly report for the previous month;
- to manage and monitor CITIC Limited's core activities;
- to appoint and remove mid-level and above key personnel (other than personnel above the rank of assistant to general manager, and those appointed and removed by the board);
- to approve internal rules on day-to-day operations of CITIC Limited;
- to review and approve proposals to establish and adjust CITIC Limited's management and organizational structure; and
- to discharge other powers and functions conferred on it by the board.

The first three items and other matters within the authority of the board should be submitted for approval by the board, and thereafter implemented by the executive committee.

The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members are Mr Wang Jiong (being executive director, vice chairman and president of CITIC Limited, and also serves as vice chairman of the committee), Mr Cai Huaxiang (serving as vice chairman of the committee), Ms Li Qingping (being executive director and vice president of CITIC Limited), Mr Cui Jun (appointed as member of the executive committee with effect from 29 August 2018), Mr Liu Zhengjun (appointed as member of the executive committee and vice president of CITIC Limited with effect from 20 November 2018) and Mr Cai Xiliang (being vice president of CITIC Limited). Five committee meetings were held in 2018. The minutes of the meetings are kept at the executive office, which are circulated to the committee members after each meeting.

Strategy and Investment Management Committee

CITIC Limited has established the strategy and investment management committee as a sub-committee under the executive committee to enhance strategy management, to prevent investment risks and to promote high quality development. The principal responsibilities of the strategy and investment management committee are to

- study and draw up CITIC Limited's integral development, medium and long-term development plan and industries investment guideline, approve development strategies and plans of subsidiaries;
- establish a mechanism of empowered operation and management, organize and implement it; and
- organize and implement full life-circle management of investment activities within the group.

The committee is led by the chairman of the committee Mr Wang Jiong (being executive director, vice chairman and president of CITIC Limited), and the vice chairman of the committee Mr Cai Xiliang (being vice president of CITIC Limited), and other members of the committee include Mr Zhang Youjun (being assistant president of CITIC Limited), responsible persons of the strategic development department, financial control department, legal and compliance functions and treasury department.

Asset and Liability Management Committee

CITIC Limited has established the asset and liability management committee (the "ALCO") as a sub-committee under the executive committee to be in charge of monitoring and controlling the financial risks of CITIC Limited. The principal responsibilities of the ALCO are to

- monitor and control the asset and liability financial position of CITIC Limited on a regular basis;
- monitor and control the following issues of CITIC Limited
  - asset and liability structure
  - counterparties
  - currencies
  - interest rates
  - commodities
  - commitments and contingent liabilities
- review financing plans and manage the cash flow of CITIC Limited on the basis of the annual budget; and
- establish hedging policies and approve the use of new financial instruments for hedging.

The acting chairman of the committee is Mr Cao Guoqiang (being CFO of CITIC Limited), and other members include responsible persons of the financial control department, treasury department, strategic development department, the office of the board of directors and legal and compliance functions.

Accountability and Audit

Financial reporting

The board recognises the importance of the integrity of its financial information and acknowledges its responsibility for preparing financial statements that give a true and fair view of the Group's affairs, its results and cash flows in accordance with the Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance. The board endeavours to present to shareholders a balanced and understandable assessment of CITIC Limited's performance, position and prospects. Accordingly, appropriate accounting policies are selected and applied consistently, and judgments and estimates made by the management for financial reporting purposes are prudent and reasonable.

New or revised accounting standards became effective during the year under review, and those most significant and relevant to the Group are disclosed in Note 2 to the consolidated financial statements on page 178.

The responsibilities of the external auditors with respect to the accounts for the year ended 31 December 2018 are set out in the Independent Auditor's Report on pages 365 to 374.

External auditors and their remuneration

The external auditors perform independent reviews or audits of the financial statements prepared by the management. PricewaterhouseCoopers ("PwC") was engaged as CITIC Limited's external auditor since 1989 and retired at the close of annual general meeting held on 16 May 2013. KPMG was engaged in place of PwC as CITIC Limited's external auditor and subsequently retired at the close of the annual general meeting held on 2 June 2015 ("2015 AGM"). Since then, PwC has been appointed as CITIC Limited's external auditor in place of KPMG with effect from the close of the 2015 AGM as its largest listed subsidiary, China CITIC Bank Corporation Limited, was required to change its external auditor. For 2018, PwC's fees were approximately as follows:

Statutory audit fee: HK$99 million (2017: HK$86 million).

Fees for other services, including special audits, advisory services relating to systems and tax services: HK$33 million (2017: HK$33 million).

Other audit firms provided statutory audit services at a fee of approximately HK$99 million (2017: HK$76 million) as well as other services for fees of HK$18 million (2017: HK$19 million).

Risk management and internal control

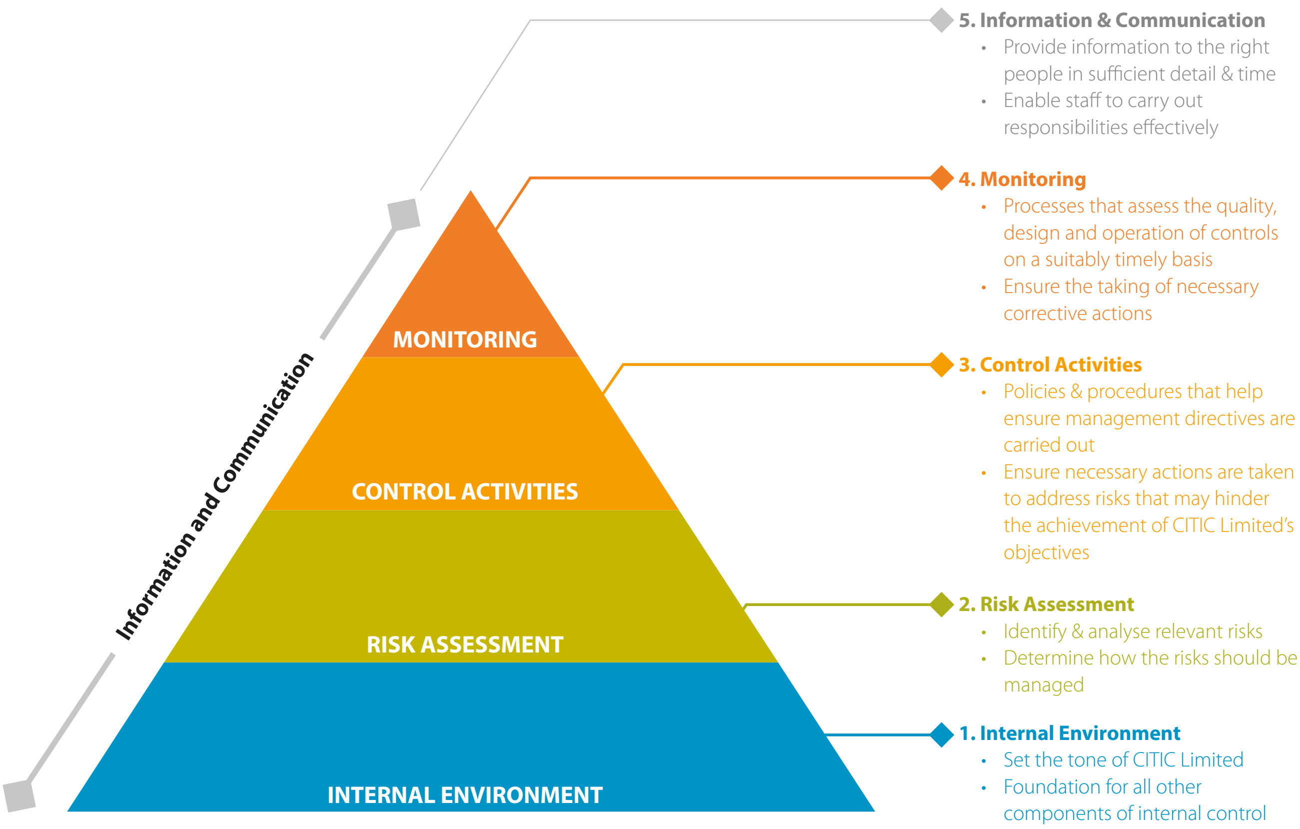
The Group's risk management and internal control systems are designed to reduce or manage risk to an acceptable level for the Group. They do not eliminate the risk of failure to achieve business objectives, however, can only provide reasonable assurance that the business objectives of CITIC Limited in the following areas are achieved:

- effectiveness and efficiency of operations, including the achievement of performance and operating targets and the safeguarding of assets;
- reliability of financial and operating information provided by the management, including management accounts and statutory and public financial reports; and
- compliance with applicable laws and regulations by business units and functions.

Overview of risk management and internal control

The risk management and internal control system of CITIC Limited is established along the core concepts of risk management and internal control released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and the Basic Standard for Enterprise Internal Control, as well as relevant guidelines and governmental policies.

The framework of risk management and internal control adopted by CITIC Limited is illustrated below:



The risk management and internal control system of CITIC Limited comprises "Four Levels" and "Three Lines of Defence" based on the corporate governance structure. The "Four Levels" are the (i) board of directors, (ii) management and several committees, (iii) risk management functions of CITIC Limited, and (iv) member companies. The "Three Lines of Defence" are the (i) first line of defence comprised by business units of each level of CITIC Limited, (ii) second line of defence comprised by the risk management functions of each level of CITIC Limited, and (iii) third line of defence comprised by the internal audit departments or functions of each level of CITIC Limited.

The board has overall responsibility for maintaining a sound and effective risk management and internal control system. The audit and risk management committee acts on behalf of the board in providing oversight of the Group's financial reporting system, risk management and internal control systems, reviews and monitors the effectiveness of the internal audit function, and reviews the Group's policies and practices on corporate governance.

As a sub-committee of the Executive Committee, the Asset and Liability Management Committee ("ALCO") has been established to monitor financial risks of the Group in accordance with the relevant treasury and financial risk management policies. Based on the annual budget, ALCO reviews CITIC Limited's financing plan and instruments, oversees fund management and cash flow positions, and manages risks relating to counterparties, interest rates, currencies, commodities, commitments and contingent liabilities. It is also responsible for formulating hedging policy and approving the use of new risk management tools.

Relevant departments of CITIC Limited are responsible for communicating and implementing the decisions, monitoring the adherence of the management policies and preparing relevant reports. All units have the responsibility for identifying, effectively managing and reporting risks on a timely basis, in accordance with the overall risk framework under the management policies and within the scope of authorisation.

CITIC Limited is committed to constantly improving its risk management and internal control framework at all levels; strengthening the risk assessment and monitoring of major projects and key businesses; staying fully informed of the operations, financial condition and major business progress of its subsidiaries through off-site monitoring, on-site inspections and other means to assess the risks that may arise; reporting on a timely basis any weaknesses and potential risks; supervising and implementing management and control measures; and improving the completeness and effectiveness of its risk management and internal control practices across the Group.

Key control policies and measures

The Group's risk management and internal control are primarily the collective responsibilities of management and the employee. For consistent compliance by every person in the Group, the following key control policies and measures have been implemented:

Key control policies and measures	
Internal environment	• The Group has corporate governance policy, human resources policy and code of conduct for its business operation and governance, as well as periodic reviews and refresher training sessions on important ethical practices. • A whistle-blowing policy has been implemented for facilitating internal reporting of suspected malpractice. • An inside information and price sensitive disclosure policy is in place covering the reporting and dissemination of price-sensitive information.
Risk assessment	• The executive committee of CITIC Limited constantly monitors the business, operational and other risks of the business units. • The risk management function identifies and assesses the systematic risks that CITIC Limited is facing through regular risk assessments. It also controls the risks of subsidiaries through regular risk management reporting and risk assessment as well as the monitoring of major projects and businesses. • Risk management reports are collated, prepared and submitted to the board for deliberation, and corresponding risk management measures will be adopted immediately. • In addition to the risk management function, relevant functions of CITIC Limited will also identify and assess financial and other risks in terms of investment review, strategic planning, financial management and compliance with laws. The long-term objective is to further promote and monitor formal business-wide risk management processes. Further information in this regard is set out in the Risk Management section of this annual report.
Control activities	• Major control systems and processes include budgetary and cost controls, relevant reporting systems and processes for management reporting, corporate policies and procedures for approval, review and segregation of duties across the Group.
Monitoring	• Constant monitoring of compliance and review of risk management and internal control are conducted under the supervision of the audit and risk management committee. (Please refer to the section "Monitoring of risk management and internal control effectiveness"). • The joint company secretaries of CITIC Limited and related functions are responsible for the overall assessment and monitoring of established procedures to ensure compliance with the Listing Rules and supervision of compliance matters related to applicable laws and other major requirements.

Key control policies and measures	
	• The internal audit function reports directly to the audit and risk management committee, and is responsible for examination of risk management and internal control.
Information and communication	• Implementation, maintenance and constant development of business and management information systems support CITIC Limited's businesses and operations, including finance, information disclosure and collaborative supervision. • Corporate information is disseminated in a timely manner through the intranet, collaborative office system and corporate email system of CITIC Limited. • A corporate website and shareholders communication policy ensure that shareholders receive complete and clear information about CITIC Limited and are encouraged to participate in general meetings of CITIC Limited.

Monitoring of risk management and internal control effectiveness

During the year under review, the audit and risk management committee assessed the effectiveness of the risk management and internal control systems on behalf of the board. The reviews covered material controls, including financial, operational and compliance controls, the adequacy of the resources, qualifications and experience of employees in the internal audit, risk management, accounting and financial reporting functions, as well as the sufficiency of training sessions and related budgets.

The main risk management and internal control reviews during the year were as follows:

Monitoring of risk management and internal control	Particulars of major tasks completed	Observations
Internal audit	• Reviewed the internal audit report. • Reviewed the progress and outcomes of internal audit in accordance with the approved annual internal audit plan.	• Internal audit findings and recommendations, and management's remedial actions taken were considered at each audit and risk management committee meeting. • Reported to the board on such reviews when necessary.

Monitoring of risk management and internal control	Particulars of major tasks completed	Observations
Compliance assessment	• Reviewed the compliance assessments made by business units and head office functions of CITIC Limited; reported on a regular basis cases of non-compliance with laws and regulations, listing rules, provisions under industry regulation, internal policies and rules; reported on an annual basis any matters subject to criminal convictions, administrative punishments, investigation by competent authorities and other punitive measures as a result of non-compliance; rectified non-compliance and ongoing supervision to ensure completion of such rectification.	• No major non-compliance cases were noted during the year.
Review of risk management and internal control system	• Reviewed the business operation and risk management, the changes of risks, and ability to respond in several meetings during the year. • Reviewed and confirmed the results of self-assessment on risk management and internal control effectiveness, and the written statements issued by senior management. • Reviewed the results of the comprehensive assessment of the major control and risk management activities undertaken by business units and head office functions. Ensured that the supporting documents of the self-assessments on risk management and internal control by the management were reviewed by the internal audit function or risk management function. • Reviewed the written statements issued by senior management of business units to confirm that their self-assessments remained correct and that their accounts were prepared in accordance with the financial reporting policies of the corporation.	• No material issues were identified during the year, but business units and the Group's head office functions indicated certain areas of risk management and internal control meriting improvement. • Management issued a positive confirmation.

Monitoring of risk management and internal control	Particulars of major tasks completed	Observations
Review of the internal audit, risk management, accounting and financial functions	• Reviewed the self-assessments made by business units and the finance, audit, monitoring and compliance functions on the adequacy of the resources, qualifications and experience of employees in the internal audit, risk management, accounting and financial reporting functions, as well as the sufficiency of training sessions and budget.	• Resources in the internal audit, risk management, accounting and finance functions were adequate. • On the whole, the qualifications and experience of the staff of the internal audit, risk management, accounting and finance functions were satisfactory. • Training activities and budgets were given constant attention and remained satisfactory during the year.

The board and the management will establish sufficient and effective supervision, management and controls through the risk management and internal control framework of CITIC Limited, which will ensure compliance with the Listing Rules and other legal or regulatory requirements of the jurisdictions in which the Group operates, in order to constantly improve the risk management and internal control system.

Internal Audit

CITIC Limited regards internal audit as an important part of the supervisory function of the board and the audit and risk management committee. The primary objective of internal audit, which is set out in the internal audit charter, is to provide independent and objective internal assurance and consulting services, evaluate and improve the effectiveness of risk management and internal control processes for the Company so as to add value and improve the Company's operations and accomplish its objectives.

Authority

Under the internal audit charter of CITIC Limited, the internal audit department can obtain and access all records, personnel and physical properties relevant to internal audit. The head of the internal audit department has unrestricted access to the board and senior management.

Responsibility

The responsibilities of the internal audit are set out in the internal audit charter, which stipulates that (a) examination and assessment are conducted in respect of risk management and internal control to evaluate whether risks related to the following are effectively controlled: achievement of strategic objectives, reliability and integrity of financial and operational information, efficiency and effectiveness of operations, safeguarding of assets, and compliance with the laws, regulations and policies of the Company; (b) follow-up audits and other measures are conducted to track and examine corrective actions in respect of audit findings; (c) special audits are conducted when required by the board and senior management.

Internal audit staffing and tasks completed in 2018

At 31 December 2018, CITIC Limited had approximately 450 internal audit staff members in the internal audit departments of the head office and major subsidiaries, providing audit services to various business units and functions of the Company.

During the year, the internal audit department prepared an annual internal audit plan in accordance with risk-based principles. Pursuant to the approved annual plan, detailed audit planning for each audit was devised, followed by field audits and discussions with management. Audit reports addressed to the management were prepared by the internal audit department after completion of the audits. Work reports were also tabled for review at each meeting of the audit and risk management committee, which included audit findings and follow-up results, work progress and staffing of internal audit. The internal audit department issued audit reports on various business segments and subsidiaries of the Company.

Other tasks performed by the internal audit department during the year included the following:

- Implementation of internal audit assessment to evaluate the audit work of major subsidiaries in terms of management, quality, performance, communication and coordination, in order to facilitate the effective execution of internal audit.

- Continuous training and development programme, including online training, sharing sessions and seminars, for internal audit staff to enhance their audit skills and knowledge.

Business Ethics

Code of Conduct

At CITIC, we are committed to upholding "The CITIC Spirit 中信風格" which is the cornerstone of our corporate culture, and also the fundamental code of the Company for guiding the business practice and conduct of our people:

Compliance	遵紀守法
Integrity	作風正派
Earnest	實事求是
Innovation	開拓創新
Modesty	謙虛謹慎
Cooperation	團結互助
Diligence	勤勉奮發
Effectiveness	雷厲風行

We stick to core values and corporate culture & spirits with the characteristics of "CITIC SPIRIT", think highly of employees' integrity, morality and professional integrity. The company's Code of Conducts requires employees to strictly obey the laws, regulations and disciplines in their operational activities. It is a code that the employees must abide by and a standard for assessing professional conducts of employees. In 2018, we organised trainings in terms of professional integrity, anti-fraud and anti-corruption based on the types of industries and levels of posts. Various publicizing platforms including the internal network, official accounts of Wechat and APP were utilised to educate and guide employees to establish and maintain their excellent conducts and behaviors. The heads of every branches were required to conduct education, supervision and assessment regarding employees' conducts. The company developed the system of regular self-criticism to detect the risks to honesty and justice, to investigate and punish all sorts of illegal behaviors, to analyze and evaluate the effective implementation of this system, to propose advices for further improvement and correction, and to stably improve the levels of internal control management.

Whistle-blowing policy

Employees are encouraged to propose complaints against the possible misconducts. The dedicated organization has been established with many channels including e-mails, phone call and fax and the dedicated personal have been put into charge. All reports with regard to misconducts received by the company shall be seriously treated with appropriate measures for internal investigations. The informer-protection mechanism has been established and implemented to keep the confidentiality of informers' identity and issues having been reported. The range of information needing told to the relevant parties shall be strictly restricted in the investigative process.

Inside information/price sensitive information disclosure policy

CITIC Limited has adopted an inside information/price sensitive information disclosure policy setting out the practices and procedures for monitoring business and corporate developments and events so that any potential inside information/price sensitive information is promptly identified and relayed to the board to enable it to make timely decisions on disclosure, if necessary, and for taking appropriate measures to preserve confidentiality of inside information/price sensitive information until proper dissemination of the inside information/price sensitive information via the electronic publication system operated by the Hong Kong Stock Exchange.

Good employment practices

In Hong Kong, CITIC Limited has followed the guide to good employment practices issued by the Employers' Federation of Hong Kong to ensure legally compliant, non-discriminatory and professional employment practices are implemented.

Directors' and relevant employees' securities transactions

CITIC Limited has adopted the model code for securities transactions by directors of listed companies ("Model Code") contained in Appendix 10 to the Listing Rules. All directors confirmed that they have complied with the required standard set out in the Model Code throughout 2018. As at 31 December 2018, none of the directors of CITIC Limited had interests in the securities of CITIC Limited as referred to in the Report of the Directors on page 136.

In addition to the requirements set out in CITIC Limited's code of conduct, the joint company secretaries regularly write to executive management and other relevant employees who are privy to unpublished inside information/price sensitive information, as reminders of their responsibility to comply with the provisions of the Model Code and keep the matter confidential until announced. They are also specifically reminded not to engage in any insider dealings as stipulated under Section 270 of the Securities and Futures Ordinance.

Joint Company Secretaries

Mr Wang Kang and Mr Choy Wing Kay, Ricky are the joint company secretaries of CITIC Limited. All directors have access to the advice and services of the joint company secretaries on board procedures and corporate governance matters as and when required. The joint company secretaries report to the chairman and/or the vice chairman/president of CITIC Limited. During the year under review, Mr Wang and Mr Choy took no less than 15 hours of relevant professional training respectively.

Constitutional Documents

There were no changes in the articles of association of CITIC Limited during the year under review. The latest version of the articles of association is available on the websites of the Hong Kong Stock Exchange and CITIC Limited.

Communication with Shareholders

CITIC Limited considers effective communication with shareholders essential to enable them to have a clear assessment of the enterprise performance as well as to ensure the board of directors is accountable. Major means of communication with shareholders of CITIC Limited are as follows:

Information disclosure at corporate website

CITIC Limited endeavours to disclose all material information about the Group to all interested parties as widely and in as timely a manner as possible. CITIC Limited maintains a corporate website at https://www.citic.com/en/, where important information about CITIC Limited's activities and corporate matters such as annual reports and half-year reports to shareholders, announcements, business development and operations, corporate governance practices and other information are available for review by shareholders and other stakeholders.

When announcements are made through the Hong Kong Stock Exchange, the same information will be made available on CITIC Limited's website.

During the year under review, CITIC Limited has issued announcements in respect of continuing connected transactions and overseas regulatory announcements, which can be viewed on CITIC Limited's website (https://www.citic.com/en/investor_relation/announcements_circulars/).

General meetings with shareholders

CITIC Limited's annual general meeting provides a useful platform for direct communication between the board and shareholders. Separate resolutions are proposed on each substantial separate issue at the general meetings.

Dividend Policy

Following the introduction of a new code provision of the CG Code which came into effect on 1 January 2019 setting out the requirement for a policy on payment of dividends, CITIC Limited has adopted a dividend policy on 20 November 2018 to enhance its transparency and to facilitate shareholders and investors to make their investment decisions.

CITIC Limited attaches importance to providing reasonable returns for investors. The dividend policy of CITIC Limited maintains continuity and stability and takes into consideration the long-term interests of CITIC Limited, overall interests of all shareholders and the sustainable development of CITIC Limited. CITIC Limited expects to pay dividends twice each financial year and cash dividend distribution is preferred. The payment of dividend is also subject to any restrictions under Hong Kong legislation and CITIC Limited's articles of association. According to the articles of association, CITIC Limited in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the board of directors. No dividend shall be payable except out of the profits of CITIC Limited.

Voting by poll

Resolutions put to vote at the general meetings of CITIC Limited (other than on procedural matters) are taken by poll. Procedures regarding the conduct of the poll are explained to the shareholders at the commencement of each general meeting, and questions from shareholders regarding the voting procedures are answered. The poll results are posted on the websites of the Hong Kong Stock Exchange and CITIC Limited respectively on the same day as the poll.

Investor relations

CITIC Limited aims to generate sustainable shareholder value. We recognise that effective management of stakeholder relationships, including those with investors, is key to realising that value. We believe that our objectives and shareholder objectives should be aligned for long-term value creation and hope that our shareholders agree with our conviction that sustainable long-term growth is more important than short-term gains.

CITIC Limited acknowledges its responsibility to engage with shareholders and respond respectfully to their questions. We aspire to transparent and open communications and are committed to timely disclosure of relevant and material information. We meet with investors regularly to update them on our business progress and strategy. In addition, we respond promptly to questions received from the media and individual shareholders. We endeavour to share financial and non-financial information that is relevant and material, and clearly communicate our business strategy through biannual and other timely communications. In all cases, great care is taken to ensure that price sensitive information is not disclosed selectively. When announcements are made through the Hong Kong Stock Exchange, the same information will be made available on CITIC Limited's website.

Shareholders' Rights

Set out below is a summary of certain rights of the shareholders of CITIC Limited as required to be disclosed pursuant to the mandatory disclosure requirement under the CG Code:

Convening of extraordinary general meeting on requisition by shareholders

In accordance with Sections 566 to 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholder(s) of CITIC Limited representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of CITIC Limited, may require the directors of CITIC Limited to convene an extraordinary general meeting ("EGM"). The written requisition must state the general nature of the business to be dealt with at the EGM and must be signed by the shareholder(s) concerned and deposited at the registered office of CITIC Limited at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong for the attention of the joint company secretaries in hard copy form or sent to CITIC Limited in electronic form. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If the directors of CITIC Limited do not within 21 days after the date on which the written requisition is received by CITIC Limited proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of 3 months from the date of the original requisition.

The EGM convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the directors of CITIC Limited.

Procedures for directing shareholders' enquiries to the board

Shareholders may at any time send their enquiries and concerns to the board of directors of CITIC Limited in writing through the joint company secretaries whose contact details are as follows:

The Joint Company Secretaries
CITIC Limited
32nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central, Hong Kong
Email: contact@citic.com
Tel No.: +852 2820 2184
Fax No.: +852 2918 4838

The joint company secretaries will forward the shareholders' enquiries and concerns to the board of directors and/or relevant board committees of CITIC Limited, where appropriate, to answer the shareholders' questions.

Procedures for putting forward proposals at general meetings by shareholders

Shareholders are requested to follow Sections 615 and 616 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) for including a resolution at an annual general meeting of CITIC Limited ("AGM"). The requirements and procedures are set out below:

(i) Any number of shareholders representing at least 2.5% of the total voting rights of all shareholders having a right to vote on the resolution at an AGM to which the requisition relates, or at least 50 shareholders having a right to vote on the resolution at an AGM to which the requisition relates, may submit a requisition in writing to put forward a resolution which may properly be moved at an AGM.

(ii) CITIC Limited shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of CITIC Limited entitled to receive notice of an AGM unless a copy of the requisition specifying the resolution of which notice is to be given and signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of CITIC Limited at 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong for the attention of the joint company secretaries in hard copy form or is sent to CITIC Limited in electronic form not less than (i) 6 weeks before an AGM to which the requisition relates; or (ii) if later, the time at which notice is given of that AGM.

Pursuant to Article 108 of CITIC Limited's articles of association, no person, other than a retiring director, shall, unless recommended by the board for election, be eligible for election to the office of director at any general meeting, unless notice in writing by a shareholder of his intention to propose that person for election as a director and notice in writing by that person of his willingness to be elected shall have been given to CITIC Limited in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, provided that such period shall be at least seven days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

Board of Directors

CHANG Zhenming *(Executive Director and Chairman)*
Age 62: Mr Chang is responsible for the leadership and effective functioning of the board, ensuring that key issues are addressed by the board. He provides the strategic direction for the Company. From 2000 to 2005 he served as an executive director, from 2006 as a non-executive director, and since 2009 as the chairman of the Company. Mr Chang is the chairman of the executive committee, the nomination committee and the strategic committee. He is also the chairman of CITIC Group Corporation and CITIC Corporation Limited, and the vice chairman of CITIC International Financial Holdings Limited. He has been appointed as the chairman of the board and a non-executive director of Frontier Services Group Limited with effect from 6 December 2018. He was formerly the vice chairman and president of China Construction Bank, a non-executive director and deputy chairman of Cathay Pacific Airways Limited, a non-executive director of China CITIC Bank International Limited, the chairman of the board and a non-executive director of China CITIC Bank Corporation Limited ("China CITIC Bank") and the chairman of CITIC Hong Kong (Holdings) Limited.

WANG Jiong *(Executive Director, Vice Chairman and President)*
Age 59: an executive director, vice chairman and president of the Company since 2014. Mr Wang is a vice chairman of the executive committee, a member of the nomination committee and the strategic committee and the chairman of the strategy and investment management committee. He is currently the vice chairman and president of CITIC Group Corporation and CITIC Corporation Limited. He was formerly deputy general manager of CITIC Shanghai Co., Ltd; general manager and chairman of CITIC Shanghai (Group) Co., Ltd; chairman and general manager of CITIC East China (Group) Co., Ltd; assistant president of China International Trust & Investment Corporation; and executive director and vice president of CITIC Group. Mr Wang has a background of more than 20 years in finance and industry, with extensive knowledge and experience particularly in corporate strategy planning, operating management, investment financing, mergers, acquisitions and restructuring. He graduated from Shanghai University of Finance & Economics with a Master's degree in economics.

LI Qingping *(Executive Director)*
Age 56: an executive director of the Company since 2015. Ms Li is the vice president of the Company and a member of the executive committee. She is currently executive director and vice president of CITIC Group Corporation, executive director and vice president of CITIC Corporation Limited, and chairperson and executive director of China CITIC Bank. She was formerly president of China CITIC Bank, general manager of the International Department of Agricultural Bank of China, general manager of Guangxi Branch, and director of the Retail Business Department. Ms Li is a senior economist with over 30 years' experience in the banking industry, with particular emphasis on international business and retail business. She graduated from Nankai University in International Finance Programme with a Master's degree in Economics.

SONG Kangle *(Non-executive Director)*
Age 55: a non-executive director of the Company since 2016. Mr Song is a member of the strategic committee. He worked with several posts in Ministry of Finance ("MOF") as staff member, senior staff member, principal staff member, deputy director, consultant at director level, associate counsel, deputy director general and counsel at director general level in various departments, such as Department of Human Resource Development, Department of External Financing, Department of External Affairs, Department of Enterprise and Department of Asset Management. He graduated from School of Public Finance and Taxation of Liaoning Institute of Finance and Economics (now known as Dongbei University of Finance and Economics) with a Bachelor's degree in public finance and China Europe International Business School of Shanghai Jiao Tong University. He is a Postgraduate degree holder.

YAN Shuqin *(Non-executive Director)*
Age 58: a non-executive director of the Company since 2016. Ms Yan is a member of the nomination committee and the strategic committee. She worked with several posts in MOF as staff member, senior staff member, principal staff member, deputy director, director, assistant inspector, deputy inspector and chief inspector in Jiangxi Supervision & Inspection Office and Ningbo Supervision & Inspection Office. She graduated from Jiangxi University of Finance and Economics with a Bachelor's degree in economics. She is a certified public accountant.

LIU Zhuyu *(Non-executive Director)*
Age 57: a non-executive director of the Company since 2017. Mr Liu is a member of the remuneration committee. He worked with several posts in MOF as senior staff member, principal staff member, deputy director and director at Department of Industry, Transportation and Finance, director at Economic Trade Department of MOF , deputy inspector at Beijing Supervision & Inspection Office, deputy director at State Equity & Corporate Finance Department and director general at Network Information Center, director general of Department of Treasury and Treasury Payment Center of MOF. Mr Liu graduated from Hubei Institute of Finance and Economics (now known as Zhongnan University of Economics and Law). He is a senior accountant and also a Certified Public Accountant.

PENG Yanxiang *(Non-executive Director)*
Age 56: a non-executive director of the Company since 2018. Mr Peng is a member of the audit and risk management committee. Mr Peng is currently non-executive director of CITIC Group Corporation. He worked with several posts in the MOF as assistant engineer, engineer, deputy director, senior engineer, director of Computing Center, deputy chief engineer (director level), deputy director general, director general of Network Information Center. He graduated from Beijing Institute of Technology. He is a senior engineer. He worked and studied at TKC Corp. in Japan from February 1987 to February 1988 and acquired bookkeeping qualification.

LIU Zhongyuan *(Non-executive Director)*
Age 49: a non-executive director of the Company since 2014. Mr Liu is currently director-general of Equity & Fixed-Income Investment Department of the National Council for Social Security Fund. He was formerly an officer and division chief of the General Office and General Planning and Trial Department, National Economic System Reform Commission; division chief and deputy director of the Secretary and Administration Department, Economic System Reform Office of the State Council; deputy director and director of the Secretariat Office of the National Council for Social Security Fund; director and deputy director-general of the Equity Management Department of the National Council for Social Security Fund; deputy director-general of the Equity Management Department (Private Equity Investment Department) of the National Council for Social Security Fund; director-general of the Overseas Investment Department of the National Council for Social Security Fund. Mr Liu has a Doctorate degree in economics from the School of Economics at Renmin University of China.

YANG Xiaoping *(Non-executive Director)*
Age 55: a non-executive director of the Company since 2015. Mr Yang is a member of the audit and risk management committee and the strategic committee. He is currently the senior vice chairman of the Charoen Pokphand Group, an executive director and the vice chairman of C.P. Lotus Corporation, CEO of CT Bright Holdings Limited, a non-executive director of Ping An Insurance (Group) Company of China, Ltd., Tianjin Binhai Teda Logistics (Group) Corporation Limited and Honma Golf Limited. He has been appointed as co-chairman of the board of China Minsheng Investment Group with effect from 11 February 2019. Mr Yang previously acted as the manager of Nichiyo Co., Ltd. for China Division and the chief representative of Nichiyo Co., Ltd., Beijing Office. Mr Yang was a member of The Twelfth National Committee of Chinese People's Political Consultative Conference. He is also the vice president of the China Institute for Rural Studies of Tsinghua University, the associate dean of Institute of Global Development of Tsinghua University, the chairman of Related Party Transaction Committee of the board of directors - China Minsheng Investment (Group) Corp., Ltd.. Mr Yang holds a Bachelor's degree from Jiangxi Institute of Technology and has experience of studying in Japan.

Francis SIU Wai Keung *(Independent Non-executive Director)*
Age 64: an independent non-executive director of the Company since 2011. Mr Siu is the chairman of the audit and risk management committee and a member of the remuneration committee, the nomination committee and the special committee. He is an independent non-executive director of GuocoLand Limited, China Communications Services Corporation Limited, CGN Power Co., Ltd., China International Capital Corporation Limited and Beijing Gao Hua Securities Company Limited. He is also the chairman and independent non-executive director of BHG Retail Trust Management Pte. Ltd.. He joined KPMG Manchester, UK in 1979 and returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. From 2000 to 2002, he was a senior partner of KPMG Shanghai Office. From 2002 to March 2010, he was a senior partner of KPMG Beijing Office, and a senior partner of Northern Region, KPMG China.

XU Jinwu *(Dr.-Ing.)* *(Independent Non-executive Director)*
Age 69: an independent non-executive director of the Company since 2012. Dr Xu is a member of the audit and risk management committee, the remuneration committee and the nomination committee. He is the vice president of The Chinese Society for Metals (中國金屬學會) and the chairman of the Metallurgical Equipment Committee of The Chinese Society for Metals (中國金屬學會冶金設備分會). He was appointed as the president of University of Science and Technology Beijing in 2004 and retired in 2013. He served as an independent director of Ningbo Donly Transmission Equipment Co., Ltd. from January 2006 to January 2012 and Xinyu Iron & Steel Co., Ltd. from April 2006 to April 2009.

Anthony Francis NEOH *(Independent Non-executive Director)*
Age 72: an independent non-executive director of the Company since 2014. Mr Neoh is the chairman of the remuneration committee, and a member of the audit and risk management committee, the nomination committee and the strategic committee. He has until October 2016, been a member of the International Advisory Council of the China Securities Regulatory Commission ("CSRC"). He also previously served as chief advisor to the CSRC, a member of the Hong Kong Special Administrative Region Basic Law Committee under the Standing Committee of the National People's Congress, chairman of the Hong Kong Securities and Futures Commission, a member of the Hong Kong Stock Exchange Council and its Listing Committee, and chaired its Disciplinary Committee and Debt Securities Group, and Deputy Judge of the Hong Kong High Court. From 1996 to 1998, he was chairman of the Technical Committee of the International Organization of Securities Commissions. He was appointed as Queen's Counsel (now retitled as Senior Counsel) in Hong Kong in 1990. Mr Neoh graduated from the University of London with a degree in Law in 1976. He is a barrister of England and Wales and admitted to the State Bar of California. In 2003, he was conferred the Degree of Doctor of Laws, *honoris causa*, by the Chinese University of Hong Kong. He was formerly elected Honorary Fellow of the Hong Kong Securities Institute and Academician of the International Euro-Asian Academy of Sciences in 2009. In 2013, he was awarded the Degree of Doctor of Social Science, *honoris causa*, by the Open University of Hong Kong and in 2016, he was also awarded the Degree of Doctor of Social Science, *honoris causa*, by Lingnan University. Mr Neoh is an independent non-executive director of Industrial and Commercial Bank of China Limited and New China Life Insurance Company Ltd.. He has been appointed as the chairman of the Independent Police Complaints Council for a term of two years with effect from 1 June 2018 to 31 May 2020. He was formerly a non-executive director of Global Digital Creations Holdings Limited. He also served as an independent non-executive director of Link Asset Management Limited (manager of Link Real Estate Investment Trust), China Shenhua Energy Company Limited, Bank of China Limited and China Life Insurance Company Limited.

Paul CHOW Man Yiu *(Independent Non-executive Director)*
Age 72: an independent non-executive director of the Company since 2016. Mr Chow is a member of the remuneration committee. He currently serves as an independent non-executive director of China Mobile Limited, Julius Baer Group Ltd. and Bank Julius Baer Co. Ltd.. He has also assumed the membership of the remuneration committee and chairman of the nomination committee of China Mobile Limited in May 2016. Mr Chow was an executive director and chief executive of Hong Kong Exchanges and Clearing Limited from May 2003 to January 2010. He served as the chief executive, Asia Pacific Region (ex-Japan) of HSBC Asset Management (Hong Kong) Limited from 1997 to 2003. He retired as the chairman of Hong Kong Cyberport Management Company Limited on 4 June 2016 after completing 6 years of services as well as a member of the Asian Advisory Committee of AustralianSuper Pty. Ltd. on 28 February 2017 after completing 4 years of services. He retired from the office as a member of Advisory Committee on Innovation and Technology of the Government of the Hong Kong Special Administrative Region ("HKSAR Government") on 31 March 2017. He also retired from the office as independent non-executive director, chairman of the personnel and remuneration committee, member of the audit committee, member of the risk policy committee and member of the connected transactions control committee of Bank of China Limited (the "Bank") with effect from 18 August 2016 after serving the Bank for 6 years. Mr Chow was awarded the title of Justice of the Peace, the Silver Bauhinia Star and the Gold Bauhinia Star by the HKSAR Government in 2003, 2005 and 2010 respectively. As Mr Chow is retiring, he will not stand for re-election after his retirement by rotation at the forthcoming annual general meeting of the Company to be held on 5 June 2019 ("2019 AGM") pursuant to Article 104(A) of the articles of association of the Company. Accordingly, he will retire as an independent non-executive director of the Company and will cease to be a member of the remuneration committee of the Company, both to be effective from the conclusion of the 2019 AGM.

Shohei HARADA *(Independent Non-executive Director)*
Age 61: an independent non-executive director of the Company and a member of the strategic committee since 2018. Mr Harada is currently a chief executive partner at Sengokuyama Partners Accounting Office. He also serves on the Audit & Supervisory Board for The Nation Federation of Agricultural Cooperative Association (ZEN-NOH). He has been appointed as an Audit & Supervisory Board Member of Kasumigaseki Capital Co., Ltd. (listed on the Tokyo Stock Exchange on 28 November 2018) in April 2018. Mr Harada joined Tetsuzo Ota & Co. (later became Ernst & Young ShinNihon, LLC) in October 1984, where he performed audit engagements of major banks and real estate companies. From July 1993 to August 1997, he was seconded to the Ernst & Young London office. Mr Harada became a partner of Ernst & Young ShinNihon, LLC in May 1999 and a senior partner in May 2004. From September 2012 to February 2016, he was an executive partner of Ernst & Young ShinNihon, LLC and has served as the Advisory Japan Leader and Real Estate Sector Japan Leader. He retired from Ernst & Young ShinNihon, LLC in June 2017. He set up Sengokuyama Partners Accounting Office in July 2018 and started his new career. He is a licensed Certified Public Accountant in Japan. As an accounting professional, Mr Harada has extensive experience in real estate securitization, fund business, and advisory. Mr Harada graduated from Chuo University with a Bachelor degree in Commerce in March 1980.

Gregory Lynn CURL *(Independent Non-executive Director)*
Age 70: an independent non-executive director and a member of the nomination committee of the Company with effect from 28 March 2019. Mr Curl joined Temasek International as president on 1 September 2010, following his retirement from Bank of America ("BAC") in March 2010. He brings with him a banking career of over 30 years. During his time with BAC, Mr Curl served in a number of senior executive capacities including vice chairman of corporate development, and last held the position of chief risk officer. He is also a director of Post Holdings, Inc. (listed on the New York Stock Exchange). Mr Curl was appointed as an independent non-executive director of the Company in May 2011 and was re-designated as a non-executive director in August 2014 by reason of a shareholding interest held by Temasek group in a subsidiary of CITIC Pacific Limited (further details of which are set out in the Company's announcement dated 25 August 2014). Such shareholding interest has since been disposed. Mr Curl held such position until September 2014. He was also a director of the University of Virginia's Jefferson Scholars Foundation, The Enstar Group, Inc., Grupo Financiero Santander Serfin, and a non-executive director of China Construction Bank Corporation. Mr Curl received a Bachelor degree in Political Science from Southwest Missouri State University and a Master degree in Government from the University of Virginia. He was named a Woodrow Wilson Fellow in 1970 and was a Philip Dupont Scholar and a McIntire Fellow at the University of Virginia.

Senior Management

CAI Huaxiang
Age 59: a vice chairman of the executive committee of the Company since 2016. Mr Cai formerly served as deputy director general of the Human Resources Department, president of Nanchang branch, president of Jiangxi branch, general manager of the Operations Department and president of Beijing branch of China Development Bank; vice president of China Development Bank Corporation; vice president and executive director of Agricultural Bank of China Limited. Mr Cai is a Senior Economist. He graduated from China University of Geosciences in industrial engineering with a college diploma and holds a Master's degree in engineering.

CUI Jun
Age 54: a member of the executive committee of the Company since 2018. Mr Cui currently serves as leader of Discipline Inspection and Supervision Group of CITIC Group Corporation for The Central Commission for Discipline Inspection of the CPC and The National Supervisory Commission. He formerly served as presiding judge of the second economic tribunal, presiding judge of the second civil tribunal, vice president of High People's Court of Heilongjiang Province, chief of Supervision Department of Heilongjiang Province, executive deputy secretary of CPC Party Discipline Inspection Commission and deputy director general of Supervision Commission of Heilongjiang Province, and the secretary of the CPC Party Discipline Inspection Commission of CITIC Group Corporation. He graduated from Jilin University in jurisprudence with a Master's degree and Doctorate in law.

LIU Zhengjun
Age 53: vice president of the Company and a member of the executive committee since 2018. Mr Liu formerly served as staff member, deputy director, director of Jinan Regional Office of National Audit Office of the People's Republic of China (CNAO), director general of Department of Public Finance Audit of CNAO, director general of Changchun Regional Office of CNAO, director general of Department of Non-profit Government Agencies Audit of CNAO, director general of Law Department of CNAO. He graduated from Nankai University in finance with a Master's degree and Doctorate in economics.

CAI Xiliang
Age 52: vice president of the Company and a member of the executive committee since 2016; and a vice chairman of the strategy and investment management committee since 2018. Mr Cai formerly served as deputy dean of Shanghai University of Finance and Economics, president of Shanghai Jinzhong Development Co., Ltd., president of CITIC East China (Group) Corp., Ltd., president and chairman of CITIC Daxie Development Company, dean of Ningbo Daxie Development Zone Economic Development Bureau, director of CITIC Group, president of CITIC Industrial Investment Group Corp., Ltd. Mr Cai has extensive experience in industrial investment. He graduated from Shanghai University of Finance and Economics with a Master's degree in economics.

Report of the Directors

The directors have pleasure in presenting to shareholders their report for the year ended 31 December 2018.

Principal Activities

CITIC Limited is one of China's largest conglomerates. The principal activity of CITIC Limited is investment holding and its subsidiaries are engaged in financial services, resources and energy, manufacturing, engineering contracting and real estate as well as other businesses both in China and overseas.

Subsidiary Companies

The name of the principal subsidiaries, the place of incorporation and shares issued are set out in Note 61 to the consolidated financial statements.

Business Review

A fair review, discussion and analysis of the Group's business as required by Schedule 5 to the Companies Ordinance (Cap 622 of the Laws of Hong Kong), including the material factors underlying its results and financial position are set out in the sections headed "Chairman's Letter to Shareholders", "Our Businesses" and "Financial Review" on pages 4 to 74 of this annual report. An account of the principal risks and uncertainties facing the Group is provided in the "Risk Management" section on pages 75 to 80 of this annual report. Particulars of important events affecting CITIC Limited that have occurred since the end of the financial year 2018 (if any) and the likely future development in CITIC Limited's business can also be found in this annual report. The above discussions form an integral part of the Directors' Report.

In addition, an account of CITIC Limited's performance by reference to environmental and social-related policies is provided in the "Environmental, Social and Governance Report" on pages 140 to 167 of this annual report.

Dividends

The directors declared an interim dividend of HK$0.15 per share (2017: HK$0.11 per share) for the year ended 31 December 2018 which was paid on 4 October 2018. The directors recommended, subject to approval of the shareholders at the forthcoming annual general meeting of CITIC Limited to be held on 5 June 2019 (the "2019 AGM"), the payment of a final dividend of HK$0.26 per share (2017: HK$0.25 per share) in respect of the year ended 31 December 2018, payable on Wednesday, 26 June 2019 to shareholders on CITIC Limited's register of members at the close of business on 14 June 2019. This represents a total distribution for the year of HK$11,927 million.

Donations

Donations made by CITIC Limited and its subsidiary companies during the year are set out in the "Environmental, Social and Governance Report" of this annual report.

Share Capital and Reserves

Movements in the share capital and reserves of CITIC Limited and the Group during the year are set out in Note 48 to the consolidated financial statements.

Fixed Assets

Movements in fixed assets during the year are set out in Note 36 to the consolidated financial statements.

Major Customers and Suppliers

During the year, both the aggregate percentage of purchases from the Group's five largest suppliers and the aggregate percentage of sales to the Group's five largest customers were less than 30% of total purchases and sales of the Group respectively.

Borrowings, Debt Instruments Issued and Perpetual Capital Securities

Particulars of borrowings, debt instruments issued and perpetual capital securities of CITIC Limited and its subsidiary companies as at 31 December 2018 are set out in Notes 45, 46 and 48 to the consolidated financial statements.

Equity-linked Agreements

Save as disclosed below in the section headed "Share Option Plan Adopted by CITIC Limited", no equity-linked agreements that will or may result in CITIC Limited issuing shares or that require CITIC Limited to enter into any agreements that will or may result in CITIC Limited issuing shares were entered into by CITIC Limited during the year or subsisted at the end of the year.

Directors

The directors of CITIC Limited during the year and up to the date of this report are:

Executive Directors
Mr Chang Zhenming *(Chairman)*
Mr Wang Jiong *(Vice Chairman and President)*
Ms Li Qingping
Mr Pu Jian *(resigned on 21 February 2019)*

Non-executive Directors
Mr Liu Yeqiao *(resigned on 24 May 2018)*
Mr Song Kangle
Ms Yan Shuqin
Mr Liu Zhuyu
Mr Peng Yanxiang *(appointed on 24 May 2018)*
Mr Liu Zhongyuan
Mr Yang Xiaoping
Mr Wu Youguang *(appointed on 20 March 2018 and subsequently resigned on 29 January 2019)*

Independent Non-executive Directors
Mr Francis Siu Wai Keung
Dr Xu Jinwu
Mr Anthony Francis Neoh
Ms Lee Boo Jin *(resigned on 28 March 2019)*
Mr Noriharu Fujita *(resigned on 18 April 2018)*
Mr Paul Chow Man Yiu
Mr Shohei Harada *(appointed on 18 April 2018)*
Mr Gregory Lynn Curl *(appointed on 28 March 2019)*

Mr Pu Jian, Mr Liu Yeqiao, Mr Wu Youguang, Ms Lee Boo Jin and Mr Noriharu Fujita have confirmed that they have no disagreement with the board and nothing relating to their resignation that needs to be brought to the attention of the shareholders of CITIC Limited.

Mr Peng Yanxiang, Mr Wu Youguang and Mr Shohei Harada who were appointed by the board as directors of CITIC Limited subsequent to the last annual general meeting in 2017 were re-elected as directors at the annual general meeting held on 14 June 2018. Pursuant to Article 95 of the articles of association of CITIC Limited, Mr Gregory Lynn Curl who was appointed by the board as director of CITIC Limited on 28 March 2019 shall hold office only until the next following annual general meeting, or if earlier, the next following extraordinary general meeting of CITIC Limited and, being eligible, offer himself for re-election. In addition, pursuant to Article 104(A) of CITIC Limited's articles of association, Ms Li Qingping, Ms Yan Shuqin, Mr Liu Zhongyuan, Dr Xu Jinwu and Mr Paul Chow Man Yiu shall retire by rotation at the 2019 AGM. Except for Mr Paul Chow Man Yiu who will not seek for re-election after his retirement at the 2019 AGM, all other directors, being eligible, offer themselves for re-election at the 2019 AGM.

The biographical details of directors and senior management as at the date of this report are set out in the "Board of Directors" and "Senior Management" sections on pages 115 to 119 of this annual report.

Directors of Subsidiaries

The list of directors who have served on the boards of the subsidiaries of CITIC Limited during the year and up to the date of this report is available on CITIC Limited's website at www.citic.com.

Directors' Material Interests in Transactions, Arrangements or Contracts

Save as disclosed in the sections headed "Non-Exempt Continuing Connected Transactions" below and "Material related parties" in Note 52 to the consolidated financial statements, no transactions, arrangements or contracts of significance in relation to CITIC Limited's business to which CITIC Limited's subsidiaries, fellow subsidiaries or its holding company was a party or were parties and in which a director of CITIC Limited or his or her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Service Contracts

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Management Contracts

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

Permitted Indemnity

Pursuant to CITIC Limited's articles of association and subject to the provisions of the Companies Ordinance (Cap 622 of the Laws of Hong Kong), every director or other officer of CITIC Limited shall be entitled to be indemnified out of the assets of CITIC Limited against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto. CITIC Limited has arranged Directors & Officers Liability and Company Reimbursement Insurance for its directors and officers to protect them against potential costs and liabilities arising from claims brought against them.

Related Party Transactions

CITIC Limited and its subsidiaries entered into certain transactions in the ordinary course of business and on normal commercial terms which were "Material Related Party Transactions", the details of which are set out in Note 52 to the consolidated financial statements of CITIC Limited. Some of these transactions also constitute "Connected Transactions" and/or "Continuing Connected Transactions" under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as summarised below.

Non-Exempt Continuing Connected Transactions

During the year under review, the Group engaged in the following non-exempt continuing connected transactions with CITIC Group Corporation ("CITIC Group") and/or its associates (the "Connected Persons"), particulars of which were previously disclosed in the announcements of CITIC Limited and are required under the Listing Rules to be disclosed in this annual report and the consolidated financial statements of CITIC Limited.

1. Sales Framework Agreement — sale of manganese ore by the Group to the Connected Persons

   The original Sales Framework Agreement dated 30 September 2014 ended on 31 December 2016. As CITIC Limited and CITIC Group intended to continue to carry out the relevant transactions, both parties entered into a new sales framework agreement ("New Sales FA") on 30 November 2016, details of which were set out in CITIC Limited's announcement dated 30 November 2016.

   New Sales FA

Period:	commencing from 1 January 2017 and ending on 31 December 2019	
Annual Caps:	*for year ended 31/12/2018* RMB1,050,000,000	*for year ending 31/12/2019* RMB1,050,000,000

   There were no transactions under the New Sales FA for the year ended 31 December 2018.

2. Financial Assistance Framework Agreement — financial assistance provided by the Group to the Connected Persons in the form of entrusted loans or commercial loans

   The original Financial Assistance Framework Agreement dated 30 September 2014 ended on 31 December 2016. As the Group intended to continue to provide financial assistance to the Connected Persons in the form of entrusted loans and commercial loans, CITIC Limited and CITIC Group entered into a new financial assistance framework agreement ("New Financial Assistance FA") on 30 November 2016. Details of the above were set out in CITIC Limited's announcement dated 30 November 2016.

New Financial Assistance FA

Period:	commencing from 1 January 2017 and ending on 31 December 2019	
Maximum Daily Balance:	*for year ended 31/12/2018* RMB10,200,000,000	*for year ending 31/12/2019* RMB11,000,000,000

The maximum daily balance of the financial assistance under the New Financial Assistance FA for the year ended 31 December 2018 was approximately RMB2,202,500,000.

3. Asset Transfer Framework Agreement

The original Asset Transfer Framework Agreement (the "Original Asset Transfer FA") dated 8 December 2014 made between China CITIC Bank Corporation Limited ("CITIC Bank", a non-wholly-owned subsidiary of CITIC Limited) and CITIC Group in relation to the transfer of loan and other related assets between CITIC Bank and the Connected Persons which constituted continuing connected transactions of CITIC Limited, ended on 31 December 2017. A new asset transfer framework agreement (the "New Asset Transfer FA") was entered into on 24 August 2017 between CITIC Bank and CITIC Group for renewal of the Original Asset Transfer FA, details of which were set out in CITIC Limited's announcements dated 23 November 2017 and 6 December 2017.

New Asset Transfer FA

Annual Caps:	*for year ended 31/12/2018* RMB13,000,000,000	*for year ending 31/12/2019* RMB13,000,000,000	*for year ending 31/12/2020* RMB13,000,000,000

There were no transactions under the New Asset Transfer FA for the year ended 31 December 2018.

4. Aluminium Alloy Hub Procurement Framework Agreement ("Aluminium Alloy Hub Procurement FA") — procurement of aluminium alloy hubs by the Group from the Connected Persons

The Aluminium Alloy Hub Procurement FA was entered into on 28 March 2018 between CITIC Limited and CITIC Group, details of which were set out in CITIC Limited's announcement dated 28 March 2018.

Period:	commencing from 28 March 2018 and ending on 31 December 2020		
Annual Caps:	*for period ended 31/12/2018* RMB380,000,000	*for year ending 31/12/2019* RMB400,000,000	*for year ending 31/12/2020* RMB430,000,000

The transaction amount under the Aluminium Alloy Hub Procurement FA for the period ended 31 December 2018 was approximately RMB244,951,805.

5. Raw Materials, Equipment and Accessories Sales Framework Agreement ("Raw Materials, Equipment and Accessories Sales FA") — sales of raw materials, equipment and accessories by the Group to the Connected Persons

The Raw Materials, Equipment and Accessories Sales FA was entered into on 28 March 2018 between CITIC Limited and CITIC Group, details of which were set out in CITIC Limited's announcement dated 28 March 2018.

Period: commencing from 28 March 2018 and ending on 31 December 2020

Annual Caps:	*for period ended 31/12/2018*	*for year ending 31/12/2019*	*for year ending 31/12/2020*
– Raw Materials	RMB500,000,000	RMB530,000,000	RMB550,000,000
– Equipment and Accessories	RMB33,000,000	RMB35,000,000	RMB38,000,000
Total Annual Caps:	RMB533,000,000	RMB565,000,000	RMB588,000,000

The transaction amounts under the Raw Materials, Equipment and Accessories Sales FA for the period ended 31 December 2018 were approximately RMB139,185,347.25 for the sales of raw materials and approximately RMB4,396.55 for the sales of equipment and accessories.

6. Reference is made to the joint announcement dated 14 June 2018 issued by CITIC Limited and CITIC Telecom International Holdings Limited ("CITIC Telecom", a subsidiary of CITIC Limited) relating to the renewal of exclusive service agreement* ("ESA") for technical and support services entered into between CITIC Telecom International CPC Limited ("CPC", a wholly-owned subsidiary of CITIC Telecom), China Enterprise Netcom Corporation Limited ("CEC-HK", a wholly-owned subsidiary of CITIC Telecom) and China Enterprise ICT Solutions Limited (中企網絡通信技術有限公司) ("CEC").

Pursuant to the ESA, CEC shall provide technical and support services to the customers of CEC-HK and CPC in the PRC to facilitate the provision of value-added telecoms services to these customers. A service fee is payable to CEC monthly with reference to CEC's costs in servicing such customers provided that CEC-HK and CPC shall be entitled to retain the first 30% of the corresponding sales proceeds from customers such that the service fee shall not in any event exceed 70% of the relevant sales proceeds. If CEC's costs shall be less than 70% of the corresponding sales proceeds, CEC on one hand and CEC-HK and CPC on the other shall be entitled to share the surplus equally. Such service fee was agreed by CPC, CEC-HK and CEC on an arms' length basis and shall be settled monthly. Details were set out in the joint announcement of CITIC Limited and CITIC Telecom dated 14 June 2018.

On 25 September 2018, CEC was given consent in accordance with the terms of the ESA to provide similar services to and enter into relevant agreements with some of the other telecom operators for the period from 25 September 2018 until expiry of the subsisting term of the ESA.

CEC is a non-wholly owned subsidiary of CITIC Telecom and also an associate of CITIC Group as CITIC Group holds approximately 45.09% equity interest in CEC. CITIC Group is the controlling shareholder of CITIC Limited, which in turn is the indirect holding company of CITIC Telecom. Therefore, CEC, being an associate of CITIC Group, is a connected person of CITIC Limited as well as CITIC Telecom.

The service fees payable to CEC under the ESA shall not exceed the maximum amount as set out below:

for year ended 31/12/2018	*for period from 01/01/2019 to 23/06/2019*
RMB297.44 million	RMB148.45 million

The aggregate service fee paid by CEC-HK and CPC to CEC for the year ended 31 December 2018 under the ESA was approximately RMB269.62 million.

* The ESA was first entered into on 24 November 2010 and was subsequently renewed or supplemented by supplemental agreements dated 7 August 2013, 19 February 2014, 22 April 2015 and 14 June 2018. The subsisting term of ESA will expire on 23 June 2019.

The independent non-executive directors of CITIC Limited (namely, Mr Francis Siu Wai Keung, Dr Xu Jinwu, Mr Anthony Francis Neoh, Ms Lee Boo Jin who resigned on 28 March 2019, Mr Paul Chow Man Yiu and Mr Shohei Harada) have reviewed the aforesaid continuing connected transactions for the year ended 31 December 2018 (the "Transactions") and confirm that:

a. the Transactions have been entered into in the ordinary and usual course of business of the Group;

b. the Transactions have been entered into on normal commercial terms or better; and

c. the Transactions were entered into according to the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of CITIC Limited as a whole.

CITIC Limited's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 auditor issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 123 to 125 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by CITIC Limited to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Share Option Plan Adopted by CITIC Limited

CITIC Pacific Share Incentive Plan 2011

The CITIC Pacific Share Incentive Plan 2000 adopted by CITIC Limited on 31 May 2000 for a term of ten years expired on 30 May 2010. CITIC Limited adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 (the "Plan 2011") on 12 May 2011. The major terms of the Plan 2011 are as follows:

1. The purpose of the Plan 2011 is to promote the interests of CITIC Limited and its shareholders by (i) providing the eligible participants with additional incentives to continue and increase their efforts in achieving success in the business of the Group, and (ii) attracting and retaining the best available personnel to participate in the on-going business operation of Group.

2. The eligible participants of the Plan 2011 are any employee, executive director, non-executive director, independent non-executive director or officer, consultant or representative of any member of CITIC Limited as the board may in its discretion select.

3. The total number of shares which may be issued upon exercise of all options to be granted under the Plan 2011 must not in aggregate exceed 10% of the shares in issue as at the date of adopting the Plan 2011. As at 29 March 2019, the total number of shares available for issue under the Plan 2011 is 364,944,416 shares.

4. The total number of shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the shares of CITIC Limited in issue. Where any further grant of options to a participant would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of CITIC Limited's shares in issue, such further grant shall be subject to separate approval by the shareholders of CITIC Limited in general meeting.

5. The exercise period of any option granted under the Plan 2011 must not be more than ten years commencing on the date of offer of the grant.

6. The acceptance of an offer of the grant of the option must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

7. The subscription price determined by the board will be at least the higher of (i) the nominal value of CITIC Limited's shares; (ii) the closing price of CITIC Limited's shares as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of offer of the grant; and (iii) the average of the closing prices of CITIC Limited's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of the grant.

8. The Plan 2011 shall be valid and effective until 11 May 2021.

No share options were granted under the Plan 2011 during the year ended 31 December 2018.

Share Option Plan Adopted by Subsidiaries of CITIC Limited

CITIC Telecom International Holdings Limited ("CITIC Telecom")

CITIC Telecom adopted a share option plan (the "CITIC Telecom Share Option Plan") on 17 May 2007, which was valid and effective till 16 May 2017. The major terms of the CITIC Telecom Share Option Plan are as follows:

1. The purpose of the CITIC Telecom Share Option Plan is to attract and retain the best quality personnel for the development of CITIC Telecom's businesses; to provide additional incentives to CITIC Telecom Directors, Officers and Employees (as defined here below); and to promote the long term financial success of CITIC Telecom by aligning the interests of grantees to shareholders of CITIC Telecom.

2. The grantees of the CITIC Telecom Share Option Plan are any person employed by CITIC Telecom or any of its subsidiaries and any person who is an officer or director (whether executive or non-executive) of CITIC Telecom or any of its subsidiaries (collectively the "CITIC Telecom Directors, Officers and Employees") as the board of CITIC Telecom may, in its absolute discretion, select.

3. The total number of shares of CITIC Telecom (the "CITIC Telecom Shares") issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the CITIC Telecom Shares in issue. Where any further grant of options to a grantee would result in the CITIC Telecom Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the CITIC Telecom Shares in issue, such further grant shall be subject to separate approval by the shareholders of CITIC Telecom in general meeting.

4. The exercise period of any option granted under the CITIC Telecom Share Option Plan must not be more than ten years commencing on the date of grant.

5. The acceptance of an offer of the grant of the options must be made within 28 days from the date of grant with a non-refundable payment of HK$1.00 from the grantee.

6. The subscription price determined by the board of CITIC Telecom will not be less than the higher of (i) the closing price of CITIC Telecom's shares as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the date of grant; and (ii) the average closing price of CITIC Telecom's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

As approved at the annual general meeting of CITIC Telecom held on 25 April 2014, the mandate limit is refreshed so that taking into account the overriding limit of the CITIC Telecom Share Option Plan, the total number of the CITIC Telecom Shares which may be issued upon the exercise of all options to be granted under the CITIC Telecom Share Option Plan, together with all outstanding options granted and yet to be exercised under the CITIC Telecom Share Option Plan, shall not exceed 333,505,276 CITIC Telecom Shares, being 10% of the number of the CITIC Telecom Shares in issue as at the date of approval of the refreshment of the mandate limit.

Since the adoption of the CITIC Telecom Share Option Plan, CITIC Telecom has granted the following share options:

Date of grant	Number of share options	Exercise period	Exercise price per share *HK$*
23.05.2007	18,720,000	23.05.2007 – 22.05.2012	3.26
17.09.2009	17,912,500	17.09.2010 – 16.09.2015	2.10
17.09.2009	17,912,500	17.09.2011 – 16.09.2016	2.10
19.08.2011	24,227,500	19.08.2012 – 18.08.2017	1.54
19.08.2011	24,227,500	19.08.2013 – 18.08.2018	1.54
26.06.2013	81,347,000	26.06.2013 – 25.06.2018	2.25
24.03.2015	43,756,250	24.03.2016 – 23.03.2021	2.612
24.03.2015	43,756,250	24.03.2017 – 23.03.2022	2.612
24.03.2017	45,339,500	24.03.2018 – 23.03.2023	2.45
24.03.2017	45,339,500	24.03.2019 – 23.03.2024	2.45

Upon completion of the rights issue of CITIC Telecom on 7 June 2013, the exercise price and the number of shares to be allotted and issued upon full exercise of the subscription rights attaching to the outstanding share options of CITIC Telecom as at 6 June 2013 have been adjusted (the “Adjustments”) in the following manner:

	Before Adjustments		After Adjustments	
Date of grant	Number of outstanding share options	Exercise price per share *HK$*	Number of outstanding share options	Exercise price per share *HK$*
17.09.2009	19,451,000	2.10	21,438,072	1.91
19.08.2011	32,332,500	1.54	35,635,462	1.40

The grantees were CITIC Telecom Directors, Officers and Employees. None of these options were granted to the directors, chief executives or substantial shareholders of CITIC Limited.

The share options granted on 23 May 2007, 17 September 2009, 19 August 2011 and 26 June 2013 have expired. The remaining options granted and accepted under the CITIC Telecom Share Option Plan can be exercised in whole or in part within 5 years from the date of commencement of the exercise period.

As at 1 January 2018, options for 215,030,809 CITIC Telecom Shares were outstanding under the CITIC Telecom Share Option Plan. During the year ended 31 December 2018, options for 43,096,802 CITIC Telecom Shares were exercised and options for 33,442,690 CITIC Telecom Shares have lapsed. No share options were granted nor cancelled in 2018. As at 31 December 2018, options for 98,421,317 CITIC Telecom Shares under the CITIC Telecom Share Option Plan were exercisable.

A summary of the movements of the share options during the year ended 31 December 2018 is as follows:

A. Employees of CITIC Limited/CITIC Telecom under continuous contracts (as defined in the Employment Ordinance)

Date of grant	Exercise period	Number of share options Balance as at 01.01.2018	Exercised during the year ended 31.12.2018 *(Note 1)*	Lapsed during the year ended 31.12.2018 *(Note 2)*	Balance as at 31.12.2018
19.08.2011	19.08.2013 – 18.08.2018	6,322,175	5,990,802	331,373	–
26.06.2013	26.06.2013 – 25.06.2018	42,270,817	18,089,000	24,181,817	–
24.03.2015	24.03.2016 – 23.03.2021	38,610,817	6,722,000	1,629,250	30,259,567
24.03.2015	24.03.2017 – 23.03.2022	39,771,000	3,560,500	1,630,250	34,580,250
24.03.2017	24.03.2018 – 23.03.2023	42,828,000	8,734,500	1,912,000	32,181,500
24.03.2017	24.03.2019 – 23.03.2024	42,828,000	–	3,358,000	39,470,000

B. Others *(Note 3)*

Date of grant	Exercise period	Number of share options Balance as at 01.01.2018	Exercised during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018 *(Note 4)*	Balance as at 31.12.2018
26.06.2013	26.06.2013 – 25.06.2018	400,000	–	400,000	–
24.03.2015	24.03.2016 – 23.03.2021	200,000	–	–	200,000
24.03.2015	24.03.2017 – 23.03.2022	600,000	–	–	600,000
24.03.2017	24.03.2018 – 23.03.2023	600,000	–	–	600,000
24.03.2017	24.03.2019 – 23.03.2024	600,000	–	–	600,000

Notes:

1. The weighted average closing price of CITIC Telecom Shares immediately before the dates on which the options were exercised was HK$2.56.
2. These are in respect of options i) granted to some employees under continuous contracts who have subsequently resigned; or ii) lapsed upon the expiry of the relevant share options during the year.
3. These are in respect of options granted to independent non-executive directors (including a former independent non-executive director) of CITIC Telecom who are not employees under continuous contracts.
4. These are in respect of options granted to a former independent non-executive director. Such options have lapsed upon the expiry of the relevant share options during the year ended 31 December 2018.

Dah Chong Hong Holdings Limited ("Dah Chong Hong")

Dah Chong Hong adopted a share option scheme (the "DCHH Scheme") on 28 September 2007 which was valid and effective till 27 September 2017, after which no further share options will be granted. The major terms of the DCHH Scheme are as follows:

(a) The purpose of the DCHH Scheme is to attract and retain the best quality personnel for the development of Dah Chong Hong's businesses; to provide additional incentives to the employees of the Dah Chong Hong group and to promote the long term financial success of Dah Chong Hong by aligning the interests of grantees to Dah Chong Hong's shareholders.

(b) The participants of the DCHH Scheme are any employee of the Dah Chong Hong group as the board of Dah Chong Hong may in its absolute discretion select.

(c) The maximum number of shares over which share options may be granted under the DCHH Scheme and any other schemes of Dah Chong Hong shall not in aggregate exceed 10% of (i) the shares of Dah Chong Hong in issue immediately following the commencement of dealings in Dah Chong Hong's shares on the Hong Kong Stock Exchange or (ii) the shares of Dah Chong Hong in issue from time to time, whichever is the lower. As at 29 March 2019, the maximum number of shares available for issue under the DCHH Scheme is 141,450,000, representing approximately 7.499% of the issued shares of Dah Chong Hong. Share options lapsed in accordance with the terms of the DCHH Scheme or any other schemes of Dah Chong Hong will not be counted for the purpose of calculating the 10% limit.

(d) The total number of shares issued and to be issued upon exercise of share options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the shares of Dah Chong Hong in issue.

(e) The exercise period of any share option granted under the DCHH Scheme must not be more than 10 years commencing on the date of grant.

(f) The acceptance of an offer of the grant of the share option must be made within 28 days from the date of grant with a non-refundable payment of HK$1 from the grantee.

(g) The subscription price determined by the board of Dah Chong Hong will not be less than whichever is the higher of (i) the closing price of Dah Chong Hong's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of grant; and (ii) the average closing price of Dah Chong Hong' shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant.

(h) The DCHH Scheme was valid and effective till 27 September 2017, after which no further share options will be granted.

DCHH Scheme has expired on 27 September 2017.

During the period between the adoption of the DCHH Scheme and its expiry, Dah Chong Hong has granted the following share options:

Date of grant	Number of share options	Exercise period	Exercise price per share *HK$*
07.07.2010	23,400,000	07.07.2010 – 06.07.2015	4.766
08.06.2012	24,450,000	08.06.2013 – 07.06.2017*	7.400
30.04.2014	28,200,000	30.04.2015 – 29.04.2019*	4.930

* Subject to a vesting scale

The share options granted on 7 July 2010 and 8 June 2012 had expired by the close of business on 6 July 2015 and 7 June 2017 respectively.

Of the share options granted on 30 April 2014, 27,850,000 were accepted and 350,000 were not as at the latest date of acceptance pursuant to the scheme rules (i.e. 28 May 2014). The share options granted are subject to a vesting scale. 25% of the options granted will vest on the first anniversary of the date of grant. A further 25% will vest on the second anniversary of the date of grant and the remaining 50% of the share options granted will vest on the third anniversary of the date of grant. The vested options are exercisable in whole or in part within 5 years from the date of grant. The closing price of the shares of Dah Chong Hong immediately before the grant on 30 April 2014 was HK$4.91 per share. The remaining contractual life of the share options is 0.3 years.

The grantees were certain directors or employees of Dah Chong Hong group working under continuous contracts (as defined in the Employment Ordinance). None were granted to the directors, chief executives or substantial shareholders of CITIC Limited.

A. Employees of the Dah Chong Hong group working under continuous contracts (as defined in the Employment Ordinance)

	Number of share options						
Date of grant	Balance as at 01.01.2018	Granted during the year ended 31.12.2018	Reclassification	Cancelled during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018
30.04.2014	11,700,000 *(Note 2)*	–	(2,300,000) *(Note 3)*	–	(1,900,000)	–	7,500,000

B. Others *(Note 1)*

	Number of share options						
Date of grant	Balance as at 01.01.2018	Granted during the year ended 31.12.2018	Reclassification	Cancelled during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018
30.04.2014	11,250,000 *(Note 2)*	–	2,300,000 *(Note 3)*	–	–	–	13,550,000

Notes:

1. These are in respect of share options granted to former employees whose employment was terminated other than for cause or misconduct.
2. 1,600,000 share options were reclassified to the opening balance of "Others", subsequent to certain employees having retired on 1 January 2018.
3. 2,300,000 share options were reclassified to "Others", subsequent to certain employees having retired during the year ended 31 December 2018.

As at 1 January 2018, options for 22,950,000 Dah Chong Hong' shares were outstanding under the DCHH Scheme. During the year ended 31 December 2018, options for 1,900,000 Dah Chong Hong' shares were lapsed and none of the options were exercised and cancelled. As at 31 December 2018, options for 21,050,000 Dah Chong Hong' shares under the DCHH Scheme were exercisable.

CITIC Resources Holdings Limited ("CITIC Resources")

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

A summary of the movements of the share options of CITIC Resources under the Old Scheme during the year ended 31 December 2018 is as follows:

			Number of share options				
Date of grant	Exercise price per share *HK$*	Exercise Period	Balance as at 01.01.2018	Exercised during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Cancelled during the year ended 31.12.2018	Balance as at 31.12.2018
06.11.2013	1.77	06.11.2014 – 05.11.2018	200,000,000	–	(200,000,000)	–	0
06.11.2013	1.77	06.11.2015 – 05.11.2018	200,000,000	–	(200,000,000)	–	0

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

Notes: The share options were subject to the following vesting conditions:

(i) 50% of the share options vest and were exercisable with effect from the first anniversary of the date of grant; and

(ii) the remaining 50% of the share options vest and were exercisable with effect from the second anniversary of the date of grant.

The grantee was a director of CITIC Resources.

As at 31 December 2018, there were no share options outstanding under the Old Scheme.

To enable CITIC Resources to continue to grant share options as an incentive or reward to eligible persons, a new share option scheme was adopted by CITIC Resources on 27 June 2014 (the "New Scheme").

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

(a) To allow CITIC Resources (i) to be competitive and to be able to attract, retain and motivate appropriate personnel to assist the CITIC Resources group attain its strategic objectives by offering share options to enhance general remuneration packages; (ii) to align the interests of the directors and employees of the CITIC Resources group with the performance of CITIC Resources and the value of the shares; and (iii) to align the commercial interests of business associates, customers and suppliers of the CITIC Resources group with the interests and success of the CITIC Resources group.

(b) The eligible persons include employees and directors of CITIC Resources and any of its subsidiaries (including their respective executive and non-executive directors), business associates and advisers who will provide or have provided services to the CITIC Resources group.

(c) The total number of shares which may be issued upon the exercise of all outstanding options granted under the New Scheme and any other schemes of CITIC Resources shall not exceed 10% of the total number of shares of CITIC Resources in issue as at the date of adoption of the New Scheme.

(d) The total number of shares issued and to be issued upon the exercise of the options granted to an eligible person (including any exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of CITIC Resources in issue at the date of grant.

(e) The period during which an option may be exercised is determined by the board of directors of CITIC Resources at its absolute discretion, except that no option may be exercised after 10 years from the date of grant.

(f) The minimum period for which an option must be held before it can be exercised is one year.

(g) The exercise price payable in respect of each share of CITIC Resources shall be not less than the greater of (i) the closing price of the shares of CITIC Resources on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of grant (which must be a business day); (ii) the average closing price of the shares of CITIC Resources on the Hong Kong Stock Exchange as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of CITIC Resources.

(h) The New Scheme remains in force until 26 June 2024 unless otherwise terminated in accordance with the terms stipulated therein.

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

No share options were granted under the New Scheme during the year ended 31 December 2018.

CITIC Envirotech Ltd. ("CITIC Envirotech")

CITIC Envirotech is a company incorporated in Singapore and whose shares are listed on the main board of the Singapore Exchange Securities Trading Limited (the "Singapore Exchange"). It adopted the Employee Share Option Scheme (the "Scheme") on 2 February 2010. A summary of some of the principal terms of the Scheme is as follows:

1. The Scheme is primarily a share incentive scheme. It provides CITIC Envirotech with the means to use share options as part of a compensation scheme for attracting as well as promoting long-term staff retention. The objectives of the Scheme are (a) to motivate each participant to optimise his performance standards and efficiency and to maintain a high level of contribution to the CITIC Envirotech group; (b) to make employee remuneration sufficiently competitive to recruit and retain participants whose contributions are important to the long-term growth and profitability of the CITIC Envirotech group; (c) to instil loyalty to, and a stronger identification by the participants with the long-term development and growth of, CITIC Envirotech; (d) to attract potential employees with relevant skills to contribute to the CITIC Envirotech group and to create value for the shareholders; (e) to align the interests of the participants with the interests of the shareholders; and (f) to give recognition to the contributions made or to be made by the CITIC Envirotech group non-executive directors (including independent directors) to the success of the CITIC Envirotech group.

2. The participants of the Scheme are group employees (including group executive directors) and group non-executive directors (including independent directors) of CITIC Envirotech.

3. The aggregate number of shares in respect of which options may be granted on any date under the Scheme, when added to the amount of shares issued and issuable and/or transferred and transferable in respect of:

   (a) all shares available under the Scheme; and

   (b) all shares, options or awards granted under any other share option or share scheme of CITIC Envirotech then in force,

   shall not exceed 15% of the number of issued shares (excluding treasury shares) of CITIC Envirotech on the day immediately preceding the relevant date of grant (or such other limit as the Singapore Exchange may determine from time to time). The options which have already been granted shall not be invalidated in the event that a reduction of CITIC Envirotech's capital or a buy back of its shares (if applicable) results in the shares issuable and/or transferable under outstanding options exceeding 15% of CITIC Envirotech's issued share capital (excluding treasury shares).

   The aggregate number of shares issued and issuable and/or transferred and transferable in respect of all options granted pursuant to the Scheme available to all controlling shareholders and their associates of CITIC Envirotech shall not exceed 25% of the shares available under the Scheme.

   The number of shares issued and issuable and/or transferred and transferable in respect of all options granted pursuant to the Scheme available to each controlling shareholder or each of his associates of CITIC Envirotech shall not exceed 10% of the shares available under the Scheme.

4. The aggregate number of shares in respect of which options may be offered to a grantee for subscription in accordance with the Scheme shall be determined at the discretion of the remuneration committee of CITIC Envirotech who shall take into account criteria such as rank, past performance, years of service and potential for future development of the participant.

5. If the options remain unexercised after a period of 10 years (executive directors and employees) and 5 years (non-executive directors) from the date of grant, the options expire. Options are forfeited if the employee leaves the group before the options vest.

6. The vesting period is 1 year for non-discount options and 2 years for discounted options.

7. The consideration for the grant of an option is S$1.00.

8. The exercise price is based on the price that is equivalent to the Market Price*; or a price that is set at a discount to the Market Price, provided always that the maximum discount shall not exceed 20% of the Market Price; and the prior approval of shareholders shall have been obtained in a separate resolution.

   * Market Price: a price equal to the average of the last dealt prices for the shares on the Singapore Exchange over the five consecutive trading days, immediately preceding the date of grant of that option, as determined by the remuneration committee of CITIC Envirotech by reference to the daily official list or any other publication published by the Singapore Exchange.

9. The Scheme shall continue to be in force at the discretion of the remuneration committee of CITIC Envirotech, subject to a maximum period of 10 years, commencing on February 2010. Subject to compliance with any applicable laws and regulations in Singapore, the Scheme may be continued beyond the above stipulated period with the approval of the shareholders by ordinary resolution at a general meeting and of any relevant authorities which may then be required. The Scheme may be terminated at any time by the remuneration committee or by resolution of the shareholders at a general meeting subject to all other relevant approvals which may be required and if the Scheme is so terminated, no further options shall be offered by CITIC Envirotech hereunder.

Since the adoption of the Scheme, CITIC Envirotech has granted the following share options:

Date of grant	Number of share options	Exercise price per share S$	Exercise period
01.03.2010	4,375,000	0.2780	01.03.2011 – 01.03.2020
01.03.2010	4,375,000	0.2224	01.03.2012 – 01.03.2020
20.07.2010	1,500,000	0.3830	20.07.2011 – 20.07.2020
20.07.2010	1,500,000	0.3064	20.07.2012 – 20.07.2020
15.02.2013	49,950,000	0.552	15.02.2015 – 15.02.2023
28.03.2013	12,000,000	0.584	28.03.2015 – 28.03.2023
25.07.2014	6,000,000	1.135	25.07.2016 – 25.07.2024
25.04.2018	18,364,000	0.563	25.04.2020 – 25.04.2028

Under the Scheme, the ordinary shares of CITIC Envirotech under option may be exercised in full or a multiple thereof, on the payment of the exercise price. On 1 February 2017, CITIC Envirotech split every one existing ordinary share in its share capital into two shares.

The grantees were certain directors and employees of CITIC Envirotech. None were granted to the directors, chief executives or substantial shareholders of CITIC Limited.

As at 1 January 2018, 74,009,200 (post-split) ordinary shares of CITIC Envirotech under option were outstanding. During the year ended 31 December 2018, 18,364,000 share options were granted under the Scheme, 53,178,000 (post-split) ordinary shares under option were exercised, 1,200,000 (post-split) ordinary shares under option were cancelled and none of the (post-split) ordinary shares under option have lapsed. As at 31 December 2018, 37,995,200 (post-split) ordinary shares of CITIC Envirotech under option were exercisable.

The closing price of ordinary shares of CITIC Envirotech immediately before the grant on 25 April 2018 was S$0.563.

A summary of the movements of the share options under the Scheme during the year ended 31 December 2018 is as follows:

A. Directors of CITIC Envirotech

Date of grant	Number of share options						Weighted average closing price per share* S$
	Balance as at 01.01.2018	Granted during the year ended 31.12.2018	Cancelled during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018	
01.03.2010	1,500,000 (3,000,000) Post-split	–	–	–	3,000,000 Post-split	–	0.715
01.03.2010	1,500,000 (3,000,000) Post-split	–	–	–	3,000,000 Post-split	–	0.715
28.03.2013	12,000,000 (24,000,000) Post-split	–	–	–	24,000,000 Post-split	–	0.530

B. Employees of CITIC Envirotech

Date of grant	Number of share options						Weighted average closing price per share* S$
	Balance as at 01.01.2018	Granted during the year ended 31.12.2018	Cancelled during the year ended 31.12.2018	Lapsed during the year ended 31.12.2018	Exercised during the year ended 31.12.2018	Balance as at 31.12.2018	
15.02.2013	18,906,500 (37,813,000) Post-split	–	–	–	23,178,000	14,635,000	0.58
25.07.2014	3,098,100 (6,196,200) Post-split	–	1,000,000	–	–	5,196,200	–
25.04.2018	–	18,364,000	200,000	–	–	18,164,000	–

* This represents the weighted average closing price per share of CITIC Envirotech immediately before the date on which the options were exercised.

Directors' Interests in Securities

As at 31 December 2018, none of the directors of CITIC Limited had nor were they taken or deemed to have, under Part XV of the Securities and Futures Ordinance ("SFO"), any interests or short positions in the shares, underlying shares and debentures of CITIC Limited or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by CITIC Limited pursuant to section 352 of the SFO or as otherwise notified to CITIC Limited and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in the Listing Rules.

Arrangement to Acquire Shares or Debentures

Save for the share option plans as disclosed above, at no time during the year was CITIC Limited, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors of CITIC Limited (including their spouse and children under 18 years of age) to acquire benefits by means of the acquisition of shares or underlying shares in, or debentures of, CITIC Limited or any other body corporate.

Interests of Substantial Shareholders

As at 31 December 2018, substantial shareholders of CITIC Limited (other than directors of CITIC Limited) who had interests or short positions in the shares or underlying shares of CITIC Limited which would fall to be disclosed to CITIC Limited under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by CITIC Limited under section 336 of the SFO, or which were notified to CITIC Limited, were as follows:

Name	Nature of interest/capacity	Number of ordinary shares held	Approximate percentage to the total number of issued shares
CITIC Group Corporation ("CITIC Group") (Note 1)	Interests in a controlled corporation and interests in a section 317 concert party agreement	26,055,943,755 (Long position)	89.57% (Long position)
CITIC Glory Limited ("CITIC Glory") (Note 2)	Beneficial owner	7,446,906,755 (Long position)	25.60% (Long position)
CITIC Polaris Limited ("CITIC Polaris") (Note 3)	Beneficial owner and interests in a section 317 concert party agreement	18,609,037,000 (Long position)	63.97% (Long position)
Chia Tai Bright Investment Company Limited ("CT Bright") (Note 4)	Beneficial owner and interests in a section 317 concert party agreement	22,728,222,755 (Long position) 5,818,053,363 (Short position)	78.13% (Long position) 20.00% (Short position)
CT Brilliant Investment Holdings Limited ("CT Brilliant") (Note 5)	Interests in a controlled corporation and interests in a section 317 concert party agreement	22,728,222,755 (Long position) 5,818,053,363 (Short position)	78.13% (Long position) 20.00% (Short position)
Charoen Pokphand Group Company Limited ("CPG") (Note 6)	Interests in a controlled corporation and interests in a section 317 concert party agreement	22,728,222,755 (Long position) 5,818,053,363 (Short position)	78.13% (Long position) 20.00% (Short position)
ITOCHU Corporation ("ITOCHU") (Note 7)	Interests in a controlled corporation and interests in a section 317 concert party agreement	22,728,222,755 (Long position) 5,818,053,363 (Short position)	78.13% (Long position) 20.00% (Short position)

Notes:

(1) CITIC Group is deemed to be interested in 26,055,943,755 shares: (i) by attribution of the interests of its two wholly-owned subsidiaries, CITIC Polaris (9,463,262,637 shares) and CITIC Glory (7,446,906,755 shares); and (ii) because CITIC Group is a party to the Share Purchase Agreement and the Preferred Shares Subscription Agreement which, reading together, constitute an agreement to which section 317(1) of the SFO applies, and accordingly CITIC Group has aggregated its interests in the shares with the interests of the other parties to the Share Purchase Agreement and the Preferred Shares Subscription Agreement.

(2) CITIC Glory is beneficially interested in 7,446,906,755 shares of CITIC Limited.

(3) CITIC Polaris is deemed to be interested in 18,609,037,000 shares: (i) by including 9,463,262,637 shares it holds as beneficial owner; and (ii) because CITIC Polaris is a party to the Share Purchase Agreement which, reading together with the Preferred Shares Subscription Agreement, constitute an agreement to which section 317(1) of the SFO applies, and accordingly CITIC Polaris has aggregated its interests in the shares with the interests of the other parties to the Share Purchase Agreement and the Preferred Shares Subscription Agreement.

(4) CT Bright is deemed to be interested in 22,728,222,755 shares: (i) by including 5,818,053,363 shares it holds as beneficial owner; and (ii) because CT Bright is a party to the Share Purchase Agreement and the Preferred Shares Subscription Agreement which, reading together, constitute an agreement to which section 317(1) of the SFO applies, and accordingly CT Bright has aggregated its interests in the shares with the interests of the other parties to the Share Purchase Agreement and the Preferred Shares Subscription Agreement. CT Bright has a short position of 5,818,053,363 shares because it is under an obligation to deliver a maximum of 5,818,053,363 shares to CITIC Polaris if CITIC Polaris' right of first refusal under the Share Purchase Agreement is exercised in full.

(5) CT Brilliant is deemed to be interested in 22,728,222,755 shares and to have a short position of 5,818,053,363 shares as a shareholder of CT Bright directly holding 50% equity interest in CT Bright.

(6) CPG is deemed to be interested in 22,728,222,755 shares and to have a short position of 5,818,053,363 shares as a shareholder of CT Bright indirectly holding 50% equity interest in CT Bright through CT Brilliant, its wholly-owned subsidiary.

(7) ITOCHU is deemed to be interested in 22,728,222,755 shares and to have a short position of 5,818,053,363 shares as a shareholder of CT Bright directly holding 50% equity interest in CT Bright.

Shareholding Statistics

Based on the share register records of CITIC Limited, set out below is a shareholding statistics chart of the registered shareholders of CITIC Limited as at 31 December 2018:

Number of shares held	Number of shareholders	Percentage
1 to 1,000	4,032	55.22
1,001 to 10,000	2,548	34.90
10,001 to 100,000	665	9.11
100,001 to 1,000,000	50	0.69
1,000,001 to 100,000,000	1	0.01
100,000,001 to 500,000,000	1	0.01
500,000,001 to 2,000,000,000	1	0.01
2,000,000,001 above	4	0.05
Total:	7,302	100

As at 31 December 2018, the total number of ordinary shares in issue of CITIC Limited was 29,090,262,630 and based on the share register records of CITIC Limited, HKSCC Nominees Limited held 9,816,967,164 ordinary shares in entities ranging from 1,000 to 1,000,000,000 ordinary shares and representing 33.75% of the total number of ordinary shares in issue of CITIC Limited.

Purchase, Sale or Redemption of Listed Securities

On 21 January 2018, CITIC Limited fully redeemed the USD1,100 million 6.875% notes under the Medium Term Note Programme upon maturity. These notes were issued in two tranches, (i) USD750 million on 21 March 2012 and (ii) USD350 million on 26 April 2012. Both tranches were listed on the Hong Kong Stock Exchange.

On 22 November 2018, CITIC Limited redeemed all the USD1,000 million 8.625% perpetual subordinated capital securities issued on 22 May 2013. The securities were delisted from the Hong Kong Stock Exchange effective upon the close of business on 3 December 2018.

Save as disclosed above, neither CITIC Limited nor any of its subsidiary companies has purchased, sold or redeemed any of CITIC Limited's listed securities during the year ended 31 December 2018.

Sufficiency of Public Float

The Hong Kong Stock Exchange has granted a waiver (the "Waiver") to CITIC Limited from strict compliance with the minimum public float of 25% upon completion of the acquisition of CITIC Corporation Limited (the "Acquisition") on 25 August 2014. Pursuant to the Waiver, CITIC Limited has complied with the public float requirement which is at the higher of such a percentage (being 21.87%) of shares held by the public immediately after completion of the Acquisition. Based on the information that is publicly available to CITIC Limited and within the knowledge of the directors as at the date of this annual report, CITIC Limited has maintained the prescribed public float under the Waiver.

Auditor

The Group's consolidated financial statements for the year have been audited by Messrs PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs PricewaterhouseCoopers as auditor of CITIC Limited is to be proposed at the 2019 AGM.

By Order of the Board,
Chang Zhenming
Chairman
Hong Kong, 29 March 2019

Environmental, Social and Governance Report

A New Brand Positioning and Proposition for CITIC

In 2018, CITIC Group announced 'Coexistence and Sharing' as its brand positioning and 'Shaping a Better Future Together' as the brand proposition. Both reflect the new direction CITIC is taking with regard to sustainability and will underlie all of the Group's ongoing development strategies.

The new brand positioning and proposition will guide the development of CITIC's businesses and relations with stakeholders, including members of the community, partners and staff, as well as its environmental protection work, with the ultimate aim of helping to create prosperity and progress for society.

The year 2019 marks the 40th anniversary of the founding of CITIC Group. At this milestone in our history, we have renewed our original commitment to social responsibility and will look for new ways to promote the betterment of our country, our stakeholders and the environment.

Staff Responsibility	• As of the end of 2018, we employed a workforce of 273,344, an increase of 30,308 over the previous year. Female staff accounted for 49.09% of our workforce, and 68.25% were 35 years of age or younger. • Three of our experts were granted special government allowances in 2018. • Over 6,000 training projects were organized during the year at CITIC, with over 700,000 participants.
Environmental Responsibility	• CITIC Telecom International won a silver medal in the Hong Kong Awards for Environmental Excellence in both the media and the telecom industry categories. • The Beijing Huaifang Reclaimed Water Plant project, in which CITIC Envirotech has an interest, received the Gold Award of Global Project Innovation Awards by the International Water Association, the only Asian project to win this award.
Customer Responsibility	• CITIC Trust was named the Best Chinese Trust Company by *The Asian Banker*, the first international award received in China's trust industry. • CITIC Construction won the 15th Tien-yow Jeme Civil Engineering Prize (Road Works) for its project on the west section of the Algerian East-West Expressway.
Industrial Responsibility	• The launch of the *One CITIC* platform brought together CITIC companies and external partners in an online community that gives users access to a wide range of premium and customised services. As of the end of 2018, the total number of registered users was over 10 million.
Community Responsibility	• CITIC Limited and its subsidiaries donated approximately RMB120.70 millioin, and HK$18.79 million to local communities. • CITIC Trust issued *Poverty Alleviation Report*, the first report of its kind in the trust industry; CITIC Bank set up The Love, Trust, Be Together community welfare programme, which was also included in the Excellent Project Library of the National Volunteer Service Project Competition. • In 2018, CITIC Limited had more than 13,000 volunteers donating their time, with 10,000 participants involved during the year in volunteering activities.

Staff Responsibility:

Growing Together with Our Employees

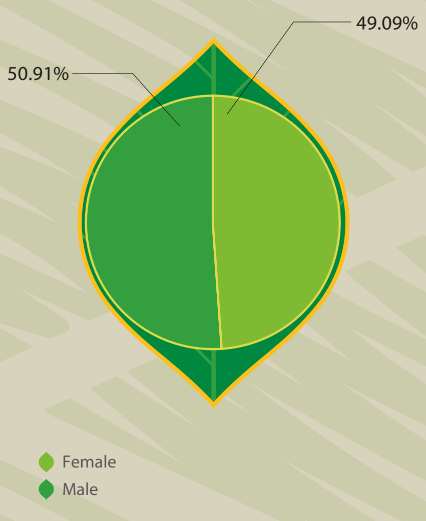
One of our objectives as a company is to build a platform on which employees can showcase their talents and abilities. We not only consider what employees can do for us, but what we can do for our employees. Through carefully designed initiatives, we believe we can grow with our staff.

Protecting Employees' Rights and Interests

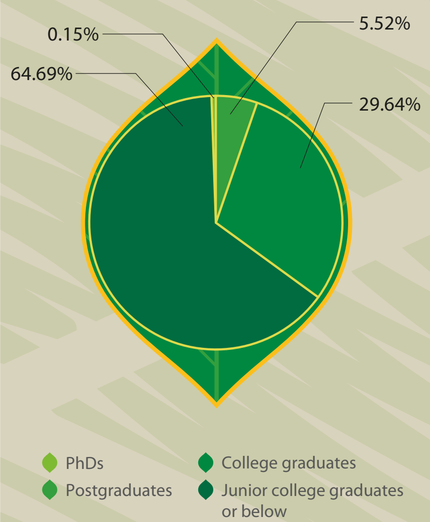
Workforce Structure

As of the end of 2018, a total of 273,344 people worked for CITIC Limited (including 143,867 from M China Management Limited), representing an increase of 30,308. Of these, 49.09% were women, and 68.25% were age 35 or below. The staff increase was contributed by M China Management, which had 31,507 new staff, 15,833 from mainland China Stores and 15,674 from MHK Restaurants Limited incorporated into the total account for the first time.

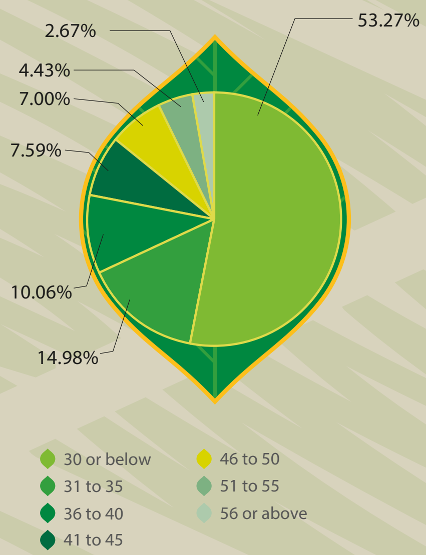
Percentage of workforce by gender



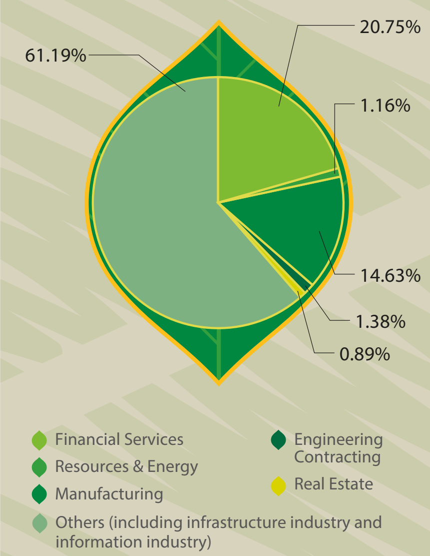
Percentage of workforce by educational background

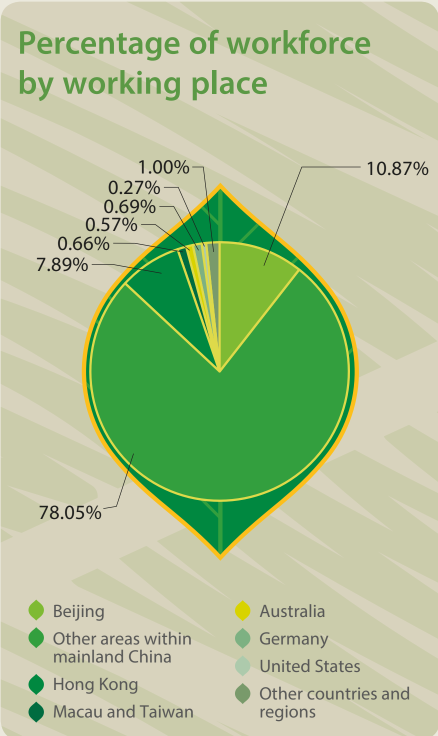


Percentage of workforce by age group



Percentage of workforce by industry





Fair Employment Practices

During the year, we complied fully with relevant laws, regulations and policies, including those concerning labour contracts. We are committed to protecting the lawful rights and interests of our staff to build harmonious relationship with our employees. In our recruitment and career development practices, we provide equal opportunities for all, based on individual merits and overall fairness, without regard to race, gender, religion, ethnicity, nationality or physical disability. We also prohibited the employment of child or forced labour in all of our operations.

Remuneration Policy

We and our subsidiaries have established a competitive remuneration policy, which is guided by the remuneration policies of relevant local governments and based on business results. This market-oriented mechanism pays an equal emphasis on market competitiveness and fairness. It also correlates salary with performance to reward top talent with competitive pay. Staff morale and cohesion is thus enhanced as will the sustainable growth of the Company. We have innovated incentive mechanisms by introducing mid-and long-term incentive plans. CITIC Pacific Special Steel also has a shareholding scheme for core staff that allows the company to share the benefits of growth.

Appraisal Mechanism

During the year, we continued to optimise our performance appraisal and remuneration systems to help the company achieve better performance. We also introduced a new appraisal mechanism and improved our industry benchmarking, according to the business characteristics and development stages of each of our subsidiaries. Performance appraisal results are now more firmly linked to staff remuneration, with a strong emphasis on value creation and shareholder returns. In addition, CITIC Industrial Investment established an appraisal and incentive system for professional managers based on quantitative performance assessments and contractual management.

Staff Benefits

We made further improvements to our staff benefits schemes during the year, including insurance and policies on working hours and rest periods. As required by the Hong Kong SAR Government, we made contributions to the Mandatory Provident Fund for all staff based in Hong Kong and provided full coverage of basic social insurance for our mainland staff according to the requirements of local governments. Most of our mainland subsidiaries offered a corporate annuity (supplemental pension insurance) scheme and supplemental medical insurance for the more than 130,000 staff they employ.

Developing our Staff

Talent Strategy

- To promote the implementation of our talent strategy during the 13th five-year period, we established five teams, comprising senior management, industry leaders, advanced technology specialists and skilled professionals, international staff and outstanding young executives. This team functions as a talent pool for supporting the company's development.

Job Rotation Scheme

- In line with our people-oriented philosophy, and capitalising on the strength of our integrated network, we arrange for staff postings, internal rotations and exchanges between our headquarters and subsidiaries and among our subsidiaries in different sectors, as well as between CITIC and provincial and municipal governments and strategic partnership companies. This has enriched the experience of our employees and allowed them to improve their professional knowledge and skills.

Awards and Recognitions

- To promote high standards of craftmanship and professionalism, we organised the third vocational skills competition for our production subsidiaries and the third financial business skills competition for our professional staff. We also arranged group holidays to reward our advanced technology workers, professionals and outstanding employees. In addition, three of our experts received special government allowances during the year.

Training System

- We have prepared a systematic and full-coverage education and training plan for the 2018 to 2022 period, with an emphasis on meeting the development needs of our company and subsidiaries. In 2018, CITIC Limited and its subsidiaries organised over 6,000 training programmes for more than 700,000 people.

Case study

Training for Staff Growth

IN 2018, our headquarters arranged to have 48 staff join a second round of the CITIC Excellent Talent Training Programme, the third consecutive annual CITIC-CP Group-Itochu Joint Training Programme and Hong Kong and Macau staff visiting mainland China and receiving training. We also hosted our first trainers forum, organised a corporate M&A business seminar, training for managers from Hong Kong and Macau and re-launched a training programme with Daiwa Securities.

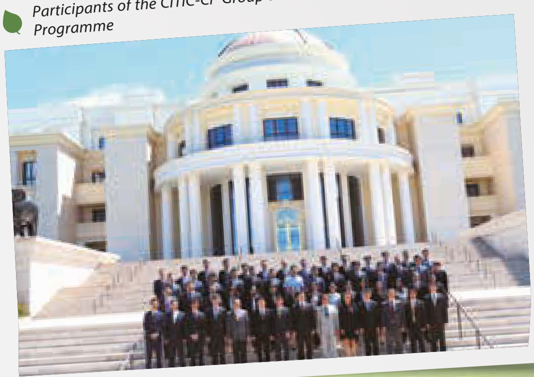
The CITIC Excellent Talent Training Programme and the Training Programme for Middle-aged and Young Leaders was respectively awarded the Best Learning Project by China Enterprise Training and Development Annual Conference and the Best Management Training Programme by China Enterprise Management Development Alliance.

Symposium of the 10th Anniversary of the Training Programme for Middle-aged and Young Leaders

Panel discussion between company leaders and participants in the Fifth Edition of Hong Kong and Macau staff training

Graduates of the Second Edition of the CITIC Excellent Talent Training Programme

Participants of the CITIC-CP Group-Itochu Joint Training Programme



Our subsidiary, CITIC Dicastal, launched a talent development programme during the year with the support of our overseas businesses. Focused on the operation of overseas factories, the programme provides themed training, language study and new work experiences for staff. Another training programme, offered by the Training School of CITIC Construction, launched a business e-learning platform that allows users to log on through an app, WeChat terminal or webpage at any time, from any location.

Caring for CITIC Employees

Support for Women

In 2018, we built 10 mother's rooms at the premises of our subsidiaries to provide a private, clean and comfortable space for female staff who are pregnant or lactating. We also continued our Care for Female Staff campaign, featuring events such as International Women's Day and Children's Day, as well as summer camps and education lectures for the children of our staff.

A creative drawing session for the children of our staff, organised by CITIC Securities

An autumn outing for retirees, organised by the headquarters of the company

Support for Young Staff

We have built special apartments in Beijing and improved related support services for our young staff in order to address their housing needs in China's capital city. Our youth apartment in Beijing currently has more than 500 young residents.

Support for Retirees

Each year at our company headquarters, we arrange medical check-ups for our retired staff, as well as regular spring and autumn outings.

Support for Staff in Need

During the year, we set up a special fund of over RMB2.4 million for staff in need and their family members, as well as single-parent female staff. An additional RMB400,000 was invested in our Autumn Scholar Activity for the children of our staff.

Cultural and Sports Activities

In 2018, we organised a variety of cultural and sports activities, such as badminton and table tennis matches, swimming competitions, futsal games and calligraphy contests as part of 40th anniversary celebrations of China's Reform and Opening-up. We also arranged to have more than 10 of our subsidiaries in Hong Kong participate in the Eighth Sports Meet of The Hong Kong Chinese Enterprises Association (HKCEA). Teams from our CITIC subsidiaries achieved 2nd place in athletics, 11th in track and field and 13th overall.

Staff of our Hong Kong subsidiaries at the Eighth Sports Meet of HKCEA.

Protecting our Staff's Physical and Mental Health

We believe that the safety and health of our staff is our primary responsibility. Particular attention is paid to safety management, supervision and inspection, with the ultimate aim of having our staff take responsibility for production safety.

Controlling Risks at Source

During the year, we continued to observe all laws and regulations on occupational health and improved our safety management system at every level of our organisation. We also held regular training sessions and forums to keep our staff's safety knowledge up to date and improve their safety awareness.

Improvement on System and Institutional Development

- CITIC Heavy Industries revised its safety management systems and published new versions of its accountability and appraisal systems for production safety during the year. The updated versions cover eight new systems as well as a management system for pre-shift meetings. In total, 32 safety systems are now covered.
- CITIC Dicastal set up a risk identification team during the year, comprised mainly of safety management personnel, production module safety personnel, equipment operators, process technicians and shift leaders. This team is responsible for identifying and assessing the risks inherent in various operations, as well as the handling of equipment and facilities, raw materials, and auxiliary facilities, with reference made to relevant safety standards and industrial norms. Control measures will be developed for the risks that are identified, with appropriate staff training.

Corporate Culture of Safety-First

- CITIC Mining International continued to advocate the safety management standards of SinoSAFE Insurance. In 2018, CITIC Mining trained its production directors in safety management and prepared a new Code of Conduct on Production Safety. Additionally, a forum on health, safety and environmental leadership was held at project sites, where production safety management practices were reviewed, particularly with regard to liquid chemicals and the prevention of hazardous liquid leakages.
- In 2018, CITIC Resources implemented a comprehensive Behaviour Observation Plan, which helps to evaluate the safety of daily work practices and puts measures in place for improvement, with no punishment of individuals whose on-site safety standards are below standard. The Plan focuses on safety awareness and encourages staff to help colleagues develop effective safety rules.

Protecting Workers' Health and Safety

During the year, we strengthened our safety measures, distributed protective equipment and carried out regular health checks to safeguard our staff's health and safety.

Staff Health Services

- In 2018, an affiliated company of CITIC Resources, KBM, entered into a medical service contract with Sofie Med Group, a local firm with advanced medical technology and equipment, to offer a high-standard of medical service for its staff. Medical service facilities have also been set up in villages where a large number of KBM staff live.
- CITIC Heavy Industries offered medical check-ups for 1,256 members of its staff engaged in hazardous operations. The company also tested for the risk of occupational disease in 164 areas at 105 work posts. In 2018, there was no major accident. No serious injuries or new cases of occupational disease were reported.

Safety of Overseas Staff

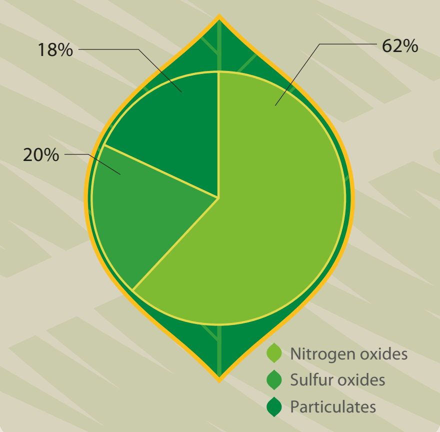
- CITIC Construction has overseas staff and subcontractors scattered across extensive areas, each with its own distinct safety risks. To manage the safety of its overseas personnel, CITIC Construction stepped up its collaboration with International SOS in 2018 and helped its overseas personnel to access a mobile application, email alerts and special consultation services provided by International SOS. CITIC Construction broadened its information channels with government agencies regarding safety and health; and it frequently exchanged safety management knowhow with relevant associations and Chinese enterprises to enrich experience and enhance its management capacity.

Environmental Responsibility: Building Harmonious Eco-Environment

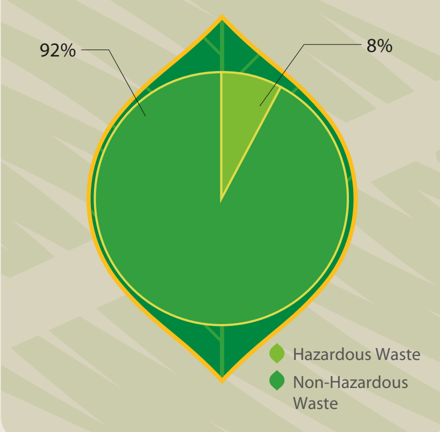
For CITIC, protecting the environment is not only part of our commitment to social responsibility but a critical factor in our sustainable growth. We maintain green management systems, operations and offices, offer high quality eco-products and protect our natural environment in order to address pollution problems and pave the way to a 'Beautiful China'.

Environmental Performance

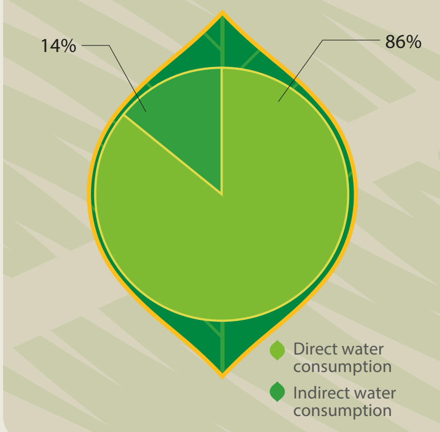
Air pollutants: 34,092.77 tonnes

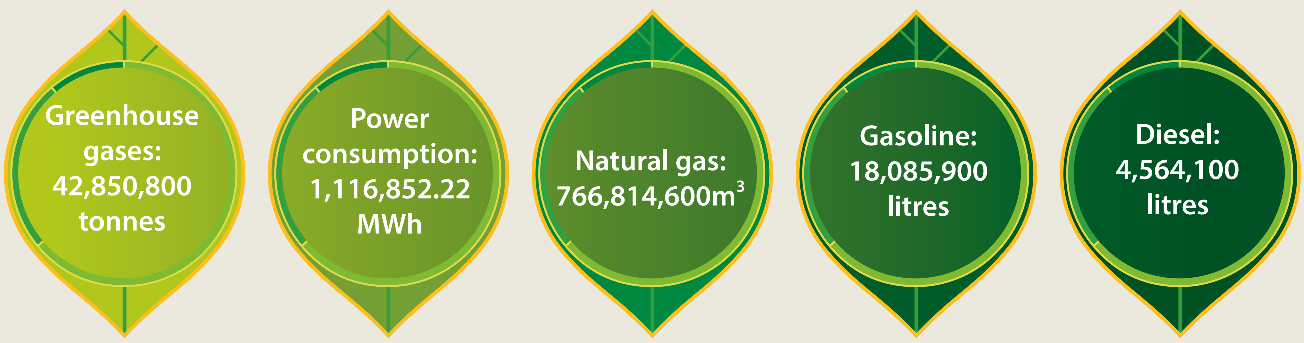


Waste: 58,706,600 tonnes



Water consumption: 2,692,869,200 tonnes





Performance of CITIC Environment in 2018

Water Treatment

- Over 60 sewage treatment plants, with a total daily sewage treatment capacity of more than 6.0 million tonnes.

Energy Conservation

- Gas savings of 30 million m^3 for customers, effectively reducing their carbon dioxide emissions.

Solid Waste Treatment

- Completed and operated 17 incinerator projects for converting household waste into energy. These projects will treat approximately 6.03 million tonnes of household waste a year and generate around 2.06 billion kwh of electricity.

Green Management

We comply with all environmental laws and regulations in the countries and regions where we operate. We have also improved our environmental management system and established a green development plan as a foundation for the continuous improvement of our environmental performance. Additionally, we offer financial support in the form of green credit, green securities and green trust for the development of low-carbon industries.

An Improved Environmental Management System

CITIC Heavy Industries amended its *Manual of Environmental/Occupational Health* and its safety management system during the year. As a result, improvements were achieved in on-site energy consumption and its internet-based energy management system, which has maintained certification since 2005. CITIC Construction also issues new environmental management objectives every year, and each business department, project division and partner is required to meet these objectives with environmental protection plans of its own.

Financial Support for Low-carbon Industry

CITIC Bank has transformed its customer service business model in line with green finance principles. Accordingly, it has given priority to supporting strategic emerging industries that focus on energy conservation and emissions reduction, the circular economy and clean energy when providing credit. In sectors and industries characterised by high pollution, high energy consumption and excess capacity, CITIC Bank will limit access to credit and increase its review of their environmental and social risks. At the end of 2018, the total balance of green credit loans was RMB62.937 billion, an increase of 4.27%.

At CITIC Trust, a trust scheme was launched to help Changxing Economic and Technology Development Zone in Huzhou, Zhejiang Province construct the first phase of its Green Industry Sustainable Development Project. With the completion of this project, Changxing Economic and Technology Development Zone will be transformed into an industrial park dedicated to green businesses.

China Securities continued to offer support to issuers of capital for environmentally-friendly projects, such as public rail transit and water treatment systems. In 2018, it assisted eight companies to issue green bonds valued at a total of RMB11.148 billion.

Case study

CITIC Mining International: Environmental Management

CITIC Mining International makes use of its environmental management system to continuously monitor and analyse the areas surrounding its mining sites and issues regular environment reports with the aim of minimising the impact of its operations.

Environmental Monitoring

A total of 15 studies were under way during the year for continuously monitoring dust intensity, the quality and gross volume of surface water, health of coral, and alien species of marine fauna.

Challenges Identified from Environmental Risks

Major environmental management concerns for the next few years include excess stagnant water in pits and leakages from the tailings dam, all of which will have appropriate control measures in place. In 2018, CITIC Mining submitted over 20 annual environmental compliance reports to the environmental regulatory authorities in Australia. In these reports, five minor environmental events in relation to the operational permit were reported.

A Revegetation Plan for the Future

Every year, CITIC Mining establishes annual revegetation objectives. In 2018, the company submitted its Mining Mountain Closure and Reclamation Plan to the government, outlining its plans for reclamation in the area around the mines, including revegetation, at the end of the mine life.

Mine Site Clean-up

CITIC Mining has been encouraging staff to participate in garbage collection and cleaning around the mine sites through its Sino Clean – Cleaning Sino Iron Project. During the process of carrying out clean-ups, new hazardous wastes were discovered and measures adopted to remove and recycle these wastes. In 2018, CITIC Mining collected a total of 677 bags of rubbish and 46m^3 of extra bulky waste. This made a combined total of 84.5m^3 of waste removed from Sino Iron site.

Monitoring of sea turtle nests near the project.

Drainage system in mining pit

Waste collection at the Sino Iron mine site

Environmental Protection

CITIC Environment offers a variety of environmental protection services to customers in mainland China.

Environmental Education Centres

During the year, CITIC Environment joined local governments to build an environmental science education centre for the Yellow River Delta area, with a sewage treatment plant built by CITIC Dongying Environmental Waterworks Co., Ltd. Together with existing infrastructure such as a waste treatment plant, monitoring platforms and an artificial wetland, the centre allows the public—especially primary and middle school students—to experience and better understand environmental protection issues. During the summer of 2018, over 2,000 primary and secondary school students and more than 800 representatives from government departments as well as members of the public visited the centre.

The centre has been hailed as a model environmental education project that other national-level projects can emulate.

5th of June, environment day public education activities held by CITIC Dongying Environmental Waterworks.

Environmental Protection Fund

Local residents visiting Guangzhou Jingxi Underground Water Purifying Plant

CITIC Envirotech and Guangdong Harmony Foundation set up a charitable fund for environmental protection to support environment and community welfare activities along the Pearl River to become the first corporate River Guardian. In 2018, experts from CITIC Envirotech volunteered to give lectures to over 200 community members on environment and water resources protection and organised an on-site visit for 20 college students and local residents to Guangzhou Jingxi Underground Water Purifying Plant.

Environmental Science Education Activities

During World Environment Day 2018, the subsidiaries and water plants of CITIC Envirotech and local government departments launched various science education activities, enabling teens to learn about environmental protection.

CITIC Envirotech, Nansha branch, organised a field trip in Guangzhou for local primary schools to examine river water quality

Greening our Operations

In addition to supporting national policies for industrial transformation, we have been implementing strict pollution controls, developing new applications for environmental technologies, reducing pollutants and waste, and making more efficient use of the energy and water we consume in our efforts to become a low-carbon business.

Digitalisation of Finance

We support the development of low-carbon enterprises by promoting electronic services and encouraging customers to go online to pay their bills.

Digital Initiatives at CITIC Trust	Electronic Services at CITIC-Prudential
CITIC Trust launched 12 research and development projects throughout the year, which were designed to increase digitalisation of its business. These initiatives will help to reduce 60,000 paper-based payment orders and transfer-fund instructions per year.	In order to increase the utilisation rate of electronic services, CITIC-Prudential has adopted advanced technologies for greater efficiency and customer convenience. These include the use of OCR to automatically record customer information, the acceptance of electronic signatures from customers, and the adoption of facial recognition technology to check customers' identification. In 2018, the number of insurance policies using electronic processes increased by 37%, which contributed to reduced paper consumption within CITIC-Prudential's operations.

Reducing Pollution

We continued to promote energy saving and emissions reduction within our operations and have committed to lowering waste gas, waste water and solid waste through advanced technology and green management.

Control of gas pollutants

	Initiatives	Achievements
CITIC Mining International	The company's mines in Australia set emission caps for greenhouse gases in accordance with the requirements of the National Greenhouse and Energy Reporting (Safeguard Mechanism). The company has also set emission reduction targets in its environmental management system. Each month, the project management team collects data on greenhouse gas emissions, records consumption of resources during production, as well as emissions per tonne of concentrated ores and their intensity.	In 2018, CITIC Mining kept total greenhouse gas emissions within target, while simultaneously achieving growth in production.
CITIC Resources	Yuedong Oilfield replaced traditional workover rigs driven by diesel engines with 3 grid-powered workover rigs, and completed alterations to the burner of the low-pressure steam boiler at Island C. Following the switch from diesel to natural gas, power and fuel consumption on offshore production platforms and onshore central treatment stations was reduced.	Annual electricity consumption was reduced by 490,000 kWh as compared with the previous year, and diesel oil consumption by 711.08 tonnes, effectively reducing the emission of air pollutants such as sulphur dioxide, nitrogen oxide, smoke and dust.
CITIC Pacific Special Steel	Xingcheng Special Steel completed the alteration of Furnace No. 0 and Furnace No. 2, and is now working on completing the supra low emission alteration of its 360 sintering machine and small sintering machines 1, 2 and 3. This work is scheduled for completion by June 2019.	The alterations will help the company achieve smoke and dust emissions of $\leq 10mg/m^3$, $SO_2 \leq 35mg/m^3$, and $NOx \leq 50mg/m^3$. Total pollutant emissions are estimated to fall by more than 70%.

Sewage and waste disposal

	Initiatives	Achievements
CITIC Metal Group	CITIC Metal plans to build an evaporation treatment facility for industrial waste water containing salt at its titanium production facility.	After completion, the project will enable the company to recover resources such as fresh water and salt.
CITIC Resources	At the Karazhanbas Oilfield, domestic waste water generated at the worker's village and canteen is treated then used to replace the water taken from the Volga River for spraying roads in the oilfield in order to control dust. The project is also treating water to enhance the utilisation rate of sewage water and reduce environmental risks.	103,000 m^3 of fresh water was saved during the year.
CITIC Dicastal	A bio-chemical treatment system for sewage was installed to assure water quality for reuse. A flow meter is also being used to measure the quantity of waste water and control its discharge.	From mid-June 2018 to the year end, the system reduced the discharge of waste water by 24,642 tonnes.

Case study

Cleaner Water with CITIC Technology

In March 2018, CITIC Bank, Lanzhou Branch and CITIC Environment signed a Public–private Partnership (PPP) agreement for the renovation and expansion of sewage treatment plants in Qilihe District, Lanzhou and Anning City, Yunnan. Working with local governments, the project will use membrane-bio reactor (MBR) technology developed by CITIC Envirotech. This technology will be employed to renovate the Anling Sewage Treatment Plant, increase the amount of sewage treated from 200,000 tonnes per day to 400,000 tonnes per day, and enhance the quality of treated waste water to Grade I – A.

The project is part of CITIC Bank's efforts to support the Gansu Green Ecological Industry Fund, which promotes the development of energy saving and environmental protection industries, agricultural waste recycling, cultural tourism and advanced manufacturing. After completion, the project will significantly improve environmental conditions in Lanzhou City, while upgrading water quality in the Yellow River Basin.

Project signing ceremony

Artist's impression of the project

Saving Resources and Energy

We are continuously increasing the efficiency of the resources we use by improving our energy management, upgrading production equipment, phasing out antiquated production equipment and developing innovative new production technology.

	Initiatives	Achievements
CITIC Heavy Industries	The company's 2018 Appraisal Methods for Overall Saving Plan provides indicators for major energy-consuming production facilities, with over 100 energy consumption quotas. Under this plan, energy consumption is classified by category to reduce costs associated with energy consumption.	A total of RMB27.47 million in production costs (or 137% of the target for the year) was saved in 2018.
CITIC Pacific Special Steel	The Xin Yegang plant of CITIC Pacific Special Steel employs energy saving technologies to reduce consumption of energy such as gas, steam gas and electricity, and increase self-generated power.	In 2018, energy for the electric furnace and rotating furnace plants was decreased by 1.3% and 2.9%, respectively, as compared with the previous year. Gas consumption in forging decreased by 18.3% as compared with last year, while the power generated from gas was 260 million kWh, an increase of 9.03% as compared with 2017.
	Tonling Pacific Special Materials upgraded its gas and steam network in order to supply waste heat generated by its plants to other enterprises in the industrial park where it is located.	Waste heat supplied to external parties equalled 70,000 tonnes of standard coal, a 650-tonne reduction in dust emissions, a 30-tonne reduction in sulphur dioxide emissions, and a 225-tonne reduction in nitrogen oxide emissions.

Towards a Green Office

In our offices, we have reduced waste energy and carbon emissions by upgrading high energy-consumption equipment and encouraging staff to use less paper. We also raise staff environmental awareness and encourage them to save water, electricity and office supplies through their own actions.

CITIC Telecom International has been a corporate member of WWF Hong Kong for two consecutive years. Dah Chong Hong, which joined the Carbon Audit • Green Partners of the Environmental Protection Department of Hong Kong in 2017, became a pearl member and a member of the Low-carbon Office Operation Programme of the World Wide Fund for Nature Hong Kong in 2018.

CITIC Limited • **Streamlining Office Information**	In 2018, CITIC's headquarters optimised 38 office management processes, including the circulation of office documents, forms, and reminders. As a result, more than 80% of all office functions are now being done online, saving energy and increasing efficiency.
CITIC Securities • **Conserving Water Resources**	At the headquarters of CITIC Securities, bottled water normally allocated to over 40 meeting rooms was cancelled and water dispensers installed. Staff participating in internal meetings have also been encouraged to bring their own non-disposable cups. In 2018, the use of bottled water decreased by 1,000 cases, or 23%, as compared with last year. Additionally, waste water recovery and recycling works were carried out for the 43 water purification machines in the building. All waste water filtered in these machines is collected for reuse. It is estimated that about 1,500 tonnes of water will be saved as a result.
CITIC Building • **Saving Electricity**	A battery energy storage system was installed to store electricity during non-peak hours when tariffs are low and released in peak periods, which will save RMB300,000 in electricity costs every year while reducing electricity consumption in the municipal grid. The company plans to use the system in future for charging electric powered automobiles.

Customer Responsibility: Building Confidence in Our Brand

We regard the CITIC brand and its promise of 'delivering the best services to customers' as the key to our success as a business. We live by this promise every day in our dealings with customers and make every effort to provide them with the safe, high quality products and services they have come to depend on.

Performance

Honours and Awards

CITIC Securities received the 2017 Outstanding Securities Company According to Investor Survey Award by the China Securities Investor Protection Fund Corporation.

CITIC Trust received the China's Best Trust Company award by *The Asian Banker*, the first time that a domestic trust business in China has won this international award.

CITIC Heavy Industries won awards for the National Model Enterprise for Product and Service Quality, National Quality Leading Enterprise in Mining Machinery Manufacturing Industry, and National Quality and Creditworthiness Leading Enterprise.

CITIC Construction received the Road Engineering Award in the fifteenth Tien-yow Jeme Civil Engineering Prize for its East-West Expressway (West Section) Project in Algeria.

Delivering Quality Products and Services

In line with our customer-centric principles, we remain firmly committed to product quality control and the highest standard of customer service.

Continue to innovate new products

- CITIC-Prudential stepped up its effort to develop new products in health and wealth management. In 2018, CITIC-Prudential launched over 40 new products in response to customer needs for insurance covering critical illness, children's education and cancer risk in elderly people, all of which achieved satisfactory sales. CITIC-Prudential offers 20% extra compensation to cancer with the highest morbidity to better finance their treatment; it promptly offered insurance coverage on targeted therapy drugs. The Company also led the industry in mainland China by introducing multi-pay cancer insurance, as the disease has a high relapse and metastasis rate.

- As a pioneer of socially responsible finance, CITIC Trust launched its Investment + Poverty Alleviation programme that allows investors to participate in charitable activities. These include the CITIC Trust GHF Poverty Alleviation Trust, which was well accepted by investors and fully subscribed upon release. The enthusiastic response to the programme gives investors exposure to charitable investments and helps to improve CITIC Trust's image as a socially-responsible company that cares for the welfare of the community.

Products that meet the needs of customers and society

- CITIC-Prudential is committed to offering customer-friendly services and products. To reduce cumbersome application procedures for the bereaved and to ease the insurance contract take-over process, CITIC-prudential began offering a new feature in July 2017 that allows a second policy holder to continue enjoying coverage if the primary policy holder passes away. A total of 6,554 policy holders have taken advantage of this feature since it was launched in July 2017.

- CITIC Pacific Special Steel set up a new system to collect and analyse orders, delivery condition, procurement volume, quality claims, change in demand and other information by each customer so that the appropriate improvement measures can be taken.

Case study

CITIC Construction Signature Projects

The Geely automobile factory in Belarus.

CITIC Construction has implemented a range of local signature projects that have helped to improve its brand image. These projects have earned widespread public and government praise as well as several awards in the countries where CITIC Construction operates.

Geely Automobile Factory, Belarus

The Geely automobile factory in Belarus passed the inspection of the National Acceptance Committee during the year. Following this committees' endorsement, the Geely factory has been producing 60,000 passenger cars per year and has become the first independent automobile assembly plant in Belarus.

The West Bid Section of the Algerian East-west Expressway

This project was completed successfully in 2018 and won the 15th Tien-yow Jeme Civil Engineering Prize for highway engineering projects, making it the fourth project by CITIC Construction to win this prize.

Desalination Plant Project, Venezuela

In 2018, this project was completed for handover and recognised for its quality standards and advanced technology. President Maduro of Venezuela visited the project site and officiated the handover ceremony for the plant.

President Maduro of Venezuela visting the desalination plant

Improving Customer Relationships

In addition to providing safe, stable, reliable products and services to our customers, we are committed to protecting basic consumer rights. To improve customer satisfaction, we continued to provide industry news and education on the rights of customers during the year.

Protecting Customers' Rights

- From January 2018 to January 2019, CITIC Bank surveyed 8 departments at its head office and 24 of its branches for the *2018 CITIC Bank Consumer Rights Protection Audit Report*. The report covered 48 issues concerning the protection of consumer rights and proposed four recommendations. The bank also trains and provides guidance on the protection of consumer rights. To date, 38 branches have organised more than 160 training sessions on consumer protection.

- To protect consumers' data privacy, CITIC Securities introduced data masking, restricted the use of USB sticks to certain authorised departments and staff, and installed a monitoring system to prevent leaks of data and other sensitive information.

Enhancing customer service management

- In 2018, CITIC Securities established a comprehensive customer complaint management system, which clarified procedures for handling and resolving complaints from customers. Departments responsible for settling customer complaints were also advised on how to apply for mediation by the Securities and Futures Dispute Resolution Centre.

- CITIC Press established a customer service team for resolving customer issues via channels such as a customer service hotline. As a result of their efforts, customer satisfaction levels were 35% higher than CITIC Press' peers. Additionally, CITIC Press regularly conducted customer service review and responds to customer feedback in order to improve service.

Case study

Financial Education for the Community

In 2018, the Group's financial businesses carried out educational campaigns to arm consumers with the knowledge they need to reduce their investment risk and improve their ability to detect fraudulent financial activities.

In collaboration with the Securities Association of China and Shenzhen Securities Regulatory Bureau, CITIC Securities organised both online and offline financial education activities targeting market hotspot issues, issued risk warnings and provided information on long-term and value investing. The company's Shenzhen branches also held more than 10 educational activities for more than 270 elderly investors for their better choices of investment.

Investment lectures for elderly

35 overseas students from University of International Business and Economics visiting investor education centre of China Securities.

In January 2018, China Securities established China's only national investor education centre in Beijing focusing on securities and futures contracts. It cooperated with over 10 universities and middle schools and hosted over 8,300 visits from students in 2018 in Beijing to inform them in the form of seminars with knowledges in security history, security investment and risk prevention.

In May 2018, CITIC-Prudential Guangdong Branch joined Junior Achievement, the world's largest non-profit educational organisation, to host the 2018 JA Teaching Charity Activities. It organised lessons for primary students on Junior Financial Management, an elective course for grade-four students.

Primary students learn about financial management

Industrial Responsibility: Working on Behalf of our Partners

Internet technologies hold out the promise of more business opportunities and new possibilities for market players. As a business conglomerate, CITIC Limited is taking advantage of new internet technologies and accessing new industrial resources to build new business ecosystems for our partners. With the support of government, suppliers and business partners, CITIC is committed to building cooperative platforms that benefit governments and enterprises. CITIC supports fair competition, responsible supply chains and healthy industrial growth and has adopted systematic measures to counter corruption and promote a clean industrial environment.

Developing mutually-beneficial partnerships

CITIC Limited continued to work closely with government during the year to drive local economies. It also partnered with industry leaders to explore business opportunities for their mutual benefit.

Strong cooperative ties

In 2018, the senior management of CITIC Limited strengthened its corporate and government relationships through visits and co-operative field research.

CITIC Limited met with government and business leaders 150 times in 2018

CITIC Limited attended 30 local and international business forums and investment summits during the year

Case study

One CITIC Platform

CITIC Limited continued to transform itself through its Internet Plus strategy. In cooperation with the consumer retail industry, it helped to increase the value of the sector via innovation. On 17 September 2018, the One CITIC brand was launched in Beijing to offer customers a more diversified, professional experience. Among the first One CITIC members are CITIC Bank, CITIC Securities, China AMC, CITIC-Prudential, e-CITIC and CITIC Press. Future members will include Mc Donald, Itochu, Dah Chong Hong and other external partners. As of the end of 2018, the total number of registered users was over 10 million.

Developing a Responsible Supply Chain

CITIC Limited promotes a responsible supply chain both for its own benefit and that of the industry as a whole. We also work to combat piracy and infringements of intellectual property, not only to protect original works but also to encourage innovation.

Working with our Supply Chain

- To protect Australia against foreign species and diseases, CITIC Mining International cooperates with trading companies, suppliers and manufacturers to manage imports and ensure imported goods are hygienic and free of contamination. The company also provides regular training for overseas suppliers on Australia's requirements with regard to the biological safety of imported goods to ensure everyone in the supply chain is up-to-date and understands Australia's latest Biosecurity requirements.
- CITIC Press has introduced a compliance system for its tender process, which has been extended from printing suppliers in and around Beijing to Shandong and the Yangtze River and Pearl River Delta areas. It has also started to build a responsible printing supply chain by engaging upstream and downstream suppliers and having them comply with relevant logistics and production regulations.

Support for Industry Development

- In May 2018, CITIC Envirotech held the 2018 Chinese City and Region Eco Environment Development Forum together with the Chinese Society for Environmental Science. About 200 people from government, as well as environmental protection organisations and industry attended the forum to discuss environmental planning and other relevant topics.

Mr. Cai XiLiang, vice-president of CITIC Limited and president of CITIC Envirotech, at the 2018 Chinese City and Region ECO Environment Development Forum.

Protect Our Intellectual Property

- CITIC Pacific Special Steel has made IP protection a key part of the innovation process in order to safeguard the technology it develops. All cross-disciplinary R&D efforts are treated as isolated projects and patent searches conducted to keep abreast with the technology being developed and to avoid repetitive research. Project managers oversee patent management and take responsibility for patent searches and patent protection as projects progress. When a project is completed, patent managers will work with R&D staff to formulate an IP protection plan.

Combatting Book Piracy

- CITIC Press cooperates with outside parties, such as the Alibaba Group and its IPP platform, to prevent copyright infringements. In 2018, it issued 11 accreditation reports for the Book Accreditation Center of the Press and Publication Bureau of Beijing, Guangdong and Henan. CITIC Press also agreed to monitor online sales to prevent the copying of new books immediately after their release. CITIC Press reported online copyright violators, took legal action against copyright infringers and worked with regulators to track down the source of pirated books.

Anti-Corruption

Anti-corruption is given top priority in our internal risk management. To protect our brand's reputation, we have in place various anti-corruption measures, follow the requirements of the Hong Kong Listing Rules, and review the employee Code of Conduct for our company and subsidiaries on a semi-annual basis.

Overseas Supervision	IT Upgrade	Staff Conduct
• CITIC Limited carefully supervises its overseas branches and partners and advises its international engineering construction subsidiaries on international laws and regulations.	• CITIC Trust has updated its IT system to allow all data and information to be stored in one place for easy reference. The upgraded system provides functions such as statistical analysis, file sorting and user feedback, thereby standardising operational processes and improving internal control and work efficiency.	• CITIC Securities has implemented rules for discouraging corruption among staff. Areas covered include trade secrets, professional ethics and prevention of bribery.

Support for Local Communities

As a company that operates in a large number of countries and regions, we encourage our staff to donate their time and services to those in need.

Performance

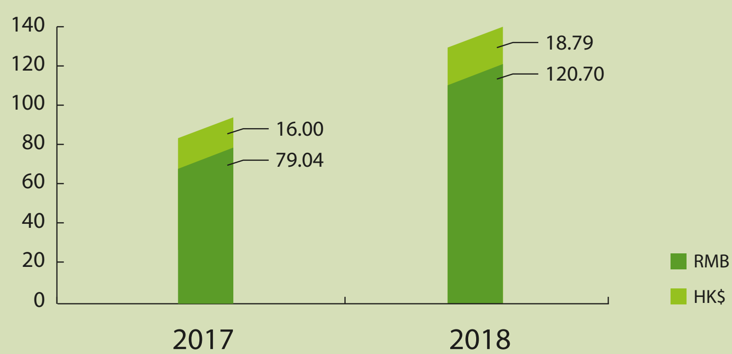
Honours and Awards

The Love, Trust, Be Together community welfare programme launched by the CITIC Bank Credit Card Centre was selected as the Best Social Responsibility Practice Case of the Year by the Shenzhen Banking Association. The programme was also included in the Excellent Project Library of the National Volunteer Service Project Competition.

CITIC Trust was named the Best Charity Trust in China by *The Asian Banker* for its first report on poverty alleviation.

CITIC Pacific won the Silver Award in the 2017-18 Oxfam Corporate Donor Program.

Donations to local communities: (million)



Supporting Communities in Hong Kong and Macau

We have launched an exchange programme for young people from Hong Kong and Mainland China to help Hong Kong youth understand the economic and social development of mainland China. We also support programmes that contribute to the prosperity and stability of Hong Kong and Macau.

Summer Internships in Mainland China

In 2018, CITIC Limited organised a summer internship programme for Hong Kong university students for the fourth consecutive year. It included a seven-week summer internship for 39 students from the University of Hong Kong, Chinese University of Hong Kong and Hong Kong University of Science and Technology, who worked at the Group's financial companies, such as CITIC Bank, CITIC Securities and CITIC Trust.

During their internships, students had the opportunity to meet other summer interns from the mainland, participate in the CITIC Reading Forum and watch home games of Beijing Sinobo Guoan football club.

Support for Charitable Organisations

CITIC Pacific and its subsidiaries have been supporting NGOs such as Greeners Action, the Hong Kong Anti-Cancer Society, Oxfam and the Community Chest for several consecutive years. Activities in which our staff have participated include Skip Lunch Day, Love Teeth Day, Oxfam rice donations and other community events. CITIC Pacific also supports the I-Believe Parental Evidence Comprehensive Education Program launched by the Integrated Centre for Wellbeing of the Education University of Hong Kong, including donations of gifts to children with special learning needs. For the past 12 years, Dah Chong Hong has donated more than 12 tonnes of rice to Oxfam.

Companhia de Telecomunicações de Macau, S.A.R.L. (CTM) under CITIC Telecom International, provided a typhoon emergency plan that ensured uninterrupted communications throughout Macau during Typhoon Mangkhut. In 2018, CTM held its Youth Development Program for the fifth year in a row, which included corporate internships, community caring campaigns and training camps for 20 youths in Macau.

A visit to Treasure House of Noah's Ark in Ma Wan, organised by the CITIC Pacific Volunteer Team for children in the I-Believe happy childhood activity

Staff inspect the CTM communication network during Typhoon Mangkhut.

Poverty Alleviation Programmes

As a state-owned enterprise, we are committed to reducing poverty through our work in education, industry, infrastructure construction and healthcare, all of which contribute to the government's poverty alleviation programme.

Educational and Intellectual Poverty Alleviation

Our contributions towards poverty alleviation include RMB1.50 million for establishing the CITIC Educational Fund, which has helped 1,753 students in Yuanyang County and Pingbian County in Yunnan Province, and RMB1.00 million for the construction of the CITIC Banpo Hope Primary School canteen, also in Pingbian County, which benefited 439 teachers and students.

Young students at the CITIC Banpo Hope Primary School canteen

CITIC Securities donated RMB3.25 million to build kindergartens in Xainza Town, Tibet, where these facilities have become model rural kindergartens in the northern Tibetan Plateau. CITIC Environment donated RMB18.09 million for the construction of 11 central kitchens and 6 kindergartens in 11 poverty-stricken counties in Liangshan, Sichuan Province, which will benefit 23,629 students and 1,111 teachers and staff from 143 rural primary schools and kindergartens.

Rural Programmes

In cooperation with Eve Group, we provided training in embroidery to 270 women in Yuanyang County and Pingbian County through the Eve handicraft programme, which aims to develop a local embroidery industry. We also helped farmers in Muliang Village, Qianjiang District, Chongqing to plant 496 acres of marigold flowers, 310 tonnes of which were sold throughout the year. CITIC Securities set up its Insurance + Futures poverty alleviation model project to help farmers in Menghai County, Xishuangbanna, Yunnan Province, Xue Town, Fuping County, Shaanxi Province and Wutubulage Town, Bole City, Xinjiang. Through this project, farmers were able to purchase insurance for crops, such as rubber, apples and cotton, and enjoy a stable income.

A bumper harvest of marigold flowers in Muliang Village, Qianjiang District, Chongqing

Infrastructure, Healthcare and Consumption

We invested in the construction of a 21-kilometre road in Dawuzhai, Ganiang Village, Yuanyang County that serves 2,408 households in 5 local villages. We also upgraded a road and built infrastructure such as bridges in Chongqing Qianjiang District.

New Tibetan hospital in Xainza Town

In Tibet, we relocated the hospital in Xainza Town, which was completed at the end of 2018. The new facility is now benefiting more than 20,000 people in the county. In addition, CITIC Securities donated RMB1 million to improve the medical equipment and facilities of nursing homes in Jinggangshan City.

In aid of the agricultural sector, we have helped poor farmers gain access to e-commerce platforms, supermarkets and other sales channels and encouraged our employees to purchase these products. In 2018, CITIC staff spent RMB7.27 million purchasing agricultural products from poverty-stricken areas and helped farmers there sell produce worth RMB5.1 million.

Charitable Activities for Local Communities

Our charitable activities include support for education, culture, sports, healthcare, the disadvantaged and community infrastructure.

Primary students in Qinlin town receive gifts from Dream Centers

Charitable projects unique to CITIC

In the Love, Trust, Be Together community welfare programme, CITIC Bank's credit card centre installed 104 Dream Centers across 28 regions nationwide, through which over 200,000 cardholders donated 8.27 billion bonus points. CITIC Bank organised nine volunteer teacher trips for 110,000 teachers and students, as well as nine summer camp sessions for more than 300 teachers and students in remote regions of the country.

CITIC Trust continued to organise charitable trust projects such as its ABC 2018 Yu Ai Charitable Trust, with an initial amount of RMB10 million that eventually reached RMB30 million. The principal and returns from the Trust will be used to help children with congenital heart disease in Guangdong Province and to send children from poor families in Guangdong Province to school. This project is the largest charitable trust of its kind in China.

In November 2018, CITIC-Prudential Life Insurance launched a nationwide tour to provide information to parents who are planning to send their children overseas for further education.

CITIC-Prudential launched a nation-wide tour for parents sending their children overseas

Overseas Charitable Projects

Since 2009, CITIC Mining International has been working with the Australian Clontarf Foundation to improve the education and survival skills of local Aboriginal youths and help them with their employment prospects. In 2018, CITIC Mining International organised Professional Experience Day for students from Clontarf College. For this event, we arranged to have them experience work in the mining master-control room and heavy equipment maintenance workshop while also discussing their future career plans.

A visit to the mine site of Sino Iron by Clontarf College students

Since its inception in 2014, CITIC (Angola) BN Vocational School has helped 320 young people from local poor families to learn skills and find employment. On 9 May 2018, CITIC (Angola) BN Vocational School held its 2017 School Opening and Graduation Ceremony, during which 47 students graduated and 75 new students were enrolled.

2017 school opening and graduation ceremony for the CITIC (Angola) BN Vocational School.

On 5 April 2018, a serious fire broke out in the warehouse of the dairy processing plant in Stade Chebaita Mokhtar, Algeria. After receiving a call from the local government requesting assistance in the fire rescue work, CITIC Construction immediately sent two bulldozers and one loader to the scene of the fire and dispatched about 40 rescue workers to cooperate with the local fire department. With the help of our staff the blaze was contained, saving nearby warehouses and rail lines.

The project team working on the 84-km East Section of Algeria Expressway received a commendation medal by the municipal government.

Volunteer Activities

In 2018, CITIC Limited had more than 13,000 volunteers, an increase of more than 800 as compared with last year. With more employees participating in our volunteer service activities, we are now carrying out projects in over 30 cities and regions, including Beijing, Tianjin, Zhejiang and Anhui. To date, we have undertaken more than 60 volunteer service activities, such as caring for children of migrant workers and the disabled, with nearly 10,000 staff participating.

The Hand in Hand, Accompany You Children Caring Activity, organised by CITIC volunteers

CITIC Securities Volunteers with high school students in Guyuan County.

CITIC volunteers at the Safe Traveling, Warm City Metro volunteer service activity.

Volunteers from CITIC Bank Nanchang Branch collecting litter at Poyang Lake.

Volunteers from CITIC Industrial Investment clean river banks

Joint community services by volunteers from CITIC Engineering Design & Construction and local volunteers.

Past Performance and Forward Looking Statements

Performance and results of the operations of CITIC Limited for previous years described within this Annual Report are historical in nature. Past performance is no guarantee of the future results of CITIC Limited. This Annual Report may contain forward looking statements and opinions, and therefore risks and uncertainties are involved. Actual results may differ materially from expectations discussed in such forward looking statements and opinions. None of CITIC Limited, the Directors, employees or agents assumes (a) any obligation to correct or update any forward looking statements or opinions contained in this Annual Report; and (b) any liability arising from any forward looking statements or opinions that do not materialise or prove to be incorrect.

Contents of Financial Statements and Notes

Consolidated Income Statement

For the year ended 31 December 2018

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

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

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

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

Consolidated Balance Sheet

As at 31 December 2018

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

Consolidated Balance Sheet

As at 31 December 2018

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

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

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

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Note	Share capital HK$ million (Note 48(a))	Perpetual capital securities HK$ million (Note 48(c))	Capital reserve HK$ million (Note 48(d)(i))	Hedging reserve HK$ million (Note 48(d)(ii))	Investment related reserves HK$ million (Note 48(d)(iii))	General reserve HK$ million (Note 48(d)(iv))	Retained earnings HK$ million	Exchange reserve HK$ million (Note 48(d)(v))	Total HK$ million	Non-controlling interests HK$ million	Total equity HK$ million
Balance at 1 January 2017 (Previously reported)		381,710	7,873	(62,209)	1,203	(2,445)	44,497	158,040	(38,036)	490,633	205,218	695,851
Business combination under common control	2(a)	–	–	299	–	–	–	94	(24)	369	453	822
Balance at 1 January 2017 (Restated)		381,710	7,873	(61,910)	1,203	(2,445)	44,497	158,134	(38,060)	491,002	205,671	696,673
Profit for the year		–	673	–	–	–	–	43,902	–	44,575	20,521	65,096
Other comprehensive income/(loss) for the year	18	–	–	–	714	(5,158)	–	–	30,995	26,551	10,906	37,457
Total comprehensive income/(loss) for the year		–	673	–	714	(5,158)	–	43,902	30,995	71,126	31,427	102,553
Capital injection by non-controlling interests		–	–	–	–	–	–	–	–	–	464	464
Issue of other equity instruments by subsidiaries		–	–	–	–	–	–	–	–	–	1,330	1,330
Transfer of profits to general reserve		–	–	–	–	–	591	(591)	–	–	–	–
Dividends paid to ordinary shareholders of the Company	16	–	–	–	–	–	–	(9,891)	–	(9,891)	–	(9,891)
Dividends paid to non-controlling interests		–	–	–	–	–	–	–	–	–	(8,828)	(8,828)
Distribution to holders of perpetual capital securities		–	(673)	–	–	–	–	–	–	(673)	–	(673)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	–	3,793	3,793
Disposal of subsidiaries	55(b)	–	–	–	–	–	–	–	–	–	(132)	(132)
Transactions with non-controlling interests		–	–	269	–	–	–	–	–	269	8,727	8,996
Capital injection in business combination under common control	2(a)	–	–	(530)	–	–	–	–	–	(530)	530	–
Others		–	–	(352)	–	–	–	–	–	(352)	(292)	(644)
Other changes in equity		–	(673)	(613)	–	–	591	(10,482)	–	(11,177)	5,592	(5,585)
Balance at 31 December 2017		381,710	7,873	(62,523)	1,917	(7,603)	45,088	191,554	(7,065)	550,951	242,690	793,641

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018

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

Consolidated Cash Flow Statement

For the year ended 31 December 2018

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1 General information

CITIC Limited (the "Company") was incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The address of its registered office is 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central Hong Kong.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

The parent and the ultimate holding company of the Company is CITIC Group Corporation ("CITIC Group"). As at 31 December 2018, the equity interests held by CITIC Group in the Company through its overseas wholly-owned subsidiaries was 58.13% (31 December 2017: 58.13%).

2 Significant accounting policies

(a) Basis of preparation

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

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

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. None of these had a significant effect on the consolidated financial statements of the Group, except for the adoption of HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15").

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) HKFRS 9, Financial Instruments

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

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

(ii) Amendments to HKFRS 4, Insurance Contracts

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

(iii) HKFRS 15, Revenue from contracts with customers

This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

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

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

(v) Annual improvements 2014-2016 cycle

The following improvements were finalised in December 2016:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(a) Basis of preparation (Continued)

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

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

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

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

(b) Functional currency and presentation currency

The functional currency of the Company is Hong Kong dollars ("HK$"). The functional currencies of subsidiaries are determined in accordance with the primary economic environment in which they operate, and are translated into HK$ for the preparation of the consolidated financial statements (see Note 2(j)). The financial statements of the Group are presented in HK$ and, unless otherwise stated, expressed in million of HK$.

(c) Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair values as explained in the accounting policies set out below:

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

2 Significant accounting policies (Continued)

(d) Use of estimates and judgement

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

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

(e) Changes in significant accounting policies and accounting estimates

HKFRS 9 Financial Instruments

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

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

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

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

HKFRS 15 Revenue from Contracts with Customers

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(f) Impact of changes in significant accounting policies

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

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

2 Significant accounting policies (Continued)

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

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

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

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

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

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

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

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

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

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

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

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

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

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

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

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

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

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

2 Significant accounting policies (Continued)

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

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

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

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

(g) Subsidiaries and non-controlling interests

(i) Business combinations involving entities under common control

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

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

(ii) Business combinations not involving entities under common control

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

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

For a business combination not involving entities under common control and achieved in stages, the Group remeasures its previously-held equity interest in the acquiree to its fair value at the acquisition date. The difference between the fair value and the carrying amount is recognised in profit or loss for the current period; the amount recognised in other comprehensive income relating to the previously-held equity interest in the acquiree are transferred to profit or loss in the period in which the acquisition occurs.

(iii) Consolidated financial statements

The scope of consolidated financial statements is based on control and the consolidated financial statements comprise the Company and its subsidiaries which includes structured entities controlled by the Group.

Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

When assessing whether the Group has power, only substantive rights are considered including the substantive rights held by the Group and other parties.

An investment in a subsidiary is consolidated into the consolidated financial statements of the Group from the date that control commences until the date that control ceases.

2 Significant accounting policies (Continued)

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

(iii) Consolidated financial statements (Continued)

Where a subsidiary was acquired during the reporting period, through a business combination involving entities under common control, the financial statements of the subsidiary are included in the consolidated financial statements as if the combination had occurred at the date the ultimate controlling party first obtained control. Therefore the opening balances and the comparative figures of the consolidated financial statements are restated. In the preparation of the consolidated financial statements, the subsidiary's assets, liabilities and results of operations are included in the consolidated balance sheet and the consolidated statement of comprehensive income, respectively, based on their carrying amounts, from the date that common control was established.

Where a subsidiary was acquired during the reporting period, through a business combination involving entities not under common control, the identifiable assets, liabilities and results of operations of the subsidiaries are consolidated into the consolidated financial statements from the date that control commences, based on the fair value of those identifiable assets and liabilities at the acquisition date.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the ordinary shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the ordinary shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with Note 2(k).

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

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

(iii) Consolidated financial statements (Continued)

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

(iv) Investment in subsidiaries

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

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

(h) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements of the Group under the equity method. The Group uses the equity method on the basis of an adjustment to the financial statements of associate or joint venture in accordance with the Group's accounting policies, unless an associate or joint venture does not apply HKFRS 9 temporarily by applying the temporary exemption of HKFRS 9 until annual periods beginning 1 January 2021. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(u)). Any acquisition-date excess of the Group's share of the fair value of the investee's identifiable net assets over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition, post-tax items of the investees' other comprehensive income is recognised in other comprehensive income of the Group. The Group's interest in associate or joint venture is included in the consolidated financial statements from the date that significant influence or joint control commences until the date that significant influence or joint control ends.

2 Significant accounting policies (Continued)

(h) Associates and joint ventures (Continued)

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associate and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss. If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the cost on initial recognition of a financial asset (see Note 2(k)).

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

(i) Goodwill

Goodwill represents the excess of the consideration transferred, including the amount of assets transferred (including the acquirer's previously held equity interest in the acquiree), liabilities incurred or assumed, and the equity securities issued by the acquirer at the date of acquisition, over the fair value of the Group's share of the identifiable net assets acquired, when the excess is positive, otherwise it's recognised directly in profit or loss.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(j) Translation of foreign currencies

Foreign currency transactions are, on initial recognition, translated by applying the foreign exchange rates ruling at the transaction dates. Monetary items denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date, the resulting exchange differences are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rates ruling at the dates the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as fair value through other comprehensive income are recognised in other comprehensive income.

The financial statements of the Group's subsidiaries with a foreign functional currency are translated into HK$ for the preparation of the Group's consolidated financial statements. The assets and liabilities in these financial statements are translated into HK$ at the foreign exchange rates ruling at the reporting date. The equity items, except for "retained earnings", are translated to HK$ at the foreign exchange rates at the dates on which such items arose.

Income and expenses in the profit or loss are translated into HK$ at the foreign exchange rates at the transaction dates or the rates approximate to. The resulting exchange differences are presented as "Reserves" (exchange reserve) in the consolidated balance sheet within the shareholder's equity.

Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

(k) Financial Instruments

Financial Instruments under HKFRS 9

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

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets

(1) Classification and Measurement

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

– Financial assets at amortised cost;

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

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

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

Debt instruments

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

– Amortised cost:

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

– FVOCI:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(1) Classification and Measurement (Continued)

Debt instruments (Continued)

– FVPL:

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

Equity instruments

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

(2) Impairment

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

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

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

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

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(2) Impairment (Continued)

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

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

(3) Derecognition

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

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

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

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

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

As part of its operations, the Group securities financial assets, generally through the sale of these assets to structured entities which issue securities to investors. Further details on prerequisites for de-recognition of financial assets are set out above. When the securitisation of financial assets qualifies for de-recognition, the relevant financial assets are derecognised in their entirety and a new financial asset or liabilities is recognised regarding the interest in the unconsolidated securitisation vehicles that the Group acquired. When the securitisation of financial assets does not qualify for de-recognition, the relevant financial assets are not derecognised, and the consideration paid by third parties are recorded as a financial liability; when the securitisation of financial assets partially qualifies for de-recognition, where the Group has not retained control, it derecognises these financial assets and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer. Otherwise the Group continues to recognise these financial assets to the extent of its continuing involvement in the financial asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

(3) Derecognition (Continued)

The de-recognition of financial assets sold on condition of repurchase is determined by the economic substance of the transaction. If a financial asset is sold under an agreement to repurchase the same or substantially the same asset at a fixed price or at the sale price plus a reasonable return, the Group will not derecognise the asset. If a financial asset is sold together with an option to repurchase the financial asset at its fair value at the time of repurchase (in case of transferor sells such financial asset), the Group will derecognise the financial asset.

(4) Modification of investment in financial assets

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

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

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

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

– Significant change in the interest rate.

– Change in the currency the loan is denominated in.

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

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

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(i) Financial assets (Continued)

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

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

(ii) Financial liabilities

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

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

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

(iii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is based on the relevant government yield curve as at the balance sheet date plus an adequate constant credit spread. Where other pricing models are used, inputs are based on market data at the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

Financial Instruments under HKFRS 9 (Continued)

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(v) Derivatives

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

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

– Their economic characteristics and risks are not closely related to those of the host contract;

– A separate instrument with the same terms would meet the definition of a derivative; and

– The hybrid contract is not measured at fair value through profit or loss.

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

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

Financial Instruments under HKAS 39 applied until 31 December 2017

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

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(vi) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred, and on the contractual terms of the financial instruments. The categories are: financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(vii) Categorisation

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

A financial asset is classified as held for trading if it is: (i) acquired principally for the purpose of selling it in the near term; (ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) a derivative. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(vii) Categorisation (Continued)

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

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

– the assets are managed, evaluated and reported internally on a fair value basis;

– the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement bases of the financial assets which would otherwise arise;

– the asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivative(s) from the financial instrument is not prohibited.

Financial assets under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale financial assets.

Loans and receivables mainly comprise loans and advances to customers and other parties, deposits and placements with banks and non-bank financial institutions, financial assets held under resale agreements, investments classified as receivables, and trade and other receivables.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see Note 2(k)(viii)). Where the receivables are interest-free loans made to related parties without any fixed repayment term or the effect of discounting would be immaterial, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(vii) Categorisation (Continued)

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (see Note 2(k)(viii)).

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and remeasured at fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss. Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see Note 2 (k)(viii)).

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(viii) Impairment

The carrying amounts of the Group's financial assets other than those measured at fair value through profit or loss are reviewed at balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes but not limited to one or more of the following loss events that occurred after the initial recognition of the asset and has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- disappearance of an active market for financial assets because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Group, including: adverse changes in the payment status of borrowers in the Group, an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, or adverse changes in industry conditions that affect the borrowers in the Group;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer;
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost; and
- other objective evidence indicating there is an impairment of a financial asset.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(viii) Impairment (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote after all the necessary legal or other proceedings are completed, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances, and collective impairment allowances.

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

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received, discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realizable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(viii) Impairment (Continued)

Loans and receivables (Continued)

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers and other parties are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

2 Significant accounting policies (Continued)

(k) Financial Instruments (Continued)

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

(viii) Impairment (Continued)

Available-for-sale financial assets

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ix) De-recognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

Where a transfer of a financial asset in its entirety meets the criteria for de-recognition, the difference between the two amounts below is recognised in profit or loss:

– the carrying amount of the financial asset transferred;

– the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognised directly in equity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(l) Hedging

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

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(l) Hedging (Continued)

(ii) Cash flow hedge (Continued)

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

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

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

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

(iv) Hedge effectiveness testing

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

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

- There is an economic relationship between the hedged item and the hedging instrument;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is equal to the ratio between the actual number of hedged items and the actual number of hedging instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(m) Financial assets held/sold under resale/repurchase agreements

Financial assets held under resale agreements are transactions that the Group acquires financial assets which will be resold at a predetermined price in the future date under resale agreements. Financial assets sold under repurchase agreements are transactions that the Group sells financial assets which will be repurchased at a predetermined price in the future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under the resale and repurchase agreements in the balance sheet. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the balance sheet.

The difference between the resale and repurchase consideration, and that between the purchase and sale consideration, are amortised over the period of the respective transaction using the effective interest method and are included in interest income and interest expense respectively.

(n) Investment properties

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

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

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

Investment properties are stated in the balance sheet at fair values which are reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss.

2 Significant accounting policies (Continued)

(o) Property, plant and equipment

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

Assets in the course of construction for production, rental or administrative purposes are carried at cost, less any impairment losses. Cost includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of overheads.

Construction-in-progress represents property, plant and equipment under construction and is transferred to fixed assets when ready for its intended use.

No depreciation is made on construction-in-progress until it is ready for its intended use. Deprecation policies are set out below.

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

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

Assets' useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

(p) Land use rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses (if any). Land use rights are amortised on a straight-line basis over the respective periods of grant, usually within 10 to 50 years.

Impairment losses on land use rights are accounted for in accordance with the accounting policies as set out in Note 2(u).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(q) Intangible assets (other than goodwill)

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

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

– Roads and tunnels operating rights	Over the estimated useful lives of 30 years
– Mining assets	Over the estimated useful lives of the mines in accordance with the production plan of the entities concerned and the proven probable reserves of the mines using the unit-of-production method
– Franchise right	Over the estimated useful lives of 20 years

Both the period and method of amortization are reviewed annually.

An intangible asset with an indefinite useful life shall not be amortised. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(r) Inventories

(i) Manufacturing, resources and energy segments

Inventories of the manufacturing, and resources and energy segments are carried at the lower of cost and net realizable value.

Cost is calculated using the first-in first-out, specific identification or weighted average cost formula as appropriate, and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised in profit or loss in the period in which the reversal occurs.

2 Significant accounting policies (Continued)

(r) Inventories (Continued)

(ii) Real estate segment

Inventories in respect of property development activities under the real estate segment are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– **Property under development**

The cost of properties under development comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see Note 2(cc)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– **Completed property held for sale**

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(s) Operating leases

Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in Note 2(o) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(u). Revenue arising from operating leases is recognised in income on a straight-line basis over the lease term.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see Note 2(n)).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(t) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realization of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "other assets".

When the Group seizes assets to compensate for the losses of loans and advances and interest receivables, the repossessed assets are initially recognised at fair value, plus any taxes paid for the seizure of the assets, litigation fees and other expenses incurred for collecting the repossessed assets are included in the carrying value of repossessed assets. Repossessed assets are measured at the lower of cost and net realizable value, the amount of any write-down of inventories to net realizable value shall be recognised as an expense in the period the write-down occurs.

(u) Impairment of non-financial assets

Internal and external sources of information are reviewed at balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– land use rights;

– investments in subsidiaries, associates and joint ventures;

– goodwill; and

– intangible assets.

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

Calculation of recoverable amount

The recoverable amount of an asset is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (Continued)

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

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

Reversals of impairment losses

If, in a subsequent period, the amount of impairment loss of the non-financial asset except for goodwill decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the profit or loss. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods.

An impairment loss in respect of goodwill is not reversable.

(v) Employee benefits

(i) Short-term employee benefits

During the accounting period when an employee has rendered service to the Group, the Group recognises the undiscounted amount of short-term employee benefits as a liability and as an expense, unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset. Short-term employee benefits include wages, bonuses and social security contributions such as medical insurance, work-related injury insurance and maternity insurance, as well as housing provident funds, which are all calculated based on the regulated benchmark and ratio.

(ii) Defined contribution retirement schemes

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(w) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees contracts

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

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

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

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

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

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are measured at the higher of the amount initially recognised, less accumulated amount of income recognised in accordance with the Group's principles of revenue recognition where appropriate, and the amount that would be determined in accordance with Note 2(w)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2 Significant accounting policies (Continued)

(x) Revenue recognition

Revenue under HKFRS 15

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

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

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

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

(i) Interest income

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

Revenue under HKFRS 15 (Continued)

(ii) Fee and commission income

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

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

(iii) Sales of goods

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

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

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

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

(iv) Services rendered to customers

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

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

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

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

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

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(v) Interest income

Interest income arising from the use of entity assets by others is recognised in profit or loss based on the duration and the effective interest rate. Interest income includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

(vi) Fee and commission income

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(x) Revenue recognition (Continued)

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

(vii) Sales of goods and services

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Service fee income is recognised when the services are rendered.

(viii) Sales of properties

Revenue from sales of properties is only recognised when the significant risks and rewards of ownership have been transferred to the buyer. The Group considers that the significant risks and rewards of ownership are transferred when the buildings contracted for sale are completed and the relevant permits essential for the delivery of the properties have been issued by the authorities.

(ix) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method.

The Group measured the stage of completion by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(y) Income tax

Income tax for the year comprises current tax and deferred tax.

The balance sheet liability method is adopted whereby deferred tax is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; or in respect of those temporary differences which arise either from goodwill not deductible for tax purposes, or relating to investments in subsidiaries to the extent that the Group controls the timing of the reversal and it is probable that the temporary differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Provision for withholding tax that will arise on the remittance of retained earnings is only made where there is a current intention to remit such earnings.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(y) Income tax (Continued)

Deferred tax assets are recognised to the extent that their future utilization is probable. Deferred tax arising from revaluation of investment properties is recognised on the rebuttable presumption that the recovery of the carrying amount of the properties would be through sale and calculated at the applicable tax rates.

Current tax assets and liabilities are offset, and deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(z) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

2 Significant accounting policies (Continued)

(aa) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity (one entity is an associate of a third entity and the Group is a joint venture of the third party).

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(bb) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that meets the following respective conditions:

– engages in business activities from which it may earn revenues and incur expenses;

– whose operating results are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance; and

– for which financial information regarding financial position, results of operations and cash flows are available.

2 Significant accounting policies (Continued)

(bb) Segment reporting (Continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of:

- the nature of products and services;
- the nature of production processes;
- the type or class of customers;
- the methods used to distribute the products or provide the services; and
- the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

(cc) Borrowing costs

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

(dd) Disposal groups held for sale and discontinued operations

Disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Disposal groups (except for certain assets as explained below) are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out else in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement comprising the total of: (1) the post-tax profit or loss of the discontinued operation and; (2) the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and associated key assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

(a) Measurement of ECL

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

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

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

(b) Provision for inventories

The Group reviews the carrying amounts of inventories at each balance sheet date to determine whether the inventories are carried at lower of cost and net realizable value. The Group estimates the net realizable value, based on the current market situation and historical experience on similar inventories. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down. The change in the write-down would affect the Group's profit or loss during the year.

3 Critical accounting estimates and judgements (Continued)

(c) Impairment of non-financial assets

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

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

(d) Fair value of financial instruments

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

(e) Depreciation

Depreciation of operating assets constitutes a substantial operating cost for the Group. The cost of fixed assets is charged as depreciation expense over the estimated useful life of the respective assets using the straight-line method. Management periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates.

(f) Income taxes

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

(g) Assets acquired/liabilities assumed in business combination

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

(h) De-recognition of financial assets

In its normal course of business, the Group transfers financial assets through various types of transactions including regular way sales and transfers, securitization, financial assets sold under repurchase agreements and etc. The Group applies significant judgement in assessing whether it has transferred these financial assets which qualify for a full or partial de-recognition.

Where the Group enters into structured transactions by which it transferred financial asset to structured entities, the Group analyses whether the substance of the relationship between the Group and these structured entities indicates that it controls these structured entities to determine whether the Group needs to consolidate these structured entities. This will determine whether the following de-recognition analysis should be conducted at the consolidated level or at the entity level from which the financial assets was transferred.

The Group analyses the contractual rights and obligations in connection with such transfers to determine whether the de-recognition criteria are met based on the following considerations:

– whether it has transferred the rights to receive contractual cash flows from the financial assets or the transfer qualified for the "pass through" of those cash flows to independent third parties;

– the extent to which the associated risks and rewards of ownership of the financial assets are transferred by using appropriate models. Significant judgement is applied in the Group's assessment with regard to the parameters and assumptions applied in the models, estimated cash flows before and after the transfers, the discount rates used based on current market interest rates, variability factors considered and the allocation of weightings in different scenarios;

– where the Group neither retained nor transferred substantially all of the risks and rewards associated with their ownership, the Group analyses whether the Group has relinquished its controls over these financial assets, and if the Group has continuing involvement in these transferred financial assets.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

(i) Consolidation of structured entities

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

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

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

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

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

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

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

As at the date of issuance of the financial statements, MCC has not claimed any additional costs from Sino Iron Pty Ltd ("Sino Iron") or its subsidiary companies, other than minor contract variations in the normal course of operations, and the Group believes it has satisfied all of its obligations under the contract.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

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

As set out in the Company's announcement dated 24 December 2013, Sino Iron and MCC WA entered into a supplemental contract pursuant to which Sino Iron will take over the management of the construction and commissioning of the remaining four production lines of the Sino Iron Project. An independent audit will opine on various matters including the contract price for the hand over pursuant to the supplemental contract and related fees and expenses, the value of the supporting services provided by Sino Iron to MCC WA in carrying out its responsibilities under the contract, the extent of the works completed by MCC WA in respect of the first two production lines, and the liability of MCC WA in respect of the extensive delays on completion of the works under the contract. By reference to such findings of the independent audit, Sino Iron and MCC WA expect to enter into further negotiations to determine the amount of liabilities to be borne between the parties. Outcomes are not yet known as at 31 December 2018.

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

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

Option Agreement Dispute

The Company is a party to an Option Agreement with Mineralogy and Mr. Clive Palmer pursuant to which it has options to acquire up to four further companies, each holding the right to mine one billion tonnes of magnetite ore in the vicinity of the Sino Iron Project. The Company exercised the first option under the Option Agreement on 13 April 2012. Following the exercise of the first option, Mineralogy alleged that the Option Agreement had been repudiated by the Company, purported to accept that repudiation and stated that the Option Agreement was at an end.

The Company (and its affected subsidiaries, Sino Iron and Korean Steel) (together referred to as the "CITIC Parties") commenced a legal proceeding in the Supreme Court of Western Australia. On 30 September 2015, the Court made declarations by consent, including that the Company had not repudiated the Option Agreement in the manner initially asserted by Mineralogy and Mr. Palmer.

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

3 Critical accounting estimates and judgements (Continued)

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

Option Agreement Dispute (Continued)

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

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

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

Royalty Component B Dispute

The MRSLAs provide that Sino Iron and Korean Steel must pay a royalty to Mineralogy, a component of which ("Royalty Component B") is payable on products produced and calculated by reference to "prevailing published annual FOB prices" (expressed in US dollars per dry metric tonne unit) for Brazilian pellets and Mount Newman fines. In Proceeding CIV 1808/2013 (originally commenced in the NSW Courts but moved to WA), Mineralogy pursued a claim against Sino Iron and Korean Steel for payment of sums in respect of unpaid Royalty Component B on products produced up to 31 March 2017 together with a claim against the Company pursuant to a guarantee given in the Fortescue Coordination Deed ("FCD").

The trial in Proceeding CIV 1808/2013 ran for 10 sitting days from 14 June 2017.Justice Kenneth Martin delivered his reasons for decision on 24 November 2017, finding in favour of Mineralogy. His Honour's reasons also addressed certain technical issues as to the availability of the relief sought, leading Mineralogy to commence a further proceeding against the CITIC Parties ("Proceeding CIV 3024/2017") seeking the same relief as that sought in Proceeding CIV 1808/2013. On 18 December 2017, Justice Kenneth Martin made orders that, among other things:

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

– that judgment (the "Final Orders") be entered for Mineralogy:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

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

Royalty Component B Dispute (Continued)

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

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

FCD Indemnity Disputes

Mineralogy and Mr. Palmer have commenced proceedings to pursue claims pursuant to an indemnity given by the Company under the FCD to Mineralogy and Mr. Palmer against any loss suffered by it in relation to the failure by Sino Iron and Korean Steel to perform their obligations under the project agreements.

(i) Queensland Nickel FCD Indemnity Claim

On 29 June 2017, Mr. Palmer commenced a proceeding against the Company in the Supreme Court of Western Australia ("Proceeding CIV 2072/2017") claiming damages in the sum of AUD2,324,000,000 (now reduced by an amended statement of claim to AUD1,806,438,000). This amount is alleged to represent the reduction in the value of the assets of the joint venture business carried on by the Queensland Nickel group of companies controlled by Mr. Palmer. The joint venture business was a nickel and cobalt refinery located at Yabulu in North Queensland.

As Sino Iron and Korean Steel had not paid amounts sought by Mineralogy on account of Royalty Component B, Mr. Palmer claims that Mineralogy did not, and was unable to, provide the funds to Queensland Nickel Pty Limited to enable it to continue managing and operating the joint venture business. Mr. Palmer alleges that Queensland Nickel Pty Limited was subsequently placed in administration, followed by liquidation, because it did not receive those funds from Mineralogy.

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

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

3 Critical accounting estimates and judgements (Continued)

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

FCD Indemnity Disputes (Continued)

(ii) Palmer Petroleum FCD Indemnity Claim

On 16 February 2018, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia ("Proceeding CIV 1267/2018") in which it claims damages in the sum of AUD2,675,400,000. The statement of claim pleads that Mineralogy had agreed to provide funding from December 2009 and all future working capital in or around 2013 to its wholly owned subsidiary, Palmer Petroleum Pty Ltd (now named Aspenglow Pty Ltd) ("Palmer Petroleum"). As Sino Iron and Korean Steel had not paid Royalty Component B from the fourth quarter of 2013 to the second quarter of 2016, it is claimed that Mineralogy did not, and was unable to, provide the funds to Palmer Petroleum.

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

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

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

Tenure claim

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3 Critical accounting estimates and judgements (Continued)

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

Tenure claim (Continued)

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

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

– grant further necessary tenure for the Sino Iron Project;

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

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

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

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

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

Minimum Production Royalty Disputes

The MRSLAs required each of Sino Iron and Korean Steel to produce a minimum of six million tonnes of product by 21 March 2013, unless prevented from doing so by any of the reasons set out in clause 6.3 (a) of the MRSLAs. If Sino Iron and Korean Steel failed to do so, they were each required, within one month of that date, to pay Mineralogy the equivalent of the Mineralogy Royalty on six million tonnes of iron ore concentrate ("Minimum Production Royalty").

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

3 Critical accounting estimates and judgements (Continued)

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

Minimum Production Royalty Disputes (Continued)

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

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

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

Site Remediation Fund Dispute

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4 Taxation

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

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

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

5 Revenue

As a multi-industry conglomerate, the Group is principally engaging in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

For financial services segment, revenue mainly comprises net interest income, net fee and commission income and net trading gain (Notes 5(a), 5(b) and 5(d)). For non-financial services segment, revenue mainly comprises total invoiced value of sales of goods and services rendered to customers (Note 5(c)).

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5 Revenue (Continued)

(a) Net interest income

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

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5 Revenue (Continued)

(b) Net fee and commission income

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

(c) Sales of goods and services

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

(d) Other revenue

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

5 Revenue (Continued)

(d) Other revenue (Continued)

(i) Net trading gain

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

6 Costs of sales and services

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

7 Other net income

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

8 Expected credit losses

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

9 Other impairment losses

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

9 Other impairment losses (Continued)

Note:

Iron Ore Project

The Group's Iron Ore Project comprises the Sino Iron Project in Australia and its associated marketing operation in Singapore. Whenever events or circumstances indicate impairment may have occurred, the Group tests whether assets attributable to the Group's Iron Ore Project have suffered any impairment.

The recoverable amount of the Sino Iron Project is based on the fair value less costs of disposal methodology which is based on cash flow projections that incorporate best estimates of selling prices, ore grades, exchange rates, production rates, future capital expenditure and production costs over the life of the mine. In line with normal practice in the mining industry, the cash flow projections are based on long term mine plans covering the expected life of the operation. Therefore, the projections cover periods well in excess of five years. Assumptions about selling prices, operating and capital costs, exchange rates, quantity of resources and discount rates are particularly important; the determination of the recoverable amount is relatively sensitive to changes in these important assumptions.

In accordance with the Group's accounting policy, management has identified one CGU, the Sino Iron Project. For the purposes of testing for impairment, the carrying amount of the Sino Iron Project is compared with its recoverable amount. Impairment is recognised when the carrying amount of the project exceeds its recoverable amount. The Group has identified indicators of impairment at 31 December 2018.

In the model a discount rate of 10.8% is used. Iron ore price (including base price, premium on product grade and adjustment on freight) and AU$:US$ exchange rate assumptions are estimated by management with reference to external market forecasts sourced from a range of industry experts. The operating expenditure and capital expenditure for years 2019 to 2021 are forecast based on management's best estimates of costs and expenditures. Beyond the above three-year forecast period, operating expenditure and capital expenditure are forecast to remain relatively stable increasing primarily with inflation.

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

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

- Intangible assets US$30 million (approximately HK$234 million)

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

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

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

- Quoted prices (unadjusted) in active markets for identical or similar CGU (level 1);

- Inputs other than quoted prices included within level that are observable for the CGU, either directly (as prices) or indirectly (derived from prices) (level 2); and

- Inputs for the CGU that are not based on observable market data (unobservable inputs) (level 3 inputs).

The CGU's fair value hierarchy is Level 3.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

10 Impairment losses

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

11 Net finance charges

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

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

12 Profit before taxation

Profit before taxation is arrived at after charging below costs and expenses in cost of sales and services and other operating expenses:

(a) Staff costs

	For the year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Salaries and bonuses	**48,193**	40,572
Contributions to defined contribution retirement schemes	**4,982**	4,322
Others	**9,188**	7,622
	62,363	52,516

Note:

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

(b) Other items

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13 Income tax expense

(a) Income tax expense in the income statement

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

The particulars of the applicable income tax rates are disclosed in Note 4.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	For the year ended 31 December	
	2018 **HK$ million**	2017 HK$ million
Profit before taxation	**93,969**	82,783
Less: Share of profits of		
– associates	**(7,914)**	(7,564)
– joint ventures	**(2,786)**	(5,889)
	83,269	69,330
Notional tax on profit before taxation calculated at statutory tax rate of 16.5%	**13,739**	11,439
Effect of different tax rates in other jurisdictions	**6,826**	5,608
Tax effect of unused tax losses not recognised	**387**	3,140
Tax effect of non-deductible expenses	**4,239**	2,358
Tax effect of non-taxable income	**(6,532)**	(5,056)
Others	**285**	198
Actual tax expense	**18,944**	17,687

14 Benefits and interests of directors

(a) Directors' emoluments

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2018 are set out as follows:

	For the year ended 31 December 2018									
	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary									
	Fees HK\$ million	Salary HK\$ million	Discretionary bonuses HK\$ million	Housing allowance HK\$ million	Estimated money value of other benefits HK\$ million	Social securities in China mainland HK\$ million	Employer's contribution to a retirement benefit scheme HK\$ million	Remunerations paid or receivable in respect of accepting office as committee member HK\$ million	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking HK\$ million	Total HK\$ million
Name of Current Directors										
Executive Directors:										
Chang Zhenming [i]	–	0.39	0.29	–	0.03	0.15	0.07	–	–	0.93
Wang Jiong [i]	–	0.39	0.29	–	0.03	0.13	0.07	–	–	0.91
Li Qingping [i]	–	0.35	0.25	–	0.02	0.15	0.06	–	–	0.83
Pu Jian [i,ii]	–	0.35	0.25	–	0.02	0.15	0.06	–	–	0.83
Non-executive Directors:										
Song Kangle	–	–	–	–	–	–	–	–	–	–
Yan Shuqin	–	–	–	–	–	–	–	–	–	–
Liu Zhuyu	–	–	–	–	–	–	–	–	–	–
Peng Yanxiang [ii]	–	–	–	–	–	–	–	–	–	–
Liu Zhongyuan	–	–	–	–	–	–	–	–	–	–
Yang Xiaoping	0.38	–	–	–	–	–	–	0.15	–	0.53
Wu Youguang [ii]	0.30	–	–	–	–	–	–	–	–	0.30
Independent Non-executive Directors:										
Francis Siu Wai Keung	0.38	–	–	–	–	–	–	0.38	–	0.76
Xu Jinwu	0.38	–	–	–	–	–	–	0.25	–	0.63
Anthony Francis Neoh	0.38	–	–	–	–	–	–	0.25	–	0.63
Lee Boo Jin [ii]	0.38	–	–	–	–	–	–	0.05	–	0.43
Paul Chow Man Yiu	0.38	–	–	–	–	–	–	0.05	–	0.43
Shohei Harada [ii]	0.27	–	–	–	–	–	–	–	–	0.27
Name of Former Directors										
Liu Yeqiao [ii]	–	–	–	–	–	–	–	–	–	–
Noriharu Fujita [ii]	0.11	–	–	–	–	–	–	–	–	0.11
	2.96	1.48	1.08	–	0.10	0.58	0.26	1.13	–	7.59

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

Notes:

(i) The emoluments for the year ended 31 December 2018 in respect of Mr. Chang Zhenming, Mr. Wang Jiong, Ms. Li Qingping and Mr. Pu Jian have not been finalised in accordance with the regulations of the relevant local authorities. Further disclosure of which will be made as and when the relevant approval is obtained. Besides the emoluments mentioned above, the Company's Remuneration Committee agrees the executive directors are entitled to allowances for working overseas and cross-border commuting: HK$0.375 million for Mr. Chang Zhenming, HK$0.375 million for Mr. Wang Jiong, HK$0.338 million for Ms. Li Qingping, and HK$0.338 million for Mr. Pu Jian.

(ii) Changes in directors during and subsequent to the year ended 31 December 2018:

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

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

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

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

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

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For the year ended 31 December 2018

14 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking for the year ended 31 December 2017 are set out as follows:

	For the year ended 31 December 2017									
	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary								Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	
	Fees HK$ million	Salary HK$ million	Discretionary bonuses HK$ million	Housing allowance HK$ million	Estimated money value of other benefits HK$ million	Social securities in China mainland HK$ million	Employer's contribution to a retirement benefit scheme HK$ million	Remunerations paid or receivable in respect of accepting office as committee member HK$ million	HK$ million	Total HK$ million
Name of Current Directors										
Executive Directors:										
Chang Zhenming [i]	–	0.36	0.83	–	0.02	0.13	0.09	–	–	1.43
Wang Jiong [i]	–	0.36	0.83	–	0.02	0.12	0.08	–	–	1.41
Li Qingping [i]	–	0.32	0.74	–	0.02	0.13	0.08	–	–	1.29
Pu Jian [i]	–	0.32	0.74	–	0.02	0.13	0.08	–	–	1.29
Non-executive Directors:										
Liu Yeqiao	–	–	–	–	–	–	–	–	–	–
Song Kangle	–	–	–	–	–	–	–	–	–	–
Yan Shuqin	–	–	–	–	–	–	–	–	–	–
Liu Zhuyu [ii]	–	–	–	–	–	–	–	–	–	–
Liu Zhongyuan	–	–	–	–	–	–	–	–	–	–
Yang Xiaoping	0.38	–	–	–	–	–	–	0.15	–	0.53
Independent Non-executive Directors:										
Francis Siu Wai Keung	0.38	–	–	–	–	–	–	0.38	–	0.76
Xu Jinwu	0.38	–	–	–	–	–	–	0.25	–	0.63
Anthony Francis Neoh	0.38	–	–	–	–	–	–	0.25	–	0.63
Lee Boo Jin	0.38	–	–	–	–	–	–	0.05	–	0.43
Noriharu Fujita	0.38	–	–	–	–	–	–	–	–	0.38
Paul Chow Man Yiu	0.38	–	–	–	–	–	–	0.05	–	0.43
Name of Former Directors										
Yang Jinming [ii]	–	–	–	–	–	–	–	–	–	–
	2.66	1.36	3.14	–	0.08	0.51	0.33	1.13	–	9.21

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

14 Benefits and interests of directors (Continued)

(a) Directors' emoluments (Continued)

Notes:

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

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

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

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

(b) Other benefits and interests

For the year ended 31 December 2018, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2017: None). No consideration was provided to or receivable by third parties for making available directors' services (2017: None). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: None).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year ended 31 December 2018 (2017: None).

15 Individuals with highest emoluments

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

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

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

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

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16 Dividends

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

17 Earnings per share

The calculation of basic earnings per share and diluted earnings per share are based on the profit attributable to ordinary shareholders of the Company of HK$50,239 million for the year ended 31 December 2018 (2017: HK$43,902 million) calculated as follows:

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

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

18 Other comprehensive (loss)/income

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

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

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19 Segment reporting

The Group has presented six reportable operating segments which are financial services, resources and energy, manufacturing, engineering contracting, real estate and others. Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance is regularly reviewed by the board of directors to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial position, financial performance and cash flows is available. The details of these six reportable segments are as follows:

– Financial services: this segment includes banking, trust, asset management, securities and insurance services.

– Resources and energy: the major businesses in this segment include exploration, processing and trading of resources and energy products, including crude oil, coal and iron ore.

– Manufacturing: this segment includes manufacturing of special steels, heavy machineries, aluminium wheels and other products.

– Engineering contracting: this segment provides contracting and design services for infrastructure, real estate and industrial projects, etc.

– Real estate: this segment includes development, sale and holding of properties.

– Others: others include various businesses including investment and operation of infrastructures, telecommunication services, motor and food and consumer products business, commercial aviation services, publication services and others.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources among segments, the board of directors monitors the results, assets and liabilities, revenue and expenses attributable to each reportable segment on the following bases:

Segment assets are those assets that are attributable to a segment, and segment liabilities are those liabilities that are attributable to a segment.

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The measure used for reporting segment profit is "profit for the year". To arrive at segment results, the Group's profit is further adjusted for items not specifically attributed to individual segments, such as share of results of associates and joint ventures.

Inter-segment pricing is based on similar terms as those available to other external parties.

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19 Segment reporting (Continued)

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

Information regarding the Group's reportable segments as provided to the board of directors for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

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

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

Note:
The amount is the principal excluding interest accrued.

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19 Segment reporting (Continued)

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

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

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

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19 Segment reporting (Continued)

(b) Geographical information

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

	Revenue from external customers For the year ended 31 December		Reportable segment assets As at 31 December	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Mainland China	426,667	347,203	7,011,809	6,902,597
Hong Kong, Macau and Taiwan	59,298	58,134	534,766	505,686
Overseas	47,320	45,199	114,138	112,456
	533,285	450,536	7,660,713	7,520,739

20 Cash and deposits

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

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20 Cash and deposits (Continued)

Notes:

(i) The balances with central banks represent deposits placed with central banks by China CITIC Bank Corporation Limited ("CITIC Bank") and CITIC Finance Company Limited ("CITIC Finance").

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

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

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

The amounts of statutory deposit reserve funds placed with the central banks of overseas countries are determined by respective jurisdictions. The statutory deposit reserve funds are interest bearing except for the foreign currency reserve funds deposits placed with the People's Bank of China.

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

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

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

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

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

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

21 Placements with banks and non-bank financial institutions

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

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22 Financial assets at fair value through profit or loss

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

The remaining term to maturity of financial assets at fair value through profit or loss does not represent the Group's intended holding period.

(a) Debt trading financial assets

	As at 31 December 2017 HK$ million
Listed in Hong Kong	799
Listed outside Hong Kong	44,010
Unlisted	1,522
	46,331

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

(b) Certificates of interbank deposit

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

(c) Investment funds

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

(d) Trading equity investments

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

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

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

Note:

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

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23 Derivative financial instruments

The Group's subsidiaries under the financial services segment act as an intermediary to offer derivative products including forwards and swap of interest rate and currency to its customers. These derivative positions are managed through entering back-to-back deals with external parties to ensure the remaining exposures are within acceptable risk levels. Meanwhile, derivatives are also used for proprietary trading purposes.

Subsidiaries under non-financial services segment of the Group enter into forward and swap contracts to hedge their exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

The following tables and notes provide an analysis of the nominal amounts of derivatives and the corresponding fair values as at the balance sheet date. The nominal amounts of the derivatives indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk. Hedging instruments are derivatives qualified for hedge accounting, and non-hedging instruments are derivatives not qualified for hedge accounting.

	As at 31 December					
	2018			2017		
	Nominal amount HK$ million	Assets HK$ million	Liabilities HK$ million	Nominal amount HK$ million	Assets HK$ million	Liabilities HK$ million
Hedging instruments						
Fair value hedge (note 2(l)(i)):						
– Interest rate derivatives	9,570	116	9	11,722	147	22
– Currency derivatives	446	–	22	–	–	–
Cash flow hedge (note 2(l)(ii)):						
– Interest rate derivatives	15,214	6	1,370	15,498	9	1,872
– Currency derivatives	386	7	–	366	3	–
– Other derivatives	2,086	546	59	2,950	1,025	72
Non-hedging instruments						
– Interest rate derivatives	2,097,185	6,859	6,812	1,953,696	2,907	2,767
– Currency derivatives	2,965,101	28,449	28,061	4,005,534	74,209	74,821
– Precious metals derivatives	66,930	1,195	1,335	61,712	1,039	308
– Other derivatives	1,272	116	8	15,987	–	213
	5,158,190	37,294	37,676	6,067,465	79,339	80,075

23 Derivative financial instruments (Continued)

(a) Nominal amount analysed by remaining maturity

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

The remaining term to maturity of derivatives does not represent the Group's intended holding period.

(b) Credit risk weighted amounts

The credit risk weighted amounts are solely in connection with the derivatives held by CITIC Bank, and have been computed in accordance with "Regulation Governing Capital of Commercial Banks (provisional)" promulgated by the China Banking Regulatory Commission in the year of 2012, and depends on the status of the counterparties and the maturity characteristics of the instruments including those customer-driven back-to-back transactions. As at 31 December 2018, the credit risk weighted amount for counterparty was HK$23,006 million (31 December 2017: HK$84,001 million).

24 Trade and other receivables

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

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

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24 Trade and other receivables (Continued)

(a) Trade and bills receivables

(i) Overdue analysis

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

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

Note:

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

(ii) Ageing analysis

As at 31 December 2018 and 2017, the ageing analysis of trade and bills receivables of the Group based on invoice date and net of allowance for impairment losses is as follows:

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

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

24 Trade and other receivables (Continued)

(b) Interest receivables

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

Note:

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

(c) Prepayments, deposits and other receivables

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

25 Contract assets and contract liabilities

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

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

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25 Contract assets and contract liabilities (Continued)

(a) Assessment of allowance for impairment losses of contract

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

Note:

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

(b) Assets recognised from costs to fulfil a contract

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

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

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

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

26 Inventories

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

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	For the year ended 31 December	
	2018	2017
	HK$ million	HK$ million
Carrying amount of inventories sold	**236,327**	191,752
Write-down of inventories (Note 49)	**4,854**	709
Reversal of write-down of inventories (Note 49)	**(856)**	(693)
	240,325	191,768

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

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27 Financial assets held under resale agreements

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

Analysed by remaining maturity:

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

28 Loans and advances to customers and other parties

(a) Loans and advances

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

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

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

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Unsecured loans	925,754	850,404
Guaranteed loans	563,310	615,561
Secured loans		
– Loans secured by collateral	1,895,985	1,807,140
– Pledged loans	469,988	431,912
	3,855,037	3,705,017
Discounted bills	279,205	130,190
	4,134,242	3,835,207
Accrued interest	10,016	N/A
Gross loans and advances	4,144,258	3,835,207

(c) Assessment method of allowance for impairment losses

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

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

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

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

Notes:

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

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

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

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

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

Notes: (Continued)

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

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

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

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

(d) Overdue loans by overdue period

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

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

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

29 Investments in financial assets

(a) Analysed by types

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

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29 Investments in financial assets (Continued)

(a) Analysed by types (Continued)

Notes:

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

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

(ii) Financial assets measured at FVOCI.

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

(b) Analysed by location of counterparties

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

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

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29 Investments in financial assets (Continued)

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

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

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30 Available-for-sale financial assets

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

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

30 Available-for-sale financial assets (Continued)

(a) Debt securities

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

(b) Certificates of deposit and certificates of interbank deposit

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

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For the year ended 31 December 2018

30 Available-for-sale financial assets (Continued)

(c) Wealth management products issued by financial institutions

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

(d) Equity investments

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

30 Available-for-sale financial assets (Continued)

(e) Investment funds

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

Note:

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

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31 Held-to-maturity investments

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

Note:

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

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32 Investments classified as receivables

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

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

The underlying assets of investments classified as receivables primarily include interbank assets and wealth management products issued by other banks, credit assets and rediscounted bills.

33 Subsidiaries

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

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

Notes to the Consolidated Financial Statements

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33 Subsidiaries (Continued)

	As at 31 December							
	CITIC Bank		CITIC Heavy Industries		CITIC Telecom International		CITIC Resources	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Listed in:	Hong Kong and Shanghai		Shanghai		Hong Kong		Hong Kong	
Non-controlling interests percentage	34.03%	34.03%	32.73%	32.73%	40.64%	39.92%	40.50%	40.50%
Total assets	6,923,892	6,792,228	22,437	23,580	17,965	18,581	13,680	14,133
Mainly including:								
Cash and deposits	727,986	828,618	4,287	4,250	1,049	1,636	1,921	1,406
Placements with banks and non-bank financial institutions	201,049	205,846	–	–	–	–	–	–
Financial assets at fair value through profit or loss	N/A	78,841	N/A	–	N/A	–	N/A	3
Derivative financial assets	36,511	78,299	–	–	–	–	534	900
Financial assets held under resale agreements	12,315	65,349	–	–	–	–	–	–
Loans and advances to customers and other parties	4,012,383	3,715,692	–	–	–	–	–	–
Investments in financial assets	1,826,253	N/A	1,284	N/A	–	N/A	2	N/A
Available-for-sale financial assets	N/A	755,691	N/A	1,833	N/A	–	N/A	1
Held-to-maturity investments	N/A	259,102	N/A	–	N/A	–	N/A	–
Investments classified as receivables	N/A	635,378	N/A	–	N/A	–	N/A	–
Fixed assets	24,406	24,226	5,851	4,465	2,767	2,387	3,115	3,852
Total liabilities	(6,406,789)	(6,298,834)	(14,044)	(14,835)	(9,070)	(10,150)	(7,626)	(8,186)
Mainly including:								
Borrowing from central banks	(326,901)	(284,241)	–	–	–	–	–	–
Deposits from banks and non-bank financial institutions	(892,792)	(954,656)	–	–	–	–	–	–
Placements from banks and non-bank financial institutions	(131,658)	(92,827)	–	–	–	–	–	–
Trade and other payables	–	–	(2,600)	(2,764)	(849)	(895)	(158)	(167)
Derivative financial liabilities	(36,117)	(77,684)	–	–	–	–	(24)	(10)
Financial assets sold under repurchase agreements	(137,315)	(160,902)	–	–	–	–	–	–
Deposits from customers	(4,165,271)	(4,076,559)	–	–	–	–	–	–
Bank and other loans	–	–	(7,739)	(5,945)	(3,369)	(4,342)	(4,532)	(6,988)
Net assets	517,103	493,394	8,393	8,745	8,895	8,431	6,054	5,947
Equity attributable to								
– Ordinary shareholders of subsidiaries	458,464	436,271	8,170	8,551	8,855	8,396	6,141	6,064
– Non-controlling interests in subsidiaries	58,639	57,123	223	194	40	35	(87)	(117)
Carrying amount of non-controlling interests	214,654	205,586	2,897	2,993	3,639	3,387	2,400	2,339

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33 Subsidiaries (Continued)

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

34 Interests in associates

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

Notes:

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

Notes to the Consolidated Financial Statements

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34 Interests in associates (Continued)

Summarised financial information of the material associates are disclosed below:

	As at 31 December					
	China Overseas Land & Investment Limited		CITIC Securities Co., Ltd.		MMG South America Management Co., Ltd.	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Listed in:	**Hong Kong**		**Hong Kong, Shanghai**		**Unlisted**	
Gross amount of the associates						
Total assets	758,537	684,833	745,415	748,376	87,001	91,548
Total liabilities	(431,734)	(371,861)	(566,425)	(565,171)	(52,844)	(58,806)
Net assets	326,803	312,972	178,990	183,205	34,157	32,742
Equity attributable to:						
– Associates' shareholders	316,678	305,123	174,778	179,205	34,157	32,742
– Non-controlling interests in associates	10,125	7,849	4,212	4,000	–	–
	326,803	312,972	178,990	183,205	34,157	32,742

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34 Interests in associates (Continued)

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

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

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34 Interests in associates (Continued)

Aggregate information of associates that are not individually material:

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

35 Interests in joint ventures

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

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

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

	As at 31 December					
	CITIC Prudential Life Insurance Co., Ltd.		上海瑞博置業有限公司		山東新巨龍能源有限責任公司	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Gross amount of the joint ventures						
Total assets	85,186	76,929	15,970	17,577	20,345	15,054
Total liabilities	(77,758)	(71,093)	(8,486)	(8,401)	(15,907)	(9,525)
Net assets	7,428	5,836	7,484	9,176	4,438	5,529
Equity attributable to:						
– Joint ventures' shareholders	6,840	5,836	7,484	9,176	4,438	5,529
– Non-controlling interests in joint ventures	588	–	–	–	–	–
	7,428	5,836	7,484	9,176	4,438	5,529

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35 Interests in joint ventures (Continued)

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

	As at 31 December					
	CITIC Prudential Life Insurance Co., Ltd.		上海瑞博置業有限公司		山東新巨龍能源有限責任公司	
	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million	2018 HK$ million	2017 HK$ million
Revenue	20,743	16,271	1,200	18,060	8,381	9,257
Profit for the year	1,307	1,212	638	5,678	2,773	3,346
Other comprehensive income for the year	13	31	–	–	–	–
Total comprehensive income for the year	1,320	1,243	638	5,678	2,773	3,346
Dividends received from joint ventures	–	–	943	–	1,005	–
Reconciled to the Group's interests in joint ventures						
Gross amounts of net assets of joint ventures attributable to joint ventures' shareholders	6,840	5,836	7,484	9,176	4,438	5,529
Group's effective interest	50.00%	50.00%	50.00%	50.00%	30.00%	30.00%
Group's share of net assets of joint ventures	3,420	2,918	3,742	4,588	1,331	1,659
Goodwill and others	1,339	1,345	243	250	1,122	1,155
Carrying amount in the consolidated balance sheet	4,759	4,263	3,985	4,838	2,453	2,814

Aggregate information of joint ventures that are not individually material:

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

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36 Fixed assets

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

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36 Fixed assets (Continued)

	Property, plant and equipment									
	Plant and buildings HK$ million	Machinery and equipment HK$ million	Construction in progress HK$ million	Office and other equipment HK$ million	Vehicles and vessels HK$ million	Others HK$ million	Sub-total HK$ million	Land use rights HK$ million	Total HK$ million	Investment properties HK$ million
Cost or valuation:										
At 1 January 2017 (Restated)	63,664	145,876	14,177	15,252	12,596	7,902	259,467	16,979	276,446	31,539
Exchange adjustments	3,217	6,579	915	973	498	859	13,041	1,266	14,307	1,192
Business combination	7,925	13,527	874	255	35	7,780	30,396	3,056	33,452	–
Disposal of subsidiaries	(153)	(5)	–	(4)	(3)	–	(165)	–	(165)	–
Additions	2,613	2,891	10,106	1,286	597	469	17,962	460	18,422	87
Disposals	(353)	(1,788)	(700)	(258)	(366)	(1,760)	(5,225)	(28)	(5,253)	(13)
Transfers	1,467	3,345	(5,274)	140	5	407	90	–	90	210
Change in fair value of investment properties	–	–	–	–	–	–	–	–	–	58
At 31 December 2017	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	33,073
Accumulated depreciation, amortisation and impairment losses:										
At 1 January 2017 (Restated)	(16,905)	(67,371)	(162)	(9,549)	(4,693)	(2,820)	(101,500)	(1,620)	(103,120)	–
Exchange adjustments	(712)	(3,312)	(88)	(627)	(178)	(293)	(5,210)	(110)	(5,320)	–
Business combination	(1,801)	(5,960)	–	(181)	(10)	(4,087)	(12,039)	(83)	(12,122)	–
Disposal of subsidiaries	101	3	–	4	2	–	110	–	110	–
Charge for the year	(2,180)	(6,455)	–	(1,820)	(776)	(644)	(11,875)	(486)	(12,361)	–
Disposals	115	1,042	–	231	215	641	2,244	–	2,244	–
Impairment losses (Note 49)	(293)	(8,720)	(1,044)	(23)	(425)	(178)	(10,683)	–	(10,683)	–
At 31 December 2017	(21,675)	(90,773)	(1,294)	(11,965)	(5,865)	(7,381)	(138,953)	(2,299)	(141,252)	–
Net book value:										
At 31 December 2017	56,705	79,652	18,804	5,679	7,497	8,276	176,613	19,434	196,047	33,073
Represented by:										
Cost	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	–
Valuation	–	–	–	–	–	–	–	–	–	33,073
	78,380	170,425	20,098	17,644	13,362	15,657	315,566	21,733	337,299	33,073

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36 Fixed assets (Continued)

As at 31 December 2018, the Group was in the process of applying the ownership certificates in respect of certain premises and land use rights of HK$3,841 million (31 December 2017: HK$6,616 million). The Group anticipates that there would be no significant issues and costs in completing such procedures.

(a) The tenure of the plant and buildings, land use rights and investment properties is as follows:

	As at 31 December	
	2018 HK$ million	2017 HK$ Million
In Mainland China		
– leases of over fifty years	**2,132**	4,217
– leases of between ten to fifty years	**78,096**	78,879
– leases of less than ten years	**1,167**	1,055
	81,395	84,151
In Hong Kong		
– leases of over fifty years	**814**	698
– leases of between ten to fifty years	**19,701**	17,870
	20,515	18,568
Properties held overseas		
– freehold	**2,297**	1,505
– leases of more than fifty years	**12**	12
– leases of between ten to fifty years	**3,946**	4,868
– leases of less than ten years	**50**	108
	6,305	6,493
Total	**108,215**	109,212

36 Fixed assets (Continued)

(b) Fair value measurement of investment properties

(i) Property valuation

Investment properties were revalued as at 31 December 2018 and 2017 by the following independent professionally qualified valuers. Management of the Group had discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each balance sheet date.

Properties located in	Valuers in 2018
Mainland China and Hong Kong	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	China Enterprise Appraisals Consultation Co., Ltd.
	Shanghai Dongzhou Real Estate Appraisal Co., Ltd.
	Prudential Surveyors (Hong Kong) Limited
	Zhong Ming (Beijing) Asset Appraisal International Co., Ltd.
	Centaline Surveyors Limited
	Beijing Dexiang Assets Appraisal Co., Ltd.
	PAN-CHINA Assets Appraisal Co., Ltd.
	Knight Frank Petty Limited
	YINXIN Appraisal Co., Ltd.
Overseas	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	Network Real Estate Appraisal Co., Ltd.

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36 Fixed assets (Continued)

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

(i) Property valuation (Continued)

Properties located in	Valuers in 2017
Mainland China and Hong Kong	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	China United Assets Appraisal Group
	Prudential Surveyors (Hong Kong) Limited
	Centaline Surveyors Limited
	Beijing K&Z Real Estate Consult Co., Ltd.
	Knight Frank Petty Limited
Overseas	Jones Lang LaSalle Corporate Appraisal and Advisory Company Limited
	Network Real Estate Appraisal Co., Ltd.

(ii) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the balance sheet dates on a recurring basis, categorised into the three-level hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

Level 3 valuations: Fair value measured using significant unobservable inputs.

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36 Fixed assets (Continued)

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

(ii) Fair value hierarchy (Continued)

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

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36 Fixed assets (Continued)

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

(ii) Fair value hierarchy (Continued)

The Group's policy is to recognise transfers between levels of fair value hierarchy at the balance sheet date in which they occur. During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil).

(iii) Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of investment properties located in Mainland China is determined by using income capitalisation approach and depreciated replacement cost approach under the circumstances.

The income capitalisation approach is the sum of the term value and the reversionary value by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period.

Depreciated replacement cost values a property by taking into account of its current cost of replacement or reproduction, less deduction for physical deterioration and all relevant forms of obsolescence and optimisation. The fair value measurement is based on an estimate of the market value for the existing use of the land, plus the depreciated replacement cost.

The fair value of certain of investment properties located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

The fair value of certain other investment properties located in Hong Kong is determined by using income capitalisation approach and with reference to sales evidence as available in the market.

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37 Intangible assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37 Intangible assets (Continued)

	For the year ended 31 December				
	Roads operating rights HK$ million	Mining assets HK$ million	Franchise right HK$ million	Others HK$ million	Total HK$ million
Cost:					
At 1 January 2017 (Restated)	10,617	19,270	–	10,366	40,253
Exchange adjustments	744	–	–	500	1,244
Additions	8	53	–	1,516	1,577
Business combination	–	–	3,022	931	3,953
Disposals of subsidiaries	–	–	–	(483)	(483)
Disposals	(11)	–	–	(406)	(417)
At 31 December 2017	11,358	19,323	3,022	12,424	46,127
Accumulated amortisation and impairment losses:					
At 1 January 2017 (Restated)	(914)	(16,670)	–	(3,347)	(20,931)
Exchange adjustments	(71)	–	–	(240)	(311)
Disposals of subsidiaries	–	–	–	202	202
Business combination	–	–	(54)	(13)	(67)
Charge for the year	(204)	(69)	(63)	(863)	(1,199)
Disposals	–	–	–	154	154
Impairment losses (Note 49)	–	(232)	–	(22)	(254)
At 31 December 2017	(1,189)	(16,971)	(117)	(4,129)	(22,406)
Net book value:					
At 31 December 2017	10,169	2,352	2,905	8,295	23,721

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

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For the year ended 31 December 2018

38 Goodwill

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

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

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

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

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For the year ended 31 December 2018

39 Income tax in the balance sheet

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

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

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

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the years ended 31 December 2018 and 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Tax losses HK$ million	Accrued expenses HK$ million	Impairment loss on assets other than fixed assets and intangible assets HK$ million	Fair value changes of financial instruments HK$ million	Fixed assets and intangible assets HK$ million	Others HK$ million	Total HK$ million
Deferred tax assets							
At 1 January 2017 (Restated)	13,289	1,828	15,310	351	4,648	1,019	36,445
(Charged)/credited to profit or loss	(1,276)	925	5,256	199	1,909	488	7,501
Credited/(charged) to other comprehensive income	–	3	–	3,282	–	(57)	3,228
Business combination	6	12	2	–	49	30	99
Exchange adjustments and others	18	123	1,229	134	105	280	1,889
At 31 December 2017	12,037	2,891	21,797	3,966	6,711	1,760	49,162
Changes in accounting policies (Note 2(f)(i))	–	–	3,373	(2,813)	–	–	560
At 1 January 2018	12,037	2,891	25,170	1,153	6,711	1,760	49,722
Credited/(charged) to profit or loss	1,436	512	4,401	407	(212)	(55)	6,489
(Charged)/credited to other comprehensive income	–	(4)	22	(970)	–	7	(945)
Exchange adjustments and others	(27)	(154)	(1,305)	(24)	(53)	(110)	(1,673)
At 31 December 2018	13,446	3,245	28,288	566	6,446	1,602	53,593

Notes to the Consolidated Financial Statements

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39 Income tax in the balance sheet (Continued)

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

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the years ended 31 December 2018 and 2017, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Fair value changes of financial instruments HK$ million	Temporary differences on fixed assets and intangible assets HK$ million	Revaluation of investment properties HK$ million	Others HK$ million	Total HK$ million
Deferred tax liabilities					
At 1 January 2017	(704)	(951)	(3,415)	(3,255)	(8,325)
(Charged)/credited to profit or loss	(229)	77	(117)	1,046	777
(Charged)/credited to other comprehensive income	(81)	–	(52)	59	(74)
Business combination	–	(1,140)	–	(282)	(1,422)
Exchange adjustments and others	(52)	(42)	(248)	(629)	(971)
At 31 December 2017	(1,066)	(2,056)	(3,832)	(3,061)	(10,015)
Credited/(charged) to profit or loss	314	(179)	(86)	166	215
Charged to other comprehensive income	(3,134)	–	(32)	(10)	(3,176)
Exchange adjustments and others	282	60	182	114	638
At 31 December 2018	(3,604)	(2,175)	(3,768)	(2,791)	(12,338)

(c) Deferred tax assets not recognised

The Group has not recognised any deferred tax assets in respect of the following items:

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Deductible temporary differences	2,103	3,044
Tax losses	25,362	27,548
	27,465	30,592

It is not probable that future taxable profits against which the above deductible temporary differences and tax losses can be utilised by the Group. As at 31 December 2018, tax losses amounting to HK$7,874 million (31 December 2017: HK$10,036 million) that can be carried forward against future taxable income are expiring within 5 years.

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39 Income tax in the balance sheet (Continued)

(d) Deferred tax liabilities not recognised

As at 31 December 2018 and 31 December 2017, the Group has not recognised any temporary differences relating to the undistributed profits of certain subsidiaries as the Group does not intend to have these subsidiaries making any profit distribution in the foreseeable future.

40 Deposits from banks and non-bank financial institutions

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

41 Placements from banks and non-bank financial institutions

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

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42 Trade and other payables

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

Note:

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

At the balance sheet date, the ageing analysis of the Group's trade and bills payable based on the invoice date is as follows:

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Within 1 year	53,426	48,751
Between 1 and 2 years	5,102	8,505
Between 2 and 3 years	7,319	4,672
Over 3 years	9,237	6,805
	75,084	68,733

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43 Financial assets sold under repurchase agreements

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

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

44 Deposits from customers

(a) Types of deposits from customers

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

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

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

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45 Bank and other loans

(a) Types of loans

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

(b) Maturity of loans

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

45 Bank and other loans (Continued)

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

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

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

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

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46 Debt instruments issued

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

The Group did not have any defaults of principal, interest or other breaches with respect to its debt instruments issued during the year ended 31 December 2018 (2017: Nil).

Notes:

(a) Corporate bonds issued

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(i) Details of corporate bonds issued by the Company

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(i) Details of corporate bonds issued by the Company (Continued):

	As at 31 December 2017				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
US$ Notes 3.1	US$	750	2012-03-21	2018-01-21	6.88%
US$ Notes 3.2	US$	350	2012-04-26	2018-01-21	6.88%
HK$ Notes 1	HK$	500	2013-07-31	2018-07-31	5.90%
US$ Notes 5	US$	500	2013-04-10	2020-04-10	6.38%
US$ Notes 2.1	US$	500	2011-04-15	2021-04-15	6.63%
US$ Notes 2.2	US$	250	2014-06-23	2021-04-15	6.63%
US$ Notes 1	US$	150	2010-08-16	2022-08-16	6.90%
US$ Notes 4.1	US$	750	2012-10-17	2023-01-17	6.80%
US$ Notes 4.2	US$	250	2012-12-11	2023-01-17	6.80%
US$ Notes 4.3	US$	400	2014-07-18	2023-01-17	6.80%
US$ Notes 6.1	US$	110	2014-07-18	2024-01-18	4.70%
US$ Notes 6.2	US$	90	2014-10-29	2024-01-18	4.70%
HK$ Notes 2	HK$	420	2014-07-25	2024-07-25	4.35%
US$ Notes 7	US$	280	2015-04-14	2035-04-14	4.60%
US$ Notes 8	US$	150	2016-02-04	2041-02-04	4.88%
US$ Notes 9	US$	350	2016-02-04	2036-02-04	4.75%
US$ Notes 10	US$	90	2016-04-25	2036-04-25	4.65%
US$ Notes 11	US$	210	2016-04-25	2046-04-25	4.85%
US$ Notes 12	US$	500	2016-06-14	2021-12-14	2.80%
US$ Notes 13	US$	750	2016-06-14	2026-06-14	3.70%
US$ Notes 14	US$	200	2016-09-07	2031-09-07	3.98%
US$ Notes 15	US$	250	2016-09-07	2046-09-07	4.49%
US$ Notes 16	US$	750	2017-02-28	2027-02-28	3.88%
US$ Notes 17	US$	500	2017-02-28	2022-02-28	3.13%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

(ii) Details of corporate bonds issued by CITIC Corporation

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

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

	As at 31 December 2018				
	Denominated currency	Face value in denominated currency million	Issue date	Maturity date	Interest rate per annum
Corporate bonds	RMB	126	2013-01-25	2020-01-25	5.20%

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(a) Corporate bonds issued (Continued)

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

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

(b) Notes issued

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

(i) Details of notes issued by CITIC Corporation

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(b) Notes issued (Continued)

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

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

(ii) Details of notes issued by CITIC Bank

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(b) Notes issued (Continued)

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(c) Subordinated bonds issued

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

46 Debt instruments issued (Continued)

Notes (Continued):

(d) Certificates of deposit issued

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

(e) Certificates of interbank deposit issued

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

47 Provisions

	Environmental restoration expenditures HK$ million	Impairment loss of credit commitments and guarantees provided HK$ million	Others HK$ million	Total HK$ million
At 1 January 2017	2,017	783	868	3,668
Exchange differences	157	54	90	301
Charge for the year	308	–	13	321
Reclassification	–	–	1,584	1,584
Payments made during the year	(12)	–	(388)	(400)
At 31 December 2017	2,470	837	2,167	5,474
Changes in accounting policy (Note 2(f)(i))	–	5,452	–	5,452
At 1 January 2018	2,470	6,289	2,167	10,926
Exchange differences	(240)	(245)	(20)	(505)
(Credit)/charge for the year	(805)	(53)	606	(252)
Payments made during the year	(6)	–	(450)	(456)
At 31 December 2018	1,419	5,991	2,303	9,713

Notes to the Consolidated Financial Statements

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48 Share capital, perpetual capital securities and reserves

(a) Share capital

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

(b) Share based payment

Share Option Plan

Other than the Plan 2000, certain of the Company's subsidiaries have issued equity-settled share-based payments to certain of their employees. The aggregate amount of the share-based payments recognised by these companies is not material to the Group.

The CITIC Pacific Share Incentive Plan 2000 adopted by the Company on 31 May 2000 for a term of ten years expired on 30 May 2010. The Company adopted a new plan, the CITIC Pacific Share Incentive Plan 2011 (the "Plan 2011") on 12 May 2011, pursuant to which the board may at its discretion offer to grant share options to any eligible participant including any employee, executive director, non-executive director, independent non-executive director or officer, consultant or representative of any member of the Group who shall make payment of HK$1 to the Company on acceptance. The subscription price determined by the board shall not be less than the higher of (i) the nominal value of the Company's shares; (ii) the closing price of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of offer the grant; and (iii) the average of the closing prices of the Company's shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of offer of the grant. The total number of the Company's shares which may be issued upon exercise of all options to be granted under the Plan 2011 must not in aggregate exceed 10% of the Company's shares in issue as at the date of adopting the Plan 2011 (i.e. as at 31 December 2018, the total number of shares available for issue under the Plan 2011 is 364,944,416 shares).

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

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

(c) Perpetual capital securities

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

(d) Nature and purpose of reserves

(i) Capital reserve

Considerations paid to acquire subsidiaries under common control, for instance, in 2014, a total consideration of HK$286,585 million paid by the Company to acquire the shares of CITIC Corporation, are debited against the capital reserve in the Group's consolidated financial statements. In addition, the potential cash payments related to put options issued in conjunction with business combination and gains or losses from transactions with non-controlling interests are directly debited or credited to the capital reserve in the Group's consolidated financial statements.

(ii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedge pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedge in Note 2(l)(ii).

(iii) Investment related reserves

The investment related reserves comprise the cumulative net change in the fair value of investments in financial assets at FVOCI until the financial assets are derecognised and share of other comprehensive income of associates and joint ventures, and are dealt with in accordance with the accounting policies set out in Note 2(k)(i) and Note 2(h) respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

(d) Nature and purpose of reserves (Continued)

(iv) General reserve

Pursuant to the relevant notices issued by regulatory bodies, certain subsidiaries in the financial services segment in the Mainland China are required to set aside a general reserve to cover potential losses.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(j).

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's stability and growth, so that it can continue to provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure, with reference to such financial ratios like debt (total of debt instruments issued and bank and other loans) to total equity ratio, to maintain a balance between the higher shareholders' returns that might be possible with of borrowings obtained and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Certain subsidiaries under the financial services segment are subject to capital adequacy requirements imposed by the external regulators. There was no non-compliance of capital requirements as at 31 December 2018 (31 December 2017: Nil).

Notes to the Consolidated Financial Statements

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49 Movement of allowances for impairment losses

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

49 Movement of allowances for impairment losses (Continued)

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

50 Contingent liabilities and commitments

(a) Credit commitments

Credit commitments in connection with the financial services segment of the Group take the form of loan commitments, credit card commitments, financial guarantees, letters of credit and acceptances.

Loan commitments represent the undrawn amount of approved loans with signed contracts. Credit card commitments represent the credit card overdraft limits authorised by the Group. Financial guarantees and letters of credit represent guarantee provided by the Group to guarantee the performance of customers to third parties. Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

50 Contingent liabilities and commitments (Continued)

(a) Credit commitments (Continued)

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

(b) Credit commitments analysed by credit risk weighted amount

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

Notes:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

50 Contingent liabilities and commitments (Continued)

(c) Redemption commitment for treasury bonds

As an underwriting agent of PRC treasury bonds, CITIC Bank has the responsibility to buy back those bonds sold by it, should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity dates is based on the nominal value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the treasury bond holders are calculated in accordance with relevant rules of the Ministry of Finance and the People's Bank of China. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of treasury bonds underwritten and sold by CITIC Bank, but not yet matured at the balance sheet date:

	As at 31 December	
	2018 **HK$ million**	2017 HK$ million
Redemption commitment for treasury bonds	**12,669**	13,748

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

(d) Guarantees provided

Except for guarantees that have been recognised as liabilities, the guarantees issued by the Group at the balance sheet date are as follows:

	As at 31 December	
	2018 **HK$ million**	2017 HK$ million
Related parties (note)	**11,811**	17,384
Third parties	**3,169**	3,358
	14,980	20,742

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

50 Contingent liabilities and commitments (Continued)

(d) Guarantees provided (Continued)

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

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

Note:

As at 31 December 2018, the guarantees provided to related parties by the Group include guarantees provided to former subsidiaries of the Group that were disposed to China Overseas Land & Investment Limited ("China Overseas") in 2016, amounting to RMB5,000 million (approximately HK$5,706 million) (31 December 2017: RMB5,000 million(approximately HK$5,981 million)). The guarantees are being transferred to China Overseas which has provided counter guarantees to the Group.

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

(e) Outstanding litigation and disputes

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

(i) Investigation into 2008 forex incident

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

50 Contingent liabilities and commitments (Continued)

(e) Outstanding litigation and disputes (Continued)

(i) Investigation into 2008 forex incident (Continued)

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

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

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

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

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

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

50 Contingent liabilities and commitments (Continued)

(f) Capital commitments

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

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

(g) Operating lease commitments

The Group leases certain of its properties and fixed assets under operating leases. As at the balance sheet date, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018 HK$ million	2017 HK$ million
Within 1 year	6,709	5,384
Between 1 and 2 years	5,631	5,012
Between 2 and 3 years	4,769	4,029
Over 3 years	11,498	12,812
	28,607	27,237

51 Financial risk management and fair values

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk

Credit risk management

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

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

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

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

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL

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

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

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

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

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

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

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

(1) Significant increase in credit risk

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(2) Definition of credit-impaired assets

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(3) Inputs for measurement of ECL

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

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

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

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

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

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

(4) Forward-looking information

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

Measurement of ECL (Continued)

(4) Forward-looking information (Continued)

Macroeconomic scenario and weighting information

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

(i) Maximum credit risk exposure

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(i) Maximum credit risk exposure (Continued)

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

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

(ii) Expected credit losses

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

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

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

Notes:

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

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

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

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

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

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For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(ii) Expected credit losses (Continued)

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

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

Notes:

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(iv) Loans and advances to customers and other parties analysed by geographical sector:

	As at 31 December					
	2018			2017		
	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million	Gross balance HK$ million	%	Loans and advances secured by collateral HK$ million
Mainland China	3,926,180	94%	2,286,150	3,629,798	94%	2,157,278
Hong Kong and Macau	200,088	4%	75,465	174,594	5%	60,434
Overseas	7,974	1%	4,358	30,815	1%	21,340
	4,134,242	99%	2,365,973	3,835,207	100%	2,239,052
Accrued interest	10,016	1%	–	N/A	N/A	N/A
	4,144,258	100%	2,365,973	3,835,207	100%	2,239,052

(v) Rescheduled loans and advances to customers and other parties

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower/debtor, or of the inability of the borrower/debtor to meet the original repayment schedule and for which the revised repayment terms are a concession that the Group would not otherwise consider.

	As at 31 December			
	2018		2017	
	Gross balance HK$ million	% of total loans and advances	Gross balance HK$ million	% of total loans and advances
Rescheduled loans and advances	24,638	0.59%	27,809	0.73%
– Rescheduled loans and advances overdue more than 3 months	21,397	0.52%	23,757	0.62%

51 Financial risk management and fair values (Continued)

(a) Credit risk (Continued)

(vi) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

As at 31 December 2018, the Group did not enter into significant enforceable master netting arrangements with counterparties and therefore there were no significant offsettings of any assets and liabilities in the consolidated balance sheet (31 December 2017: Nil).

(b) Liquidity risk

Liquidity risk arises when there is mismatch between amounts and maturity dates of financial assets and financial liabilities.

Each of the Group's operating entity formulates liquidity risk management policies and procedures within the Group's overall liquidity risk management framework and takes into consideration of the business and regulatory requirements applicable to individual entity.

The Group manages liquidity risk by holding liquid assets (including deposits, other short term funds and securities) of appropriate quality and quantity to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material demand for payments in the ordinary course of business.

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

	As at 31 December 2018					
	Repayable on demand HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Indefinite maturity date HK$ million	Total HK$ million
Total financial assets	352,189	2,644,591	1,889,958	1,449,158	750,042	7,085,938
Total financial liabilities	(2,624,897)	(3,233,564)	(693,042)	(196,238)	(3,173)	(6,750,914)
Financial asset-liability gap	(2,272,708)	(588,973)	1,196,916	1,252,920	746,869	335,024

	As at 31 December 2017					
	Repayable on demand HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Indefinite maturity date HK$ million	Total HK$ million
Total financial assets	340,317	2,643,768	1,780,307	1,387,202	783,586	6,935,180
Total financial liabilities	(2,753,714)	(3,177,518)	(554,683)	(140,993)	(4,896)	(6,631,804)
Financial asset-liability gap	(2,413,397)	(533,750)	1,225,624	1,246,209	778,690	303,376

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

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

	As at 31 December 2018					
	Repayable on demand HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Indefinite maturity date HK$ million	Total HK$ million
Total financial assets	374,287	3,318,026	2,338,544	2,213,941	778,584	9,023,382
Total financial liabilities	(2,917,781)	(4,150,202)	(925,797)	(199,436)	(3,222)	(8,196,438)
Financial asset-liability gap	(2,543,494)	(832,176)	1,412,747	2,014,505	775,362	826,944

	As at 31 December 2017					
	Repayable on demand HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Indefinite maturity date HK$ million	Total HK$ million
Total financial assets	338,645	2,776,888	2,189,462	1,968,893	786,445	8,060,333
Total financial liabilities	(2,750,325)	(3,197,172)	(629,705)	(167,765)	(4,896)	(6,749,863)
Financial asset-liability gap	(2,411,680)	(420,284)	1,559,757	1,801,128	781,549	1,310,470

51 Financial risk management and fair values (Continued)

(b) Liquidity risk (Continued)

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

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

	As at 31 December 2017			
	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Loan commitments	20,459	29,262	34,523	84,244
Guarantees	147,717	106,360	1,951	256,028
Letters of credit	104,128	2,611	–	106,739
Acceptances	511,828	91	–	511,919
Credit card commitments	371,230	–	–	371,230
Total	1,155,362	138,324	36,474	1,330,160

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(c) Interest rate risk

Each of the Group's operating entities has formulated its own interest risk management policies and procedures covering identification, measurement, monitoring and control of risks. The Group manages interest rate risk to control potential loss from interest rate risk at an acceptable level.

(i) Asset-liability gap

Interest rate risk arises from mismatch between repricing dates of financial assets and liabilities affected by market interest rate volatility.

	As at 31 December 2018				
	Non-interest bearing HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Total financial assets	467,634	4,373,016	1,955,528	289,760	7,085,938
Total financial liabilities	(225,850)	(5,707,635)	(635,184)	(182,245)	(6,750,914)
Financial asset-liability gap	241,784	(1,334,619)	1,320,344	107,515	335,024

	As at 31 December 2017				
	Non-interest bearing HK$ million	Within 1 year HK$ million	Between 1 and 5 years HK$ million	More than 5 years HK$ million	Total HK$ million
Total financial assets	487,568	4,440,060	1,726,885	280,667	6,935,180
Total financial liabilities	(296,261)	(5,721,228)	(492,645)	(121,670)	(6,631,804)
Financial asset-liability gap	191,307	(1,281,168)	1,234,240	158,997	303,376

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For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(ii) Effective interest rate

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

Note:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(c) Interest rate risk (Continued)

(iii) Sensitivity analysis

The Group uses sensitivity analysis to measure the potential effect of changes in interest rates on the Group's profit or loss. As at 31 December 2018, it is estimated that a general increase or decrease of 100 basis points in interest rates, with all other variables held constant, the Group's profit before taxation would decrease or increase by HK$12,844 million (31 December 2017: decrease or increase by HK$12,916 million).

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

(d) Currency risk

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

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

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

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For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

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

	As at 31 December 2018				
	HK$	**US$**	**RMB**	**Others**	**Total**
Total financial assets	**189,748**	**356,652**	**6,490,967**	**48,571**	**7,085,938**
Total financial liabilities	**(216,286)**	**(438,935)**	**(6,046,351)**	**(49,342)**	**(6,750,914)**
Financial asset-liability gap	**(26,538)**	**(82,283)**	**444,616**	**(771)**	**335,024**

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

The Group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the Group's net profit or loss.

Assuming all other risk variables remained constant, a 100 basis points strengthening or weakening of HK$ against US$, RMB and other currencies as at 31 December 2018 would decrease or increase the Group's profit before taxation by HK$3,464 million (31 December 2017: decrease or increase by HK$3,515 million).

This sensitivity analysis is based on a static foreign exchange exposure profile of financial assets and financial liabilities and certain simplified assumptions. The analysis is based on the following assumptions: (1) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis points fluctuation in the foreign currency exchange rates against HK$; (2) the exchange rates against HK$ for all foreign currencies change in the same direction simultaneously and do not take into account the correlation effect of changes in different foreign currencies; and (3) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Because of its hypothetical nature with the assumptions adopted, actual changes in the Group's profit before taxation resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

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51 Financial risk management and fair values (Continued)

(e) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying amounts of financial instruments measured at fair value as at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted market for similar active markets for identical financial instruments;

– Level 2: fair values measured using quoted prices in active market for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data;

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

The fair value of the Group's financial assets and financial liabilities are determined as follows:

– If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively;

– If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments. If there were no available observable current market transactions prices for similar instruments, quoted prices from counterparty is used for the valuation, and management performs analysis on these prices. Discounted cash flow analysis using the applicable yield curve for the duration of the instruments is used for derivatives other than options, and option pricing models are used for option derivatives.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(e) Fair values (Continued)

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

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

	As at 31 December 2017			
	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million	Total HK$ million
Assets				
Financial assets at FVPL	17,111	74,229	10	91,350
Derivative financial assets	–	78,464	875	79,339
Available-for-sale financial assets	73,039	695,115	15,160	783,314
	90,150	847,808	16,045	954,003
Liabilities				
Derivative financial liabilities	–	(80,075)	–	(80,075)

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

51 Financial risk management and fair values (Continued)

(e) Fair values (Continued)

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

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

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

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

51 Financial risk management and fair values (Continued)

(e) Fair values (Continued)

(ii) Fair value of other financial instruments (carried at other than fair value)

The carrying amounts and fair values of the Group's financial assets and liabilities, other than those with carrying amounts that reasonably approximate to their fair values, are as follows:

	As at 31 December 2018				
	Carrying amount HK$ million	Fair value HK$ million	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million
Financial assets					
Investments in financial assets					
– Financial assets at amortised cost	899,348	899,863	2,482	573,061	324,320
Financial liabilities					
Debt instruments issued					
– Corporate bonds issued	86,728	86,749	156	86,593	–
– Notes issued	121,450	119,776	360	117,015	2,401
– Subordinated bonds issued	144,109	143,849	6,439	137,410	–
– Certificates of deposit (not for trading purpose)	3,210	3,141	–	3,141	–
– Certificates of interbank deposit issued	389,534	382,875	–	382,875	–
	745,031	736,390	6,955	727,034	2,401

	As at 31 December 2017				
	Carrying amount HK$ million	Fair value HK$ million	Level 1 HK$ million	Level 2 HK$ million	Level 3 HK$ million
Financial assets					
Held-to-maturity investments	261,654	254,349	1,090	253,179	80
Investments classified as receivables	644,789	638,429	–	111,217	527,212
	906,443	892,778	1,090	364,396	527,292
Financial liabilities					
Debt instruments issued					
– Corporate bonds issued	91,644	87,558	2,632	84,926	–
– Notes issued	147,002	145,099	377	144,722	–
– Subordinated bonds issued	88,200	91,213	6,617	84,596	–
– Certificates of deposit (not for trading purpose)	3,409	3,408	–	3,408	–
– Certificates of interbank deposit issued	323,116	317,105	–	317,105	–
	653,371	644,383	9,626	634,757	–

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51 Financial risk management and fair values (Continued)

(e) Fair values (Continued)

(iii) Estimation of fair values

As at the balance sheet date, the Group adopted the following major methods and assumptions in estimating the fair value of financial instruments.

Investments in financial assets and financial liabilities

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

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

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

Placements with banks and non-bank financial institutions, financial assets held/sold under resale/repurchase agreements

Placements with banks and non-bank financial institutions, financial assets held/sold under resale/repurchase agreements are mainly priced at market interest rates and mature within one year. Accordingly, the carrying amounts approximate to their fair values.

Derivatives

The fair values of foreign currency and interest rate contracts are either based on their listed market prices or by discount cash flow model at the measurement date.

Financial guarantees

The fair values of financial guarantees are determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that the lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

52 Material related parties

(a) Relationship of related parties

(i) In addition to subsidiaries, related parties include parent company, holding company's fellow entities, associates and joint ventures of the Group.

(ii) CITIC Group, the parent and the ultimate controlling shareholder of the Group, is a state-owned company established in Beijing in 1979.

(b) Related party transactions

(i) Transaction amounts with related parties

	For the year ended 31 December 2018			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Sales of goods	–	242	299	541
Purchase of goods	–	669	3,396	4,065
Interest income (note (2))	–	312	376	688
Interest expenses	77	458	338	873
Fee and commission income	–	8	759	767
Fee and commission expenses	–	–	47	47
Income from other services	–	42	82	124
Expenses for other services	–	167	1,390	1,557
Interest income from deposits and receivables	–	18	–	18
Other operating expenses	3	29	181	213

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For the year ended 31 December 2018

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(i) Transaction amounts with related parties (Continued)

	For the year ended 31 December 2017			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Sales of goods	1	89	203	293
Purchase of goods	–	211	2,521	2,732
Interest income (note (2))	–	210	247	457
Interest expenses	205	183	273	661
Fee and commission income	53	3	761	817
Fee and commission expenses	–	–	33	33
Income from other services	–	46	92	138
Expenses for other services	–	130	840	970
Interest income from deposits and receivables	–	21	2	23
Other operating expenses	2	21	217	240

Notes:

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

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

(3) During the relevant years, CITIC Bank, a subsidiary of the Group, entered into transactions with related parties in the ordinary course of its banking businesses including lending, assets transfer (i.e. issuance of asset-backed securities in the form of private placement), wealth management, investment, deposit, settlement and clearing, off-balance sheet transactions, and purchase, sale and leases of property. These banking transactions were conducted under normal commercial terms and conditions and priced at the relevant market rates prevailing at the time of each transaction.

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties

	As at 31 December 2018			
	Parent company HK$ million	Holding company's fellow entities HK$ million	Associates and joint ventures HK$ million	Total HK$ million
Trade and other receivables	75	1,065	341	1,481
Loans and advances to customers and other parties (note (2))	–	3,453	4,216	7,669
Placements with banks and non-bank financial institutions	–	–	571	571
Cash and deposits	–	–	7,618	7,618
Derivative financial instruments and other assets	–	–	672	672
Investments in financial assets – Financial assets at FVPL	–	–	372	372
Trade and other payables	389	13,235	2,840	16,464
Deposits from customers	310	9,343	14,828	24,481
Deposits from bank and non-bank financial institutions	–	–	21,695	21,695
Derivative financial instruments and other liabilities	–	–	1	1
Bank and other loans	7,044	16,039	116	23,199
Off-balance sheet items				
Entrusted funds	5,484	137	49,619	55,240
Funds raised from investors of non-principle guaranteed wealth management products	–	10	423	433
Guarantees provided (note (3))	–	–	11,811	11,811
Guarantees received	–	43,780	5,885	49,665

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52 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties (Continued)

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

52 Material related parties (Continued)

(b) Related party transactions (Continued)

(ii) Outstanding balances with related parties (Continued)

Notes:

(1) The above transactions with related party transactions which were conducted under the normal commercial terms.

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

(3) The guarantees provided by the Group to the related parties were based on the terms agreed between the Group and the related parties on a case by case basis.

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

In addition to these related party transactions disclosed in Note 52(b), transactions with other state-owned entities include but are not limited to the following:

– sales and purchases of goods and provision of services;

– purchase, sale and leases of property and other assets;

– lending and deposit taking;

– taking and placing of inter-bank balances;

– derivative transactions;

– entrusted lending and other custody services;

– insurance and securities agency, and other intermediary services;

– sale, purchase, underwriting and redemption of bonds issued by other state-owned entities; and

– rendering and receiving of utilities and other services.

(d) Key management personnel remuneration

For the year ended 31 December 2018, the aggregate amount of the remuneration before tax paid to directors and executive officers of the Company amounted to HK$10.74 million (2017: HK$9.97 million).

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53 Structured entities

(a) The principal guaranteed wealth management products issued and managed by the Group

The principal guaranteed wealth management products issued and managed by CITIC Bank, a subsidiary of the Group, represent products to which CITIC Bank has guaranteed the investor's principal investment. The investments of the wealth management products and the corresponding source of funding are categorised as financial assets and financial liabilities in accordance with the accounting policies.

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

53 Structured entities (Continued)

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

	As at 31 December 2017						
Carrying amount	Financial assets at fair value through profit or loss HK$ million	Held-to-maturity investments HK$ million	Available-for-sale financial assets HK$ million	Investments classified as receivables HK$ million	Total HK$ million	Guarantees HK$ million	Maximum loss exposure HK$ million
Wealth management products	–	–	16,614	166,310	182,924	–	182,924
Investment management products managed by securities companies	–	–	408	322,029	322,437	–	322,437
Trust investment plans	–	–	5,681	155,224	160,905	–	160,905
Asset-backed securities	–	40,954	20,190	–	61,144	–	61,144
Investment funds	2,393	–	152,195	364	154,952	–	154,952
Total	2,393	40,954	195,088	643,927	882,362	–	882,362

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

53 Structured entities (Continued)

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

Wealth management products and trust plans

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

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

During the year ended 31 December 2018, the maximum exposure of the placements and financial assets held under resale agreements from the Group with non-principal guaranteed wealth management products sponsored by the Group was HK$77,772 million (2017: HK$86,579 million). In the opinion of management, the transactions were conducted in the ordinary course of business under normal terms and conditions and at market rates.

During the year ended 31 December 2018, the amount of fee and commission income recognised from the abovementioned structured entities sponsored by the Group was HK$8,927 million (2017: HK$11,620 million); interest income of HK$2,592 million (2017: HK$2,557 million).

53 Structured entities (Continued)

(d) Transfers of financial assets

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

54 Major business combinations

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

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

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

Consideration:

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

Net cash paid for acquisition:

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

Notes:

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

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

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

55 Supplementary information to the consolidated cash flow statement

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

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

(b) Disposal of subsidiaries

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

55 Supplementary information to the consolidated cash flow statement

(Continued)

(c) Reconciliation of financing liabilities

	For the year ended 31 December				
	Bank and other loans HK$ million	Debt instruments issued HK$ million	Lease liabilities HK$ million	Interest expense HK$ million	Total HK$ million
At 1 January 2017	113,125	543,893	469	4,957	662,444
Cash flows	13,434	79,672	(71)	(31,797)	61,238
Business combination/(disposal of subsidiaries)	12,321	239	–	102	12,662
Foreign exchange adjustments	3,709	28,214	24	361	32,308
Other non-cash movements	(147)	1,353	–	33,610	34,816
At 31 December 2017	142,442	653,371	422	7,233	803,468
Cash flows	17,314	124,127	–	(38,103)	103,338
(Disposal of subsidiaries)/business combination	(8,971)	–	–	57	(8,914)
Foreign exchange adjustments	(2,135)	(30,811)	(84)	(568)	(33,598)
Other non-cash movements	6,940	(7,964)	(46)	38,961	37,891
At 31 December 2018	155,590	738,723	292	7,580	902,185

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

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

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

56 Major transactions with non-controlling interests

Dilution of interests in a subsidiary without loss of control

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

57 Balance sheet and reserve movement of the Company

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

(a) Reserve movement of the Company

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

(a) Reserve movement of the Company (Continued)

	Share capital HK$ million (Note 48(a))	Perpetual capital securities HK$ million (Note 48(c))	Capital reserve HK$ million (Note 48(d)(i))	Hedging reserve HK$ million (Note 48(d)(ii))	Investment related reserves HK$ million (Note 48(d)(iii))	Retained earnings HK$ million	Total HK$ million
At 1 January 2017	381,710	7,873	630	(939)	(138)	8,371	397,507
Cash flow hedges:							
– Fair value loss during the year	–	–	–	(190)	–	–	(190)
– Transfer to net finance charges	–	–	–	310	–	–	310
	–	–	–	120	–	–	120
Profit attributable to shareholders of the Company	–	673	–	–	–	11,257	11,930
Dividends paid to ordinary shareholders of the Company	–	–	–	–	–	(9,891)	(9,891)
Distributions to holders of perpetual capital securities	–	(673)	–	–	–	–	(673)
Available-for-sale financial assets: net movement in the fair value reserve	–	–	–	–	153	–	153
At 31 December 2017	381,710	7,873	630	(819)	15	9,737	399,146

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

58 Post balance sheet events

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

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

59 Approval of the consolidated financial statements

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

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

The Group has not applied the following amendments to standards and new standards which are effective for the financial year beginning after 1 January 2018 and which have not been early adopted in these consolidated financial statements.

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

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

The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

HKFRS 16, Leases

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

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

Date of adoption by the Group

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

The Group made an assessment on the impact of this new standard, and concluded that it did not have a significant impact on the consolidated financial statements of the Group as at 1 January 2019.

61 Principal subsidiaries, associates and joint ventures

(a) Principal subsidiaries

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Corporation Limited 中國中信有限公司	Mainland China	Investment holding	N/A	100%	100%	0%
CITIC Pacific Limited 中信泰富有限公司	British Virgin Islands	Investment holding	49,881	100%	100%	0%
CITIC Pacific Special Steel Investment Limited (formerly known as Jiangsu CP Xingcheng Special Steel Co., Ltd.) 中信泰富特鋼投資有限公司 (原江蘇泰富興澄特殊鋼有限公司)	Mainland China	Manufacturing	N/A	100%	0%	100%
Daye Special Steel Co., Ltd. 大冶特殊鋼股份有限公司	Mainland China	Manufacturing	449,408,480	58.13%	0%	58.13%
Dah Chong Hong Holdings Limited 大昌行集團有限公司	Hong Kong	Investment holding	1,886,023,825	56.97%	0%	56.97%
CITIC Mining International Ltd. 中信礦業國際有限公司	Cayman Islands	Resources and energy	1	100%	100%	0%
CITIC Telecom International Holdings Limited 中信國際電訊集團有限公司	Hong Kong	Telecom services	3,587,260,382	59.36%	0%	59.36%
M China Management Limited 金拱門中國管理有限公司	Hong Kong	Service	N/A	32.00%	0%	100%
China CITIC Bank Corporation Limited 中信銀行股份有限公司	Mainland China	Financial services	48,934,796,573	65.97%	0%	65.97%
CITIC International Financial Holdings Limited 中信國際金融控股有限公司	Hong Kong	Financial services	7,459,172,916	65.97%	0%	100%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

61 Principal subsidiaries, associates and joint ventures (Continued)

(a) Principal subsidiaries (Continued)

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest: Attributable to the Group	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries
CITIC Trust Co., Ltd. 中信信託有限責任公司	Mainland China	Financial services	N/A	100%	0%	100%
CITIC Finance Company Limited 中信財務有限公司	Mainland China	Financial services	N/A	96.58%	0%	98.69%
CITIC Metal Group Ltd. 中信金屬集團有限公司	Hong Kong	Resources and energy	11,800,000,000	100%	0%	100%
CITIC Resources Holdings Limited 中信資源控股有限公司	Bermuda	Resources and energy	7,857,727,149	59.50%	0%	59.50%
CITIC Australia Pty Limited 中信澳大利亞有限公司	Australia	Resources and energy	85,882,017	100%	0%	100%
CITIC Kazakhstan LLP 中信哈薩克斯坦有限公司	Kazakhstan	Resources and energy	N/A	100%	0%	100%
CITIC Heavy Industries Co., Ltd. 中信重工機械股份有限公司	Mainland China	Manufacturing	4,339,419,293	67.27%	0%	67.27%
CITIC Dicastal Co., Ltd. 中信戴卡股份有限公司	Mainland China	Manufacturing	1,377,962,404	100%	0%	100%
CITIC Construction Company Limited 中信建設有限責任公司	Mainland China	Engineering contracting	N/A	100%	0%	100%
CITIC Engineering Design and Construction Company Limited 中信工程設計建設有限公司	Mainland China	Engineering contracting	N/A	100%	0%	100%
CITIC Urban Development & Operation Co., Ltd. 中信城市開發運營有限責任公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Heye Investment Co., Ltd. 中信和業投資有限公司	Mainland China	Real estate	N/A	100%	0%	100%

Notes to the Consolidated Financial Statements
For the year ended 31 December 2018

61 Principal subsidiaries, associates and joint ventures (Continued)

(a) Principal subsidiaries (Continued)

Name of company	Place of incorporation	Principal activity	Shares issued	Proportion of ownership interest Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Asset Operation Co.,Ltd. 中信資產運營有限公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Capital Mansion Co., Ltd. 中信京城大廈有限責任公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Building Property Management Co., Ltd. 北京中信國際大廈物業管理有限公司	Mainland China	Real estate	N/A	100%	0%	100%
CITIC Industrial Investment Group Corp., Ltd. 中信興業投資集團有限公司	Mainland China	Infrastructure	N/A	100%	0%	100%
CITIC Environment Investment Group Co., Limited 中信環境投資集團有限公司	Mainland China	Energy saving and environmental protection	N/A	100%	0%	100%
China Zhonghaizhi Corporation 中國中海直有限責任公司	Mainland China	General aviation	N/A	51.03%	0%	51.03%
CITIC Investment Holdings Limited 中信投資控股有限公司	Mainland China	Investment holding	N/A	100%	0%	100%
CITIC Asia Satellite Holding Company Limited 中信亞洲衛星控股有限公司	British Virgin Islands	Information industry	60,524,465	100%	0%	100%
CITIC Press Corporation 中信出版集團股份有限公司	Mainland China	Publishing	142,613,636	98%	0%	98%
CITIC Holdings Co., Ltd. 中信控股有限責任公司	Mainland China	Service	N/A	100%	0%	100%
CITIC Tourism Group Co., Ltd. 中信旅遊集團有限公司	Mainland China	Service	N/A	100%	0%	100%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

61 Principal subsidiaries, associates and joint ventures (Continued)

(b) Principal associates

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

				Proportion of ownership interest		
Name of company	Place of incorporation	Principal activity	Shares issued	Attributable to the Group	Held by the Company	Held by subsidiaries
China Overseas Land & Investment Ltd. 中國海外發展有限公司	Hong Kong	Real estate	10,956,201,535	10%	0%	10%
CITIC Securities Co., Ltd. 中信證券股份有限公司	Mainland China	Securities related services	12,116,908,400	16.50%	0%	16.50%
MMG South America Management Co., Ltd.	Hong Kong	Resources and energy	1,200	15%	0%	15%

(c) Principal joint ventures

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

				Proportion of ownership interest		
Name of company	Place of incorporation	Principal activity	Shares issued	Attributable to the Group	Held by the Company	Held by subsidiaries
CITIC Prudential Life Insurance Co., Ltd. 中信保誠人壽保險有限公司	Mainland China	Insurance and reinsurance	N/A	50%	0%	50%
上海瑞博置業有限公司	Mainland China	Real estate	N/A	50%	0%	50%
山東新巨龍能源有限責任公司	Mainland China	Resources and energy	N/A	30%	0%	30%

Independent Auditor's Report

羅兵咸永道

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

Opinion

What we have audited

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

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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Independent Auditor's Report

Basis for Opinion

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

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

Independence

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

Key Audit Matters

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

Key audit matters identified in our audit are summarised as follows:

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

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter

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

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

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

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

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

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

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

The substantive procedures we preformed primarily included:

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

Independent Auditor's Report

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

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities – non-principal guaranteed wealth management products of CITIC Bank	
Refer to Note 2(g), Note 3 and Note 53 to the consolidated financial statements. As at 31 December 2018, unconsolidated structured entities included non-principal guaranteed wealth management products ("WMPs") issued and managed by CITIC Bank. Management's decision on whether or not to consolidate structured entities was based on an assessment of the power of CITIC Bank, its variable returns and the ability to exercise its power to influence the variable returns from these structured entities. We focused on the consolidation assessment and judgement made by management involving the structured entities for non-principal guaranteed WMPs during our audit as whether or not to consolidate these entities involved significant judgement.	We evaluated and tested the design and operating effectiveness of management's relevant controls over the consolidation of structured entities for non-principal guaranteed WMPs. These controls primarily included the review and approval of the contractual terms, the results in variable return calculations, and the consolidation assessment conclusions for these structured entities. We selected samples of structured entities for non-principal guaranteed WMPs and performed the following tests: • assessed the contractual rights and obligations of CITIC Bank in light of the transaction structures, and evaluated the power of CITIC Bank over the structured entities; • performed independent analysis and tests on the variable returns from the structured entities, including but not limited to commission income and asset management fees earned, retention of residual income, and, if any, liquidity and other support provided to the structured entities; • assessed whether CITIC Bank acted as a principal or an agent through analysis of the scope of the decision-making authority of CITIC Bank, its remuneration entitlement, other interests CITIC Bank held, and the rights held by other parties. Based on the procedures performed above, we found management's judgement relating to the consolidation of structured entities for non-principal guaranteed WMPs acceptable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter

De-recognition of financial assets of CITIC Bank

Refer to Note 2(k), Note 3 and Note 53(d) to the consolidated financial statements.

During the year ended 31 December 2018, CITIC Bank entered into transactions which involved transfers of financial assets including those through securitisation and loan transfers.

Management analysed the contractual rights and obligations of CITIC Bank in connection with such transfers, and assessed the extent to which the associated risks and rewards of ownership were transferred by using models to determine whether the de-recognition criteria were met. Where necessary, CITIC Bank assessed whether it had relinquished its control over the transferred financial assets to determine whether the de-recognition criteria were met.

The de-recognition assessment relating to the transfer of financial assets involved significant judgement from management, and as such, we focused our audit on the de-recognition of these financial assets.

We evaluated and tested the design and operating effectiveness of the relevant controls over transfers of financial assets, including the review and approval of the structure designs and contractual terms of the transactions, the approval of models for testing the transfer of risks and rewards of ownership and the key parameters and assumptions used in the models, as well as the review and approval of management's assessment results.

We selected samples and read through transaction agreements to assess the contractual rights and obligations of CITIC Bank, and whether CITIC Bank transferred the rights to receive contractual cash flows from the financial assets, or the transfer qualified for the "pass through" of those cash flows, to independent third parties.

We also assessed the appropriateness of the models, the parameters and assumptions, the discount rates, and the variability factors. We also tested the mathematical accuracy of the calculations.

For financial assets where CITIC Bank neither retained nor transferred substantially all of the risks and rewards associated with their ownership, we analysed whether CITIC Bank had relinquished its control over these financial assets, and if CITIC Bank had a continuing involvement in these transferred financial assets.

Based on the procedures performed above, we found management's assessment over de-recognition of transferred financial assets acceptable.

Independent Auditor's Report

Key Audit Matter	How our audit addressed the Key Audit Matter

Impairment of the Sino Iron Project

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

In light of the changes in the key assumptions, an impairment assessment has been undertaken on the Sino Iron Project ("the Project") as at 31 December 2018.

Management has assessed the recoverable amount of the Project using the Fair Value Less Cost of Disposal ("FVLCD") method as consistent with the approach taken previously. As a result, management has determined that no further impairment charge is required.

In the impairment assessment, the most significant areas of judgement applied by management relate to:

- The production profile of the Project (including production rates as the Project ramps up, ore grades and operating and capital expenditures);
- Iron ore prices (inclusive of base price and premium on product grade);
- The discount rate adopted in the valuation;
- Foreign exchange rates, particularly between Australian and United States dollars.

As the impairment assessment involves significant assumptions and judgements, we regard this as a key audit matter.

In evaluating management's valuation of the Project we undertook the following procedures:

- Evaluated the reasonableness of management's judgement in relation to non-current asset impairment indicators, cash flow forecasts and the adoption of the FVLCD model;
- Assessed whether management had included all appropriate assets and liabilities in the cash generating unit with appropriate consideration of tax impact;
- Compared assumptions adopted in cash flow forecasts on production, future capital and operating expenditure with approved Life of Mine Plans, operating budgets and, where applicable, actual performance outcomes achieved to date;
- With the support of our valuation experts, benchmarked key market related assumptions included in the valuation model, being base price, foreign exchange rates and the discount rate, against external market data; assessed the forecast premium on product grade with actual premiums achieved to date; and validated the competence and objectivity of the third party experts utilised by management to develop these assumptions;
- Performed sensitivity analysis on the key assumptions.

Based on the above procedures, we found the assumptions and judgements applied by management to be reasonable and consistent with the audit evidence we obtained.

Independent Auditor's Report

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

Corporate Information

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www.citic.com contains a description of CITIC Limited's business, copies of half-year and annual reports to shareholders, announcements, press releases and other information.

Stock Codes

The Stock Exchange of Hong Kong Limited:	00267
Bloomberg:	267:HK
Reuters:	0267.HK
American Depositary Receipts:	CTPCY
CUSIP Reference No:	17304K102

Share Registrar

Shareholders should contact CITIC Limited's Share Registrar, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong at +852 2980 1333, or by fax at +852 2810 8185, on matters such as transfer of shares, change of name or address, or loss of share certificates.

Investor Relations

Investors, shareholders and research analysts may contact CITIC Limited's Investor Relations Department by telephone at +852 2820 2205, or by fax at +852 2522 5259 or by email at ir@citic.com.

Corporate Information

Financial Calendar

Closure of Register: *(for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting)*	30 May 2019 to 5 June 2019 (both days inclusive)
Closure of Register: *(for the purpose of ascertaining shareholders' entitlement to the proposed final dividend)*	12 June 2019 to 14 June 2019 (both days inclusive)
Annual General Meeting:	5 June 2019, 11:00 a.m. Salon 4-6, Level 3, JW Marriott Hong Kong Pacific Place, 88 Queensway Hong Kong
Dividend payment:	26 June 2019

Annual Report 2018

The Annual Report is printed in English and Chinese and is also available on CITIC Limited's website at www.citic.com under the 'Investor Relations' section.

Shareholders may choose to receive the Annual Report in printed form in either English or Chinese or both or by electronic means. Shareholders may at any time change their choice of the language or means of receipt of the Annual Report by notice in writing to CITIC Limited's Share Registrar.

Shareholders having difficulty in gaining access to the Annual Report will promptly be sent a printed copy free of charge upon request to CITIC Limited's Share Registrar.

Non-shareholders who wish to receive a printed copy of the Annual Report are requested to write to the Joint Company Secretaries, CITIC Limited, 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong, or by fax at +852 2877 2771 or by email at contact@citic.com.

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