中國交通建設股份有限公司
CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
H Share Stock Code: 1800

Annual Report 2018

(H Share)

Contents

CORPORATE PROFILE

The Company was incorporated on 8 October 2006 and was initiated and founded by CCCG (a state-owned enterprise under the SASAC) through restructuring as approved by the State Council. Its H shares were listed on the Main Board of the Hong Kong Stock Exchange with stock code of 01800. HK on 15 December 2006. It is the first ultra large state-owned transportation infrastructure group entering the overseas capital market. The Company's A shares were listed on the Shanghai Stock Exchange with stock code of 601800.SH on 9 March 2012, representing a leap-and-bound advance taken by the Company in the course of its development.

As a leading transportation infrastructure group in the PRC, the Group is the industry leader in each of its core businesses, namely infrastructure construction, infrastructure design and dredging. Leveraging on its extensive operating experience, expertise and know-how accumulated from projects undertaken across a wide range of areas over the past six decades, the Company is capable of providing integrated solutions throughout each stage of infrastructure projects for its customers. The Company is the world's largest port design and construction company, the world's largest road and bridge design and construction company, and the world's largest dredging company; it is also the largest international contractor, designer and highway investor in China; and the Company also owns the largest civilian fleet in China. The Company currently has 36 principal wholly-owned or controlled subsidiaries. The Company operates its businesses throughout China, including Hong Kong and Macau Special Administrative Regions, and has established its global presence in 139 countries and regions.

As an important holding subsidiary of CCCG, the Company played a decisive role in business performance of CCCG. CCCG was listed in the Fortune Global 500 for eleven consecutive years in 2008-2018, and attributable to the continual increase of the Company's comprehensive strength, the Company's ranking soared up from the 426th place in 2008 to the 91st place in 2018. The Company responded actively the national strategic deployment of "Going Global", participated extensively in cooperation and competition for foreign economic aid programs and international contracting projects, and acted as a leader in implementing the initiative of "the Belt and Road". CCCG has ranked the third in ENR's Top International Contractors for three consecutive years and remained the first among the top international contractors and enterprises in Asia and in China for twelve consecutive years. Together with CHEC and CRBC, CCCC now enjoys a high reputation around the world.

Through designing and constructing in state-level engineering construction projects, the Group has set many records recognised as the "first", the "best" and the "most" in the history of port and bridge construction not only in the PRC but also the rest of Asia and around the world. Construction projects such as the Sutong Yangtze River Bridge, Shanghai Yangshan Deepwater Port, Yangtze River Mouth Deepwater Navigation Channel regulation project, Hainan Project, and the Hong Kong-Zhuhai-Macau Bridge reflected the state-of-the-art standard of China, and that of the world. The Group entered the railway market since the market opened and participated in the design and construction of over 70 national key railway projects, including Harbin-Dalian PDL, Beijing-Shanghai PDL, Lanzhou-Chongqing Railway, Lunan High Speed Railway, etc. Meanwhile, the Group proactively participated in the railway projects of "Going Global", and the whole railway project of Mombasa-Nairobi, Kenya was designed and constructed by the Group on the basis of the construction standards of railway in China.

The Company places great emphasis on scientific research and development which would improve the Company's competency and guidance in operation. Following the direction of "making innovations and leapfrog advances in key areas supporting development and thus creating a better future", the Company gradually perfects the three-level scientific innovation system, namely the decision-making level of the headquarters, the execution level of secondary enterprises and innovative platforms and the application level of tertiary enterprises and the project division. The Company continues to optimize the structure and layout of innovative platforms and determines to establish a "three-level and three-type" innovative platform system with key laboratories, R&D centres and enterprise technology centres at national, provincial and group levels as the core, to achieve the objectives to establish three types of scientifically innovative platform by carry out fundamental research on application at key laboratories, engineering and industrial R&D at R&D centres, and supporting production and operation at enterprise technology centres. The Company has a total of 15 innovation platforms at national level, 44 innovation platforms at provincial level and 17 innovation platforms at group level, totaling 76 innovation platforms of all types and at all levels altogether. This basically forms a group of innovation platforms that covers each session within the innovation chain and assembles the characteristics of fundamental research on applications, technology research and development, achievement transformation, and industrialization. The Company owns 13 Post-Doctoral research centres and 3 academician research centres and has systematically nurtured a pool of scientific experts and a professional innovation team by leveraging on innovation platforms and the establishment of key scientific research projects and key engineering projects to create a nurturing model of a "three-in-one" professional team of scientific calibers with its resources on talents, teams and platforms.

The Group owns a diverse range of specialised equipment, including modern dredging vessels, various equipment for marine and onshore engineering, as well as various state-of-the-art machinery and equipment for investigation, design and research, which gives the Group competitive advantages to win and perform contracts for challenging large-scale complex projects.

By insisting on the vision of "making the world more expedite, making the city more habitable, making life more beautiful", adhering to the corporate mission "fostering sustainable development with firm foundation and good morality", and persisting on the corporate spirit of "communicating with the world and constructing without boundaries", CCCC will devote itself to transportation construction business in China and even the world. The Company would like to cooperate with friends worldwide for win-win, and jointly create a more splendid and brilliant tomorrow.

PERFORMANCE HIGHLIGHTS (NOTE 1)

RMB million (except per share data)	For the year ended 31 December 2018	2017	Change (%)
Revenue	**488,666**	460,067	6.2
Gross Profit	**64,611**	60,437	6.9
Operating Profit	**33,321**	31,768	4.9
Profit attributable to owners of the Company from continuing operations	**19,819**	17,913	10.6
Basic earnings per share *(RMB)* *(Note 2)*	**1.16**	1.23	(5.7)

RMB million	As at 31 December 2018	2017	Change (%)
Total assets	**960,476**	849,888	13.0
Total liabilities	**720,794**	644,294	11.9
Total equity	**239,682**	205,594	16.6
Capital and reserves attributable to owners of the Company	**197,178**	180,922	9.0

Value of New Contracts	For the year ended 31 December 2018		2017	Change (%)
RMB million	**Number of projects**	**Value of Contracts**	Value of Contracts (Reclassified *(Note 3)*)	
Infrastructure Construction Business	**1,960**	**770,994**	783,044	(1.5)
– Port Construction	**314**	**27,284**	29,677	(8.1)
– Road and Bridge Construction	**702**	**317,534**	298,140	6.5
– Railway Construction	**19**	**8,678**	15,487	(44.0)
– Municipal and Environmental Projects	**732**	**266,466**	230,929	15.4
– Overseas Projects	**193**	**151,032**	208,811	(27.7)
Infrastructure Design Business	**4,505**	**49,087**	37,528	30.8
Dredging Business	**1,075**	**56,983**	48,495	17.5
Other Businesses *(Note 4)*	**N/A**	**13,809**	11,939	15.7
Total	**N/A**	**890,873**	881,006	1.1

Backlog	As at 31 December 2018		2017	Change (%)
RMB million	**Number of projects**	**Value of Contracts**	Value of Contracts	
Infrastructure Construction Business	**5,582**	**1,526,365**	1,242,188	22.9
Infrastructure Design Business	**9,597**	**77,171**	62,341	23.8
Dredging Business	**1,268**	**79,312**	62,093	27.7
Other Businesses	**N/A**	**6,890**	5,483	25.7
Total	**N/A**	**1,689,738**	1,372,105	23.1

Notes:

1. Upon the completion of the equity transfer of ZPMC, ZPMC was classified as a discontinued operation.

2. In calculating the amount of basic earnings per share, the interests/dividends with an aggregate amount of RMB1,017.5 million shall be excluded from profits.

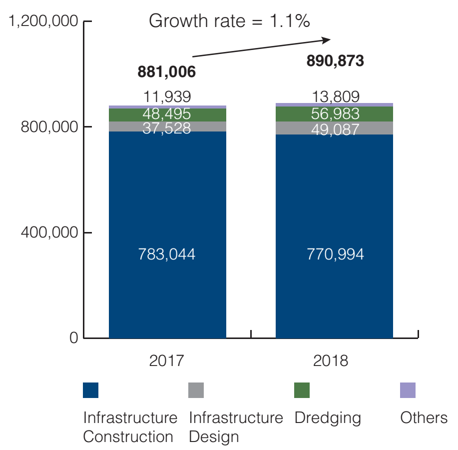
3. The Company reclassified the vesting of PPP investment projects into the value of new contracts in 2017, which involved retroactive adjustment of the value of new contracts for infrastructure construction business for the same period of 2017 but did not affect the total value of new contracts for infrastructure construction business. The accumulated amount of new contracts in 2017 was RMB881,006 million, which was based on comparison excluding the new contracts of ZPMC.

4. This includes the former heavy machinery manufacturing business segment apart from the business of ZPMC.

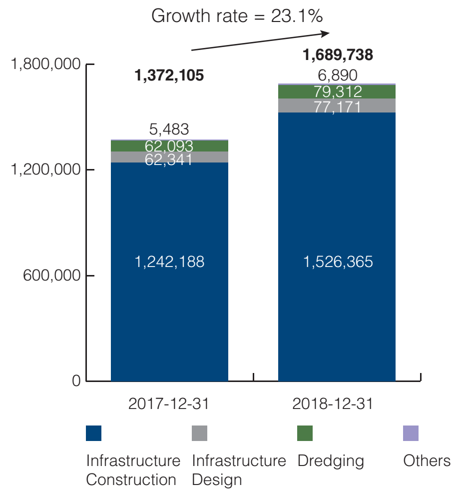
PERFORMANCE HIGHLIGHTS

Key Operating Data

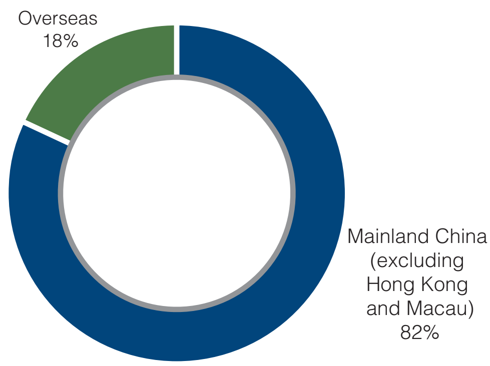
New Contracts



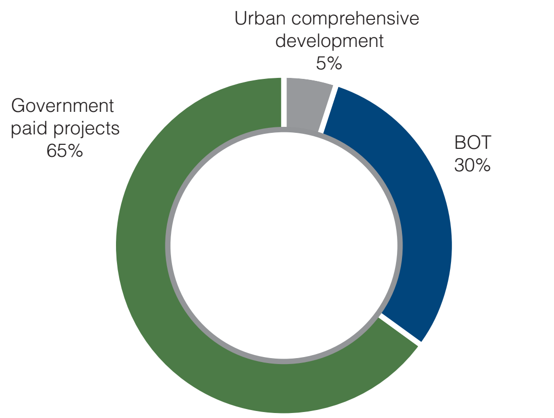
Backlog



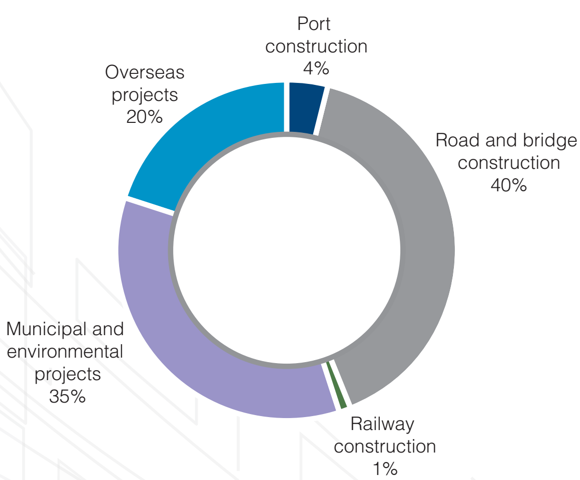
New domestic and overseas contracts



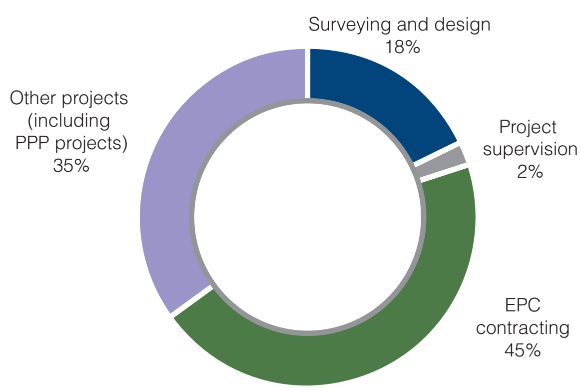
New contracts of investment projects



New infrastructure construction contracts



New infrastructure design contracts



CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In 2018, the Company encountered complex external environment. While under the strategic leadership of CCCG, the controlling shareholder of the Company, and the support of all minority shareholders, by remaining true to our original aspiration to promote reform and integrating into the overall situation to seek for development, the Company adhered to the general working guideline of making progress amidst stability and insisted on the strategy of "experts in five areas" and the positioning of "three roles" including "being responsible for government and economic and social development, taking deep participation in regional economic development and serving as a quality provider of government procurement of public services", thereby making steady progress in various works and achieving satisfactory results in terms of quality development.

Revenue of the Group was RMB488,666 million, representing an increase of 6.2%; profit attributable to owners of the parent amounted to RMB19,819 million; and earnings per share was RMB1.16. New contracts value amounted to RMB890,873 million, representing an increase of 1.1%. As at 31 December 2018, the backlog of the Group amounted to RMB1,689,738 million, which represented sufficient business reserve to provide strong support and guarantee for sustained and steady development of the Company.

Over the past year, by centering close around the core mission of quality development, the Company consolidated its foundation, optimized its layout, expanded the markets, adjusted the structure, promoted the reform, strengthened the management and enhanced the Party building and cohesion, making positive progress in the following aspects:

Firstly, the fulfillment of corporate responsibility was demonstrated in the execution of strategies. Our strategic projects represented by the Hainan Engineering Project, the Hong Kong-Zhuhai-Macao Bridge and the "Independence Avenue" in Papua New Guinea were successfully delivered and put into operation, while the participation in the "Belt and Road Initiative" achieved remarkable results, promoting regional development in the Beijing-Tianjin-Hebei Region, the Yangtze River Economic Zone and the Guangdong-Hong Kong-Macao Greater Bay Area to yield satisfactory results, and making solid progress in the "three critical missions" including the reduction of leverage and debt, etc.

Secondly, the Company maintained stable and positive development momentum, which was proven by the steady improvement in production and operation and continuous optimization of operation quality. Besides, the major indicators of the Company such as per capita profit and gross profit margin ranked the first among its peers in the industry for numerous years and the unique advantages remained at the leading position.

CHAIRMAN'S STATEMENT

Thirdly, the in-depth reform was pushed forward in an orderly manner. With the support and understanding of all shareholders, the resolutions submitted to the shareholders' meetings, including profit distribution and connected transactions, were all reviewed and approved. The Company took a critical step in pilot reforms, achieved new results in professional integration, advanced special reforms smoothly, and continuously optimized the adaptive organization.

Fourthly, the Company made crucial breakthrough in transformation and upgrading, resulting in the accelerated adjustment of business structure, optimized market layout, and strengthened innovation leadership.

Fifthly, the Party building was developed to a higher level with special features more outstanding, the Party's leadership was strengthened and the officials were managed by the Party in a more scientific manner. The Party and the enterprises worked with integrity and in a more cohesive way.

As an important holding subsidiary of CCCG, the Company played a decisive role in the business performance of CCCG. In 2018, CCCG ranked the 91st in the Fortune Global 500. In the Operating Results Assessment of State-owned Enterprises conducted by the SASAC, CCCG has been rated as a Grade A enterprise for thirteen consecutive years. Meanwhile, CCCG has ranked the third in ENR's Top International Contractors for three consecutive years and remained the first among top international contractors in Asia and Chinese enterprises for twelve consecutive years.

The year of 2019 is the 70th anniversary of the founding of the People's Republic of China and will be a crucial year for the country to build a moderately prosperous society in all respects, and for the Company to become a world-class enterprise with global competitiveness. The Central Economic Work Conference has made an overall research and judgment on the current situations, on which it was pointed out that China's development still remained and would, in the long run, remain in an important period of strategic opportunities, showing a long-term positive prospect of development amid changes, downside and increased uncertainties. To this end, we will apprehend the profound connotation of the important period of strategic opportunities, hold onto the general working guideline of making progress amidst stability, shoulder the major tasks of in-depth reform and opening-up, and conform to the work requirement of "encouraging implementation with creativity". By making accurate judgment to foreseeable changes, responding properly to changes and taking the initiative to seek for changes, the Company will start a new chapter in the development of CCCC.

First of all, the Company shall be far-sighted to foresee changes and make accurate judgment of the development trend to take the initiative to seize the new opportunities brought by China's participation in global governance, promotion of quality development, comprehensive in-depth reforms and technological innovation.

Secondly, the Company shall stay focused and respond to changes properly. We shall remain true to our original aspiration to strengthen the stability of the Company, work hard to press ahead and enhance positive development momentum with pioneering spirit. Standing in the forefront of the times, we will never stop conquering difficulties in ideological emancipation, transformation and upgrading, reform and development, quality development and unexpected risks.

Thirdly, the Company shall actively take advantage of the development trend to seek for changes. In response of the changes in current situations and the requirements for corporate development, we will continue to exert our efforts in supply-side structural reform, strengthen stability of the Company with more forceful progress, and ensure further advancement of quality development of the Company with new ideological emancipation and actual performance of work.

In 2019, the Company will fully promote the quality development and persistently strive to be a world-class enterprise with global competitiveness. In respect of the operations, the Company plans to achieve a year-on-year growth rate no less than 8% in the value of new contracts and no less than 10% in revenue. In addition, the Company strives to further improve the operation quality, reduce asset-liability ratio and total interest-bearing liabilities, control the increase in cost expenses and administrative costs within reasonable range and ensure the increase in "two reserves" not exceeding the increase in revenue for the same period. As such, we will focus on fulfilling the work in the following five areas.

Firstly, we will strengthen our responsibility for national missions, and seek development by "integrating national strategies into development" as our overall strategic selection. We will, based on the improvement of infrastructure industry ecosystem, focus on three themes, namely, "transport, city and living", and make achievements in five areas, including "maritime", "bay", "urbanization", "Internet" and "livelihood", to highlight the responsibility of CCCC in implementing national strategic deployment.

Secondly, we will strive to achieve significant progress in multi-dimensional development, enhance strategic guidance, optimize resource allocation, improve investment capacity and level, and deepen innovation-driven development, to provide CCCC's plans for quality development in the new era.

Thirdly, we will further implement reform and forge ahead bravely, expedite the reform of more flexible and optimal regulation and control mechanism, effectively utilize the pillar and ballast functions of the Company in CCCG, to create a CCCC example for the deepening of reform of state-owned enterprises in all areas.

CHAIRMAN'S STATEMENT

Fourthly, we will strengthen global development, actively align with global leading enterprises, accelerate the transformation from international CCCC to global CCCC in all areas, comprehensively prevent and control non-market risks, establish a long-term mechanism to avoid compliance risks, actively respond to safety risks on a people-oriented basis, to provide CCCC's support for China's involvement in global governance with its quality and coordinated development in overseas market.

Fifthly, we will enhance the leadership in Party building, properly carry out Party building practice with CCCC characteristics, highlight and enhance "six tasks in relation to strict Party self-governance", play a leading role in the new great work of Party building, to present CCCC's practice on fully improving Party building quality in state-owned enterprises at a new start point.

We are in a magnificent new era and standing at a new starting point of quality development of the Company. With high enthusiasm and spirit of innovation, we will stride forward to keep up with the times, continue to work hard to pursue the dream of becoming a world-class enterprise, and turn to a new chapter in the quality development of CCCC, thereby celebrating the 70th anniversary of the founding of the People's Republic of China with satisfactory performance results. All Shareholders, people from all walks of life and friends that have cared about our Company for a long time, we hope for your continual help and support alongside the road of reform and development!

Liu Qitao

Chairman

Beijing, the PRC

29 March 2019

On 28 November 2018, Guangxi Hechi-Baise Highway, of which the Company was one of builders, was put into service. Connecting various tourism resources in Guangxi, the highway is regarded as the “Most Beautiful Highway of Guangxi”.

BUSINESS OVERVIEW

In 2018, with a commitment to the general principle of pursuing progress while ensuring stability, the Company focused on high quality development, adjusted industrial structure and changed development mode, hence achieved continuous improvement of operating results and a good operating quality as a whole.

The value of new contracts entered into by the Group amounted to RMB890,873 million, representing a year-on-year increase of 1.1%. As at 31 December 2018, the backlog of the Group amounted to RMB1,689,738 million.

The value of new contracts from overseas markets of the Group amounted to RMB159,013 million (equivalent to approximately USD23,532 million), representing 18% of the Group's new contract value and a year-on-year decrease of 26.0% (mainly due to higher base in the corresponding period of last year arising from the Malaysia East Coast Rail Link Project, otherwise representing a year-on-year increase of 12.0%). Of which, 16 projects were entered into with each new contract value over USD300 million and a total contract value of USD12,991 million, accounting for 55% of total value of all overseas new contracts of the Group. According to statistics, as of 31 December 2018, the Company conducted its business in 139 countries and regions, of which a total of 850 foreign contracting engineering projects were under construction, with a total contract amount of approximately USD109,300 million.

The confirmed value of contracts from PPP investment projects of the Group amounted to RMB152,325 million (wherein: the confirmed contract value of share-participation projects on a shareholding pro-rata basis amounted to RMB37,951 million), accounting for 17% of the value of new contracts of the Group, representing a year-on-year decrease of 18.8%; the value of construction and installation contracts to be undertaken by the Group was estimated to be RMB239,714 million.

I. BUSINESS REVIEW AND MARKET STRATEGIES

(I) Domestic Market

In 2018, the economy of China maintained an overall stable development with progress, with a year-on-year growth of 6.6% in GDP, and major indicators were kept within an appropriate range. Fixed assets investment in infrastructure achieved a year-on-year increase of 3.8%, but growth rate dropped significantly as compared with that of the previous year. Wherein, investment in road transport business increased by 8.2%, investment in public facility management business increased by 2.5%, while investment in railway transport business decreased by 5.1%. In the first half, subject to the joint effects of policies on thorough inspection of PPP projects, implementation of financial regulation, tightened regulation on local debt and increased efforts in environmental protection, overall growth rate of investment slowed down; in particular, significant decrease in growth rate of infrastructure investment was observed. In the second half, the government introduced several supporting measures in response to the above: on one hand, exerting greater efforts in improving the weak links in infrastructure investment, issuing special guiding opinions and requiring prevention of radical ups and downs in infrastructure investment, therefore the approvals of infrastructure investment projects in many regions increased significantly; on the other hand, urging local government to expedite the issuance and use of special bonds of local government of RMB1.35 trillion in the year, which has effectively mitigated the issue of insufficient source of funds for upfront infrastructure investment. Since October, growth rate of infrastructure investment started to rebound. In particular, as it was proposed to maintain efforts in improving weak links in infrastructure area at the Central Economic Work Conference at the end of December, the market is expected to rebound for infrastructure investment gradually.

In 2018, with a commitment to the general principle of pursuing progress while ensuring stability and connotative development, the Company achieved stable operations with improvement. As traditional businesses were faced by a grim situation, the Company improved planning and guiding, promoted operations, kept exploring market stock profoundly, consolidated the foundation for development, seized opportunities in "improving weak links" in infrastructure and regional strategic channels as well as port integration, and strived to be a fast follower and a first mover. In addition, the Company achieved improvement in the capacity expansion and efficiency of emerging business and made breakthroughs in rail transit, comprehensive management of river basins and city-related business. In the year, the Company successfully completed a number of projects of great historical significance, including Hainan Project and the construction of Hong Kong-Zhuhai-Macau Bridge. Moreover, the Company, by leveraging its whole industry chain advantage, boosted the coordinated development for the Beijing-Tianjin-Hebei Region, the development of the Yangtze River Economic Belt, and the construction of Guangdong-Hong Kong-Macau Greater Bay Area and coordinated development in other regions. The Company performed its responsibilities in light of implementing the concept of green development, made contributions to building a beautiful China, promoted the implementation of improvement projects of Yongding River, Jin Jiang River, Tuojiang River, etc., and shouldered the responsibility as a pillar of a great power in respect of developing China into a transport power as well as a maritime power, and building a green China.

(II) Overseas Market

In 2018, the Company was committed to jointly deepening the construction and development of the "Belt and Road", promoting the development of the community with shared future for mankind, building an open world economy, preserving China's plans, including the multilateral trading system. China's plans have been widely welcomed by the international community. The trend of economic globalization was irreversible. However, economic globalization hit turbulence, multilateralism received negative impact, international financial market was volatile and Sino-US trade friction was tough and changeable. Uncertainties and risks in international context were increasingly exacerbated.

In 2018, the Company highlighted the power of CCCC as a contributor to global development with win-win actions. The Company was committed to promoting reform precisely and delicately, promoting the construction of the "Belt and Road" in both substance and depth, driving high-dimensional development through high-end connection and high-end operation, and proposed "China's Plans" and made "China's Voice" at major diplomatic and business events of the State, such as the Beijing summit meeting of Sino-African Cooperation Forum and the First China International Import Expo (CIIE). The Company was committed to the completion and handing over of several representative projects, including Love-Connection Bridge, Wealth Road, Development Port, Happiness City, the China-Maldives Friendship Bridge, and "Independence Avenue" in Papua New Guinea, and contributed the power of CCCC to the smooth of the global traffic map and local economic and social development. The Company has ranked the third in ENR's Top International Contractors for three consecutive years, remained the largest international engineering contractor in Asia and ranked the first among the Chinese enterprises for twelve consecutive years, made the "Name Cards of China" famous, such as Road of China, Bridge of China, Port of China, Island of China, City of China and Equipment of China, and redefined the connotation of Infrastructure of China.

BUSINESS OVERVIEW

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary

1. Infrastructure Construction Business

The scope of infrastructure construction business mainly consists of the construction of port, road, bridge, railway, tunnel, rail transit and airport, and the investment, design, construction, operation, maintenance and management of other transportation infrastructure at home and abroad. Categorised by project type, it specifically covers port construction, road and bridge construction, railway construction, municipal and environmental projects, etc., and overseas projects, etc.

In 2018, the value of new infrastructure construction contracts entered into by the Group amounted to RMB770,994 million, representing a year-on-year decrease of 1.5%. Wherein, the value of new contracts from overseas markets amounted to RMB151,032 million (equivalent to approximately USD22,351 million); the confirmed value of new contracts from PPP investment projects amounted to RMB142,697 million, and the value of construction and installation contracts to be undertaken by the Group was estimated to be RMB225,714 million. As at 31 December 2018, the backlog amounted to RMB1,526,365 million.

Categorised by project type and location, the value of new contracts in terms of port construction, road and bridge construction, railway construction, municipal and environmental projects, etc., and overseas projects amounted to RMB27,284 million, RMB317,534 million, RMB8,678 million, RMB266,466 million and RMB151,032 million, representing 4%, 40%, 1%, 35% and 20% of the total value of new infrastructure construction contracts, respectively.

(1) Port Construction

As the largest port construction enterprise in China, the Group has undertaken a majority of medium and large-scale coastal port terminals since the founding of China. With compelling competitive edges, the Group encountered relatively limited substantive competitors.

In 2018, the value of new contracts of the Group for port construction projects in Mainland China amounted to RMB27,284 million, representing a year-on-year decrease of 8.1%, and accounting for 4% of that of the infrastructure construction business. Wherein, the confirmed value of contracts from PPP investment projects amounted to RMB4,212 million. The decrease in the value of new contracts was mainly attributable to the shrinkage of demands from traditional market.

From January to November 2018, according to the data announced by the Ministry of Transport, fixed assets investment in coastal and inland transportation construction completed amounted to approximately RMB106,092 million, representing a year-on-year decrease of 4.6%. Adversely affected by the port construction demand being close to saturation, industrial overcapacity, insufficient investment of local governments and other factors, overall growth potential of the market was limited, the investment in the traditional water transportation construction market continued to decrease at a lower rate, while the investment scale of inland water transportation achieved a slight increase.

With deeper initiation of the Yangtze River Economic Zone strategy and publication of "The Opinion on Comprehensively Promoting the Development of Green Transport", integration of domestic ports was continued, and inland waterways were developed at a higher speed. The inland waterway transport construction market and the market of projects for comprehensive treatment of river basins with the aim of development of green transport and serving the construction of a traffic power will provide new growth points for traditional water transportation construction.

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

1. Infrastructure Construction Business (continued)

(2) Road and Bridge Construction

As one of the largest road and bridge construction enterprises in China, the Group enjoys remarkable technical and scale advantages in construction of expressways, high-grade highways as well as river-crossing and sea-crossing bridges. Major competitors of the Group are some large-scale central enterprises and local state-owned infrastructure enterprises.

In 2018, the value of new contracts of the Group for road and bridge construction projects in Mainland China reached RMB317,534 million, representing a year-on-year increase of 6.5%, and accounting for 40% of that of the infrastructure construction business. Wherein, the confirmed value of new contracts from PPP investment projects amounted to RMB68,134 million. The increase in the value of new contracts was mainly attributable to the Company's steady shares in the traditional market, and the stimulation of investment projects by virtue of PPP mode.

From January to November 2018, according to the data published by the Ministry of Transport, the fixed assets investment in road transport construction amounted to approximately RMB1,986,733 million, representing a year-on-year increase of 0.2%. In the first half, adversely affected by leverage reduction and cleanup of the PPP project pool, the progress in the implementation of road projects slowed down. In the second half, as the State issued policies on improving weak links in infrastructure construction for the purpose of preventing radical ups and downs in infrastructure investment, in conjunction with "China Western Development", "Regional Economic Development Hotspots" and "the Thirteenth Five-Year Plan for the Development of Modern Integrated Transport System", investment in the development of Central and Western China and the construction of road transport hub increased and the construction of a traffic power proceeded steadily.

In 2018, the Company promoted the construction of several local expressways and highways along major provincial boundaries providing important support for major national strategies, including Project of Qingshuiyi – Kushui Section of G312 Line, Project of Luanchuan – Shuanglong Section of Zhengzhou – Xixia Expressway and Yunnan Section of Zhenxiong – Hezhang Expressway, through thorough exploration, consolidating the dominant position of traditional business and effectively utilizing its whole industry chain advantage.

(3) Railway Construction

As one of the largest railway construction enterprises in China, the Group has developed into the main force of China's railway construction by virtue of its outstanding construction level and excellent management capability, but a large gap still exists between the Company and the two traditional railway infrastructure enterprises – China Railway Group Limited and China Railway Construction Limited in terms of market shares in China. However, as to the overseas market, the Company has successfully entered the railway construction markets in Africa and Southeast Asia, and several major railway projects have been completed or operated or are under construction by the Company, showing vital market influence.

In 2018, the value of new contracts of the Group for railway construction projects in Mainland China reached RMB8,678 million, representing a year-on-year decrease of 44.0%, and accounting for 1% of that of the infrastructure construction business. Wherein, the confirmed value of new contracts from PPP investment projects amounted to RMB400 million.

Looking ahead, focusing on Central and Western China, the State will expedite significant progress in the construction of "Eight Vertical and Eight Horizontal" Trunk Network Project of high-speed railway, expand regional connect line railways and further improve railway trunk network. As stated in the 2019 Report on the Work of the Government, fixed assets investment in railway of RMB800,000 million were planned to be completed in 2019, intensity and scale of fixed assets investment in railway will be maintained, and new railways of 6,800 kilometers will be put into operation, including 3,200 kilometers of high-speed railways.

BUSINESS OVERVIEW

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

1. Infrastructure Construction Business (continued)

(4) Municipal and Environmental Projects, etc.

The Group actively participated in urban infrastructure construction for rail transit, airport, urban comprehensive pipe gallery, etc., extensively, with considerable influence in the market. Meanwhile, the Company accelerated the layout of emerging industries, such as ecological and environmental protection, water environment treatment, etc., and endeavored to cultivate the new growth points.

In 2018, the value of new contracts of the Group for municipal and environmental projects, etc. in Mainland China reached RMB266,466 million, representing a year-on-year increase of 15.4%, and accounting for 35% of that of the infrastructure construction business. The confirmed value of contracts from PPP investment projects was RMB56,307 million.

In 2018, according to the data published by the National Bureau of Statistics, the investment in water resources, environment and public facilities management business grew by 3.3%. Wherein, fixed assets investment in ecological protection and environmental improvement increased by 43.0%. Weak areas including ecological restoration and coastal protection, as supported by policies, provided new growth points for the industry. In addition, with the accelerated urbanization process in China, demands for infrastructure of urban rail transit was on the rise, dominated by metro lines and light rails by category, and supplemented by other systems, featuring a diversified development pattern.

Centering on “thoroughly exploring cities, operating cities and serving cities”, and by coordinating with the strategies of Beautiful China and Healthy China, the Company optimized business thinking and business model, and snatched market shares in various areas, including urban comprehensive development, urban public utility operation, ecological protection and cultural tourism, leisure and health, and started business in cities and high quality development of water environment business. After Urumchi and Chengdu Metro, the Company accessed Hangzhou and Guangzhou metro markets based on the construction of whole metro lines, hence steadily increased its market shares. The Company has been awarded with major municipal projects, including Yancheng City Expressway Network Phase III Project and Tongren City Underground Utility Tunnel, and obtained significant effects in urban deployment. In addition, the Company also have been awarded with sewage treatment and ecological water system projects in Shanghai, Wuhan, Hebei, etc. and achieved sound development in emerging business.

BUSINESS OVERVIEW

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

1. Infrastructure Construction Business (continued)

(5) Overseas Projects

The Group's scope of overseas projects in the infrastructure construction business includes all kinds of large-scale infrastructure projects such as road and bridge, port, railway, airport, subway, housing, etc., with remarkable competitive edges in the market.

In 2018, the value of new contracts of the Group for overseas projects in the infrastructure construction business amounted to RMB151,032 million (equivalent to approximately USD22,351 million), representing a year-on-year decrease of 27.7% (mainly due to higher base in the corresponding period of last year arising from the Malaysia East Coast Rail Link Project; otherwise, a year-on-year increase of 11.1% would be recorded), and accounting for 20% of that of the infrastructure construction business. Wherein, the confirmed value of contracts from PPP investment projects amounted to RMB13,643 million. In addition, 16 projects were entered into with each new contract value over USD300 million and a total contract value of USD12,991 million, accounting for 55% of total value of all overseas new contracts of the Group.

Categorised by project type, the value of overseas new infrastructure construction contracts for roads and bridges, railways, municipal, ports, housing and other projects accounted for 42%, 16%, 15%, 12% and 15% of the value of new contracts for overseas projects, respectively.

Categorised by project location, the value of new infrastructure construction contracts for Africa, Southeast Asia, Oceania, Hong Kong/Macau/Taiwan, South America and other regions accounted for 28%, 28%, 28%, 6%, 2% and 8% of the value of new contracts for overseas projects, respectively.

In 2018, being market-oriented, the Company made an overall arrangement, consolidated market shares of spot exchange projects, explored and developed emerging project areas, and achieved remarkable results. The singing of contract for Section II in Serbia of Hungary-Serbia Railway significantly increased the Company's shares in railway market of Serbia. The Project of the Fourth Largest Bridge over the Panama Canal completed by the Company has become the largest single government spot exchange project awarded to a Chinese enterprise in America so far. The Investment Project for Comprehensive Utilization of Water Resources in Petorca awarded to the Company has become the first franchise project awarded to the Company in Chile, and filled the gaps of the Company in the field of overseas comprehensive utilization of water resources. The Company has made its presence in up to 139 countries all over the world after entering the markets in Croatia, East Timor, Georgia and Dominica and other countries in the year.

In 2018, the Company systematically organized and comprehensively improved its whole set of overseas development system, and issued and implemented 14 systems on the overall guiding and overall planning of overseas business and regulation in overseas regions, such as the Administrative Measures for Overseas Segment. The Company revised the Administrative Measures for the Implementation of Overseas Projects, and focused on improving performance credit evaluation system and risk prevention and control mechanism of overseas projects, and improved lifetime management of projects. The Company issued the Administrative Measures for Supervision over Occupational Health, Safety and Environmental Protection for Overseas Projects of CCCC, and firmly established the concept of overseas "general safety". The Company kept consolidating the foundation for overseas work safety through the combined measures of strengthening organizational leadership, enhancing identification and addressing of hidden hazards, and implementing education and training, and kept improving its emergency response capability, leading to a steady and good picture of overseas work safety.

BUSINESS OVERVIEW

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

2. Infrastructure Design Business

The scope of infrastructure design business mainly includes consulting and planning service, feasibility study, survey and design, engineering consultancy, engineering measurement and technical research, project management, project supervision, general project contracting, compilation of industry standards and codes, etc.

As the largest port design enterprise in China, as well as the world's leading highway, bridge and tunnel design enterprise, the Group enjoys remarkable competitive edges in related business fields. As compared with the Group, other entities in the market have relatively weak competitiveness. However, more and more competitors are flooding into the medium and low-end markets, leading to the intensification of market competition.

In terms of the railway infrastructure design business, the Group has entered the market during the "Eleventh Five-Year Plan" period. In 2018, the Company obtained the only one A-Grade qualification in design outside the railway system through merger and acquisition and achieved remarkable results.

In 2018, the value of new contracts of the Group in infrastructure design business reached RMB49,087 million, representing a year-on-year increase of 30.8%. Wherein, the value of new contracts from overseas markets amounted to RMB2,473 million (equivalent to approximately USD366 million); the confirmed value of new contracts from PPP investment projects amounted to RMB2,660 million, and the value of construction and installation contracts to be undertaken by the Group was estimated to be RMB2,984 million. As at 31 December 2018, the backlog amounted to RMB77,171 million.

Categorised by project type, the value of new contracts for survey and design, project supervision, EPC contracting and other projects (including PPP projects) amounted to RMB8,841 million, RMB1,153 million, RMB21,990 million and RMB17,103 million, representing 18%, 2%, 45% and 35% of the total value of new infrastructure design contracts, respectively, as compared with 28%, 2%, 51% and 19%, respectively recorded for the corresponding period of 2017.

In 2018, adversely affected by the port construction demand being close to saturation, industrial overcapacity, demand of coastal port construction market was still at a low level; inland waterway construction confronted some protracted problems; port design business of the Company was transformed towards emerging areas, including water environment improvement and sponge city; the Company has undertaken the Water System Connection and Ecological Management Engineering in Urban Areas of Xiangyang City, the Comprehensive Improvement Engineering of Reservoir Banks of Trunk Stream of Yangtze River in the Three Gorges Reservoir Region and other projects. Number of highway and bridge survey and design projects remained stable as compared with that for the corresponding period of previous year. The deepening of the implementation of Beijing-Tianjin-Hebei Transportation Integration, the Guangdong-Hong Kong-Macao Greater Bay Area and the Integrated Transportation Development of Yangtze River Delta brought about new market opportunities.

BUSINESS OVERVIEW

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

3. Dredging Business

The scope of dredging business mainly includes infrastructure dredging, maintenance dredging, environmental dredging, and reclamation, as well as supporting projects related to dredging and land reclamation.

As the largest dredging enterprise in China and even in the world, the Group enjoys absolute influence in China's coastal dredging market.

In 2018, the value of new contracts of the Group in dredging business reached RMB56,983 million, representing a year-on-year increase of 17.5%. Wherein, the value of new contracts from overseas markets amounted to RMB5,318 million (equivalent to approximately USD787 million); the confirmed value of new contracts from PPP investment projects amounted to RMB6,968 million, and the value of construction and installation contracts to be undertaken by the Group was estimated to be RMB11,016 million. As at 31 December 2018, the backlog amounted to RMB79,312 million.

In 2018, according to the vessel purchase plan, one large vessel was newly constructed with special purpose to serve in the Group's dredger fleets. As at 31 December 2018, the Group's dredging capacity amounted to approximately 786 million cubic meters under standard operating conditions.

Subject to the upgrading of environmental policies and the implementation of strict control over sea reclamation by the State, the dredging and reclamation business was significantly affected. Faced with pressure and difficulties, the Company exerted greater efforts in researching policies on emerging business, focused on current business status, analyzed competition situation and guided the direction of transformation. On one hand, the Company thoroughly explored traditional business, consolidated its dominant position, increased market stock and led in properly conducting pre-bid planning of large projects. The Company signed the contracts for the Infrastructure Construction Project of Qiandao Central Commercial Complex of Zhoushan, the Soft Foundation Treatment Project of East Taizhou New Area in Zhejiang and other large projects. Shares in domestic coastal dredging and reclamation market remained at approximately 70%. On the other hand, the Company actively developed emerging business and gradually increased market increment. Being market-oriented, the Company seized the opportunity of inland waterway development, deepened the implementation of environmental business as guided by the concept of "environment +", steadily promoted the implementation of the Environment Improvement Project of "Five Major River Basins", tracked the implementation of the "Dong River – Wanrong River" Comprehensive Riverway Improvement Project in Jishou City, Hunan Province, Comprehensive Improvement Project of Banks of Yu River in Guigang City, Guangxi Province, etc. The transformation of business structure from traditional dredging and reclamation to river basin improvement was materialized. In addition, the Company strived to fulfill overseas development strategy and completed adjustment, transformation and upgrading of overseas regional central structure. The value of contracts from overseas dredging business exceeded RMB5,000 million, accounting for approximately 10% of the value of new contracts from the business.

BUSINESS OVERVIEW

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

Some Major Contracts Entered into during the Reporting Period *(Unit: RMB million)*

1. **Infrastructure Construction Business**

Port Construction

No.	Contract Name	Contract Value
1	PPP Project for Phase I of First Batch of Works for New Operation Area in Chongqing Port	2,454
2	Project of No.11 and 12 Universal Berths and Barge Berths in Xinsha Port Area of Guangzhou Port	1,146
3	Navigation Channel Renovation Project of the Beijing – Hangzhou Grand Canal (Babao Navigation Lock Section)	1,121
4	Combination Project for the Embankment from Waiwenwu Polder Dyke to Xiasha in National Highway 228 of Changle, Fujian	941
5	Lot IV of Civil Works for Main Project of Minjiang River Qianwei Section Navigation-power Junction in Sichuan	743

Road and Bridge Construction

No.	Contract Name	Contract Value
1	BOT Project of Guiyang – Huangping Highway	8,570
2	Turnkey Project for Luanchuan – Shuanglong Section of Zhengzhou –Xixia Expressway	4,509
3	PPP Project of Yuliangzhou Section of East-West Axis Road in Xiangyang City	4,348
4	PPP Project of Chongxian – Laoyuhang Connect Line (Overhead) Highway Engineering in Hangzhou City	4,302
5	Project of Sonid Right Banner-Huade Section of Sonid Right Banner-Zhangjiakou Link for Erenhot-Guangzhou Expressway	3,845

Railway Construction

No.	Contract Name	Contract Value
1	Project of Lot RLTJ-2 of Rizhao-Linyi Section of New South Shandong High Speed Railway	1,942
2	Lot YTZQ-6 of Newly-built Yancheng-Nantong Railway Station Project	1,485
3	Pre-station Project of the New Intercity Railway Between Beijing and Xiong'an	1,479
4	Contracting Project for East Ring Road Pre-station Project of New Chongqing Railway Hub	880
5	Civil Construction Project of S1 Line Phase I of Municipal Railway in Taizhou, Zhejiang	654

I. BUSINESS REVIEW AND MARKET STRATEGIES (CONTINUED)

(III) Business Summary (continued)

1. Infrastructure Construction Business (continued)

Municipal and Environmental Projects, etc.

No.	Contract Name	Contract Value
1	City-Industry Integration PPP Project for High Speed Rail Metropolitan, Wenzhou	11,993
2	PPP Project of Chengdu Metro Line 17 Phase I Engineering	7,027
3	PPP Project for Road and Bridge Works and Supporting Works for Zhongshan East Road, Shantou	5,774
4	Comprehensive Development Project of Chentang District, Tianjin City	4,621
5	PPP Project for Integrated City Development and Operation of Zhongshan (Shiqi) Headquarters Economic Zone, Guangdong Province	3,990

Overseas Projects

No.	Contract Name	Contract Value
1	Hong Kong's Integrated Waste Management Facility Phase I	27,198
2	BOT Project of Phnom Penh-Sihanoukville Expressway in Cambodia	13,643
3	Preliminary Works of West Gate Tunnel in Melbourne, Australia	12,526
4	Subway Tunnel and Platform Project in Melbourne, Australia	8,116
5	Phase I of Lekki Deep Water Port Project in Lagos Free Trade Zone in Nigeria	7,095

2. Infrastructure Design Business

No.	Contract Name	Contract Value
1	"Upgrade from Class 3 to Class 2" EPC Project of Jining-Taierzhuang Waterway of Beijing-Hangzhou Canal	2,381
2	EPC Project of Baisha Expressway in Danzhou, Hainan Province	2,176
3	Reconstruction EPC Project of Huxi Waterway (Two-stage Dam to Jiangsu-Shandong Boundary) of Beijing – Hangzhou Canal in Jining City	1,064
4	EPC Project of Wharf for LNG Emergency Peak-shaving Station in Shenzhen City	789
5	EPC Project of Shaxi Mega Bridge over Zhongxian, Youxi – Lixin, Jianning of Putian – Yanling Expressway	700

3. Dredging Business

No.	Contract Name	Contract Value
1	EPC Project of Koln Container Port in Panama	2,256
2	PPP Project of Painted Surface Treatment and Soft Foundation Treatment in East New District, Taizhou, Zhejiang	1,405
3	Lot 2A of Land Formation Engineering of Emerging Marine Industry Base in Shenzhen City	1,340
4	Lot II of PPP Project of Ecological Water System Construction Engineering in Gongyi City, Henan Province	1,196
5	South Harbour Basin Waterway Project in North Operation Area of Lanshan Harbour Area of Rizhao Port	960

BUSINESS OVERVIEW

II. TECHNOLOGY INNOVATION

Technology innovation is a requisite to the development trend and is critical to the future of enterprises. For many years, the Company has insisted on innovation-driven development. In 2018, R&D costs of the Company amounted to RMB9,663 million, accounting for 2.0% of the Company's revenue, representing an increase of 0.9 percentage point, as compared with that of five years ago. In recent years, the Company improved its technology innovation capacity in an all-round way; the supporting effects of technology innovation increased dramatically, and the development led by technology innovation became prominent. In 2018, the Company achieved new breakthroughs in technology innovation again, mainly reflected in the following aspects:

Firstly, construction of innovation platforms proceeded steadily, with the two R&D centers newly added, two R&D centers evaluated and one key laboratory awarded with the title of "Top Ten Innovation Platforms" of transportation industry, which demonstrated the further improvement in the innovation capacity of the Company.

Secondly, R&D projects were conducted precisely and effectively aiming at cutting-edge and key generic technologies. A number of major technology R&D projects and national technology support projects have been implemented, including the Technology Research and Application (Phase I) of Intelligent Bridges, Key Technology Research on Intelligent Transportation and Green Ecology in Xiong'an New Area, such that the Company's ability in achieving major scientific and technological breakthroughs has been improved significantly.

Thirdly, great progress was made in international technology exchange and practical cooperation. The Company has become a member of the Strategic Advisory Committee of the International Alliance for Architectural Intelligence, and this was the first time for the council of this alliance to include company representatives from China in its decision making since its establishment. The Company joined hands with LafargeHolcim Group of France and Sika Group of Switzerland, to conduct international innovation activities in the world and this was also the first time for a Chinese enterprise to conduct similar innovation activities in the world.

Fourthly, new achievements have been made in creating intellectual properties. Two international standards for dredgers compiled by the Company as a chief editor have been approved by the International Organization for Standardization and have been issued for implementation. The Company has been awarded with 4 National Prizes for Progress in Science and Technology, 1 Technological Invention Award, 6 Zhan Tianyou Awards, and 182 provincial and ministerial technology awards. The Company participated in the compilation of 9 national standards and 25 industry standards that have been promulgated, engaged in the translation and compilation work of 23 industry standards and promulgated 3 enterprise technological standards. The Company has been awarded with 1,712 patents, 220 software copyrights and 84 provincial and ministerial construction methods.

III. FINANCIAL INNOVATION

In 2018, the Company strengthened innovation in fund investment and financing under the backdrop that PPP projects were subject to comprehensive inspection and financial regulation became stricter. By introducing strategic partners including China PPP Fund, Social Security Fund and China Life, the Company attracted cumulative capital of RMB17,100 million during the year, which boosted a project investment of over RMB50,000 million. The Company also signed the Cooperation Agreement on Risk Compensation Mechanism with total value of RMB50,000 million, therefore further expanding financing channels for PPP projects.

The Company coordinately promoted asset-backed securitisation business to optimise financial structure. In a bid to revitalise stock assets and decrease inventories and accounts receivable, the Company selected four entities to promote pilot programme of off-balance-sheet asset-backed securitisation, which succeeded in issuing five off-balance-sheet asset-backed securitisation products with a total scale of approximately RMB5,559 million, in which, the senior issue coupon rate recorded the lowest level among the coupon rate of similar products. CCCC Dredging issued corporate bonds of RMB4,000 million, with the coupon rate 10.5% lower than the interest rate quoted by banks for the same period.

BUSINESS OVERVIEW

IV. MAJOR PRODUCTION AND OPERATIONAL DATA *(UNIT: RMB MILLION)*

(1) Completed and Accepted Projects during the Reporting Period

Total number of projects	N/A
Total value of projects	192,699

		Number	Contract Value
Categorised by region	Domestic	N/A	151,275
	Overseas	N/A	41,424
Categorised by business type	Infrastructure construction	300	177,220
	Infrastructure design	1,411	7,730
	Dredging	111	5,901
	Others	N/A	1,848

(2) Projects Under Construction during the Reporting Period

Total number of projects	N/A
Total value of projects	3,596,828

		Number	Contract Value
Categorised by region	Domestic	N/A	2,791,662
	Overseas	N/A	805,166
Categorised by business type	Infrastructure construction	8,780	3,184,188
	Infrastructure design	21,590	200,620
	Dredging	1,671	197,038
	Others	N/A	14,982

Note: The Company received a letter from Malaysia Rail Link SDN BHD, the employer, which required an immediate suspension of the ECRL Project until further instructions. The Company has suspended all works under the Contract in respect of the ECRL Project as required upon the receipt of the letter from the employer. Meanwhile, the Company will take initiative to protect its legitimate rights and interests as a general contractor for design and construction pursuant to the contractual terms. According to the operating budget, the suspension of the ECRL Project will not have a significant impact on the Company's operating performance in 2018.

BUSINESS OVERVIEW

IV. MAJOR PRODUCTION AND OPERATIONAL DATA *(UNIT: RMB MILLION)* (CONTINUED)

(3) Investment Projects

In 2018, the market was gloomy at the beginning and then recovered as the State controlled local debts, rolled out new investment regulations and cleaned up PPP projects, but the State relaxed policies at the end of the year to accomplish the task of advancing infrastructure and improving weak links. Due to the control over implicit local government debts, projects with the mode of viability gap funding were sought after, and projects focusing on environmental protection, culture and tourism bloomed with the support of relevant policies.

With respect to operation and management, the Company strengthened policy study and training and took the lead among central enterprises to develop the PPP Business Plan, so as to enhance basic skill acquisition. To reinforce system construction, the Company consolidated the system base by launching investment business lifecycle planning, whole-process risk management, big data statistics and directly supervised project appraisal. It developed the first positive and negative list of PPP project and promoted the standard list-based management, which offered investment directions, controlled the investment base line, classified risks, clarified risk prevention roadmap and established a level-by-level reporting mechanism.

With respect to market expansion, investment played a bigger role in steering the high end and front end of market, and the Company signed strategic framework agreements with Zhejiang, Shandong and Shanxi provinces in relation to about 100 high-quality investment projects, thereby ensuring a stable growth. Taking a market-oriented approach, the Company took the initiative and made advance preparation to promote the preparatory work of major investment projects including Business District of Dalian New Airport and Jiangsu South Riverside High-Speed Railway. The Company consolidated its market position as "integrated city operator" by continuously optimising strategic, regional and segment layouts, with the traditional core business expanding coverage to major cities and regions and business scope reaching comprehensive management of rivers and lakes, black and odorous water treatment, ecological water system construction and other fields of environmental protection.

1. Investment Projects Newly Entered into

In 2018, the Company actively responded to the adjustment of regulation policies, reasonably managed investment schedules, adjusted investment strategies at appropriate time and implemented differentiated management. The confirmed value of contracts from PPP investment projects was RMB152,325 million. The value of construction and installation contracts to be undertaken was estimated to be RMB239,714 million, among which, the confirmed values of contracts from BOT projects, government paid projects and urban comprehensive development projects were RMB45,862 million, RMB98,456 million and RMB8,007 million respectively, accounting for 30%, 65% and 5% of that from PPP investment projects respectively.

2. Government Paid Projects and Urban Comprehensive Development Projects

The total value of contracts for government paid projects entered into by the Group amounted to RMB383,786 million, wherein, the accumulative completed investment amounted to RMB181,017 million, and projects with cumulatively RMB55,149 million have been recovered.

The total investment value of contracts for urban comprehensive development projects entered into by the Group was estimated to be RMB253,043 million, among which, RMB71,346 million of investment amount had been completed cumulatively, RMB51,191 million of sales amount had been realised and RMB39,546 million had been received by the Group.

BUSINESS OVERVIEW

IV. MAJOR PRODUCTION AND OPERATIONAL DATA *(UNIT: RMB MILLION)* (CONTINUED)

(3) Investment Projects (Continued)

3. Concession Projects

As at 31 December 2018, according to statistics (the consolidated items contracted and financed by the Group, and the latest statistics shall prevail if there was any change), the total investment amount of the Group's contracted BOT projects was estimated to be RMB399,902 million, wherein, the accumulative completed investment amounted to RMB203,009 million, and the uncompleted investment amounted to RMB196,893 million. 18 concession projects together with 12 share-participation projects had been put into operations, and the operating revenue of 2018 was RMB4,607 million.

(1) **Investment Projects Newly Entered into** *(Unit: RMB Million)*

No.	Project Name	Project Type	Total Investment Budget Estimate	Contract Value Confirmed according to Shareholding Ratio	Expected Construction and Installation Contract Value	Construction Period *(Year)*	Operating Project or Not	Consolidated or Not	Operation/ Toll Collection Period *(Year)*
1	Project of Phnom Penh-Port of Sihanoukville Expressway in Cambodia	BOT	13,643	13,643	12,042	4	Yes	Yes	50
2	City-Industry Integration Project for High Speed Rail Metropolitan, Wenzhou	PPP	19,988	11,993	14,070	5	No	Yes	12
3	Guiyang-Huangping Highway Project	BOT	21,974	8,570	15,985	3	Yes	No	30
4	Project of Chengdu Metro Line 17 Phase I Engineering	PPP	16,730	7,027	9,608	4	No	No	22
5	Project for Fangcheng-Tanghe Section of Jiaozuo-Tanghe Highway, Henan Province	BOT	7,788	7,009	4,336	3	Yes	Yes	30
6	Project for Road and Bridge Works and Supporting Works for Zhongshan East Road, Shantou, Guangdong Province	PPP	6,415	5,774	4,521	3	No	Yes	17
7	Comprehensive Development Project of Chentang District, Hexi District, Tianjin City	Comprehensive urban development	7,832	4,621	2,607	5	No	Yes	8
8	Project of Yuliangzhou Section of East-West Axis Road, Xiangyang City, Hubei Province	PPP	4,831	4,348	3,677	3	No	Yes	17
9	Project of Chongxian-Laoyuhang Connect Line, Yuhang District, Hangzhou City, Zhejiang Province	PPP	8,604	4,302	5,074	3	No	Yes	15
10	Comprehensive Environmental Renovation and Operation Project of Wubeishan Industrial Park in Jurong, Jiangsu Province	PPP	4,656	4,190	3,460	4	No	Yes	10
11	Project for Integrated City Development and Operation of Zhongshan (Shiqi) Headquarters Economic Zone, Guangdong Province	PPP	4,583	3,990	3,521	3	No	Yes	13
12	Section III of Jiading-Xihai Project in Qinghai Province	BOT	6,635	3,384	5,423	4	Yes	Yes	30
13	Expansion Construction Project of Yizheng Section of G328 National Highway in Jiangsu Province	PPP	3,637	3,273	2,601	3	No	Yes	12
14	Others	–	203,005	70,201	152,789	–	–	–	–
	Total		330,321	152,325	239,714				

BUSINESS OVERVIEW

IV. MAJOR PRODUCTION AND OPERATIONAL DATA *(UNIT: RMB MILLION)* (CONTINUED)

(3) Investment Projects (continued)

3. Concession Projects (continued)

(2) Concession Projects under Construction

No.	Project Name	Total Investment Budget Estimate	Contract Value Confirmed according to Shareholding Ratio	Investment Amount in 2018	Accumulated Investment Value
1	Lianzhou-Fogang Highway in Guangdong Province	23,106	23,106	4,661	6,469
2	Guigang-Long'an Highway in Guangxi Province	19,021	19,021	5,216	10,713
3	Taihangshan Highway Project in Hebei Province	47,000	14,570	–	Share participation
4	Project of Phnom Penh-Port of Sihanoukville Expressway in Cambodia	13,643	13,643	2	2
5	Kaiping-Yangchun Expressway Project in Guangdong Province	13,711	12,740	–	Share participation
6	CCCC Jiangyu Expressway in Guizhou	11,019	11,019	2,231	2,239
7	Jianhe-Rongjiang Section Project of Yanhe-Rongjiang Expressway in Guizhou Province	17,816	10,672	–	Share participation
8	Highways Project including Urumchi-Yuli Highway in Xinjiang	70,841	10,616	–	Share participation
9	Wenshan-Maguan Wenshan-Malipo Expressway	15,800	10,270	3,258	3,258
10	Project for Phase I of Urumchi Rail Transit Line 4	16,249	8,287	–	Share participation
11	West Line of Urumqi Ring Expressway in Xinjiang	15,300	7,803	62	62
12	Project for Fangcheng-Tanghe Section of Jiaozuo-Tanghe Highway, Henan Province	7,788	7,009	14	14
13	Libo-Rongjiang Expressway in Guizhou Province	10,480	6,288	–	Share participation
14	G575 Expressway in Xinjiang	6,017	6,017	599	2,043
15	Hechang Section of Sanhuan Expressway in Chongqing	10,077	5,139	2,727	5,718
16	Quanzhou Section of Quanzhou-Xiamen-Zhangzhou City Alliance Highway in Fujian Province	4,708	4,708	1,718	3,089
17	Hefei-Zongyang Section of G3W Dezhou-Shangrao Expressway in Anhui Province	9,228	4,522	–	Share participation
18	South Section of Ring Expressway in Wanzhou, Chongqing	4,151	4,151	42	42
19	Jiayu North Section of Wuhan-Shenzhen Expressway in Hubei Province	3,802	3,802	1,546	2,870
20	Others	135,507	34,164	5,011	6,629
	Total	**455,264**	**217,547**	**27,087**	**43,148**

BUSINESS OVERVIEW

IV. MAJOR PRODUCTION AND OPERATIONAL DATA *(UNIT: RMB MILLION)* (CONTINUED)

(3) Investment Projects (continued)

3. Concession Projects (continued)

(3) Concession Projects in Operation Period

No.	Project Name	Accumulated Investment Value	Operating Revenue During the Year	Toll Collection Rights Period *(Year)*	Completed Toll Collection Rights Period *(Year)*
1	New Songming-Kunming Expressway, Xuanwei-Qujing Expressway, and Mengzi-Wenshan-Yanshan Expressway in Yunnan Province	31,022	716	30	1
2	Daozhen-Weng'an Expressway in Guizhou Province	26,327	629	30	3
3	Jiangkou-Weng'an Expressway in Guizhou Province	16,064	679	30	3
4	Tongzhou-Daxing Section Project of the Capital Region Ring Expressway	9,807	73	25	0.5
5	Yanhe-Dejiang Expressway in Guizhou Province	10,673	91	30	3
6	Guiyang-Qianxi Expressway in Guizhou Province	9,439	488	30	3
7	Hubei Jiatong Section Project of Wuhan-Shenzhen Expressway in Hubei Province	9,085	62	30	2
8	Zhongxian-Wanzhou Expressway in Chongqing	7,791	66	30	2
9	Guiyang-Duyun Expressway in Guizhou Province	7,502	767	30	8
10	Yongchuan-Jiangjin Expressway in Chongqing	6,001	66	30	4
11	Jiulongpo-Yongchuan Highway in Chongqing	5,403	154	30	1
12	Zhuankou Yangtze River Bridge Project in Wuhan, Hubei Province	5,084	316	30	1
13	South-North Highway in Jamaica	4,972	190	50	3
14	Xianning-Tongshan Expressway in Hubei Province	3,107	82	30	5
15	Qingxi Bridge and Connecting Line in Guangdong Province	2,484	39	25	0.3
16	Yicheng-Houma Expressway in Shanxi Province	2,398	149	30	11
17	Malong Connecting Line of Xuanwei-Qujing Expressway in Yunnan Province	2,115	12	30	1
18	Qingshuihe-Dafanpu Section of National Highway G109 in Inner Mongolia Autonomous Region	587	28	26	10
19	Fengdu-Zhongxian Expressway in Chongqing	Share participation	–	30	2
20	Youyang-Yanhe Expressway in Chongqing	Share participation	–	30	3
21	Wangjiang-Qianjiang Expressway in Anhui Province	Share participation	–	25	3
22	Tongliang-Yongchuan Expressway in Chongqing	Share participation	–	30	3
23	Chongqing Wanzhou-Sichuan Dazhou, Wanzhou-Hubei Lichuan Expressways	Share participation	–	30	4
24	Tongliang-Hechuan Expressway in Chongqing	Share participation	–	30	4
25	Fengdu-Fuling Expressway in Chongqing	Share participation	–	30	5
26	Fengdu-Shizhu Expressway in Chongqing	Share participation	–	30	5
27	Foshan-Guangming Expressway in Guangdong Province	Share participation	–	27	10
28	Yulin-Jiaxian Expressway in Shaanxi Province	Share participation	–	30	5
29	Guiyang-Weng'an Expressway in Guizhou Province	Share participation	–	30	3
30	Tongcheng-Jieshang Expressway in Hubei Province	Share participation	–	30	4
	Total	**159,861**	**4,607**		

BUSINESS OVERVIEW

V. BUSINESS PROSPECT

While China is in the critical stage of restructuring and transformation, the long-term structural contradiction remains acute, and the economy is exposed to downturn pressure. The Central Economic Work Conference set the “six stabilities” as the focus of macro control, rolled out moderate monetary policy and proactive fiscal policy, and made targeted leverage stability and structured de-leveraging as the key task of financial regulation. From a long-term perspective, the country is still and, over a long run, will stay in the period of strategic opportunity, and infrastructure investment is still an important engine of steady growth. In the second half of 2018, a range of policies and measures were announced in succession to boost infrastructure investment and stabilise development; therefore, the focus of infrastructure will shift to inter-city high speed rail, urban rail transit, logistics, municipal facilities, 5G, artificial intelligence, industrial internet and other new infrastructure construction. In the meantime, the country will significantly expand the scale of local government special debts to support key infrastructure projects, increase supply of project land and sea, and offer greater support in environmental impact assessment and other aspects. The transport infrastructure will embrace golden opportunities to improve the weak links.

In the international market, the global economy sees a slower growth, which will lead to the return of trade protectionism and increasing chances of disorderly fluctuations in the financial market. Countries around the globe will show further imbalance in economic growth, inflation, monetary policies and financial market development, and there will be greater risks and uncertainties. However, as the expectations about interest hike announced by the Federal Reserve weakened, emerging economies will be subject to less pressure on capital outflow and currency depreciation in 2019 and will make more infrastructure investment plans. The Second Belt and Road Forum for International Cooperation is approaching and may become an important catalyst of overseas projects.

The Company makes prudential judgement about profound changes in external and internal environment, and predicts that the year of 2019 will show the following market trends: China will make greater efforts to improve infrastructure weak links, due to which, investment and construction of transport infrastructure will be in a large scale. National strategies including Western Development, Beijing-Tianjin-Hebei Coordinated Development, Yangtze River Delta Integration and Guangdong-Hong Kong-Macau Greater Bay Area will be promoted further, and there will be great regional development potential. Investments will thrive as “highway approval authority” will be delegated. Railway construction will be the pioneer of improving weak links, and projects will make great progress. Approval of urban rail transit will be streamlined, which will lead to another round of development opportunities. The ecology and environment market will take up more share in the market as the “Beautiful China” strategy advances. The scale of local government special debts will be expanded, and more financing channels will be developed, which will help transport construction out of financing difficulties. The country will improve policies and service system to support the “going global” strategy, and will strengthen multilateral and bilateral cooperation, connectivity and “Belt and Road” construction, which will bring more market development opportunities.

Faced with complicated domestic and international contexts, the Company will continue to insist on the strategy of “experts in five areas” based on the position of “three roles”, and continue to consolidate and maintain its leading position in traditional business, including port, highway and bridge. In addition, the Company will exert greater efforts in developing and fully enter emerging markets, including rail transit, river basin improvement and airport construction. The Company will seize opportunities, prevent and control risks and proceed steadily, improve investment business, and expedite preferential, high quality and coordinated development of overseas business, so as to move towards a world-class enterprise with global competitiveness.

VI. BUSINESS PLAN

In 2018, according to statistics, the value of new contracts entered into by the Group amounted to RMB890,873 million, accomplishing 94% of our goal, of which the value realized from PPP investment projects amounted to RMB152,325 million, accomplishing 102% of our goal. The revenue from continuing operations amounted to RMB488,666 million, accomplishing 100% of our goal.

The Group plans to achieve a year-on-year growth rate no less than 8% in the value of new contracts for the year of 2019, of which the value of PPP investment projects amounted to RMB150,000 million, and the planned growth rate of revenue is no less than 10%.

In the evening of 30 August 2018, the opening ceremony of China-Maldives Friendship Bridge, the first sea-crossing bridge of Maldives, was unveiled, and fireworks were blossoming in the sky over the bridge.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

On 18 July 2017, the Group entered into equity transfer agreements with CCCG, pursuant to which the Group has conditionally agreed to sell and CCCG and CCCG HK have conditionally agreed to acquire an aggregate of 1,316,649,346 ordinary share of ZPMC which represented 29.99% of the total issued share capital of ZPMC. The disposal of ZPMC has been completed on 27 December 2017, and ZPMC was classified as a discontinued operation. Upon completion of this transfer, the Group holds 16.24% equity interest in ZPMC. The comparative statement of profit or loss in 2017 has excluded the influence from ZPMC.

For the year 2018, revenue of the Group from continuing operations increased by 6.2% to RMB488,666 million, among which revenue from external customers attributed to the regions other than PRC amounted to RMB95,177 million, representing a year-on-year decrease of 10.2%. Infrastructure construction business, infrastructure design business, dredging business and other businesses accounted for 85.0%, 6.2%, 6.4% and 2.4% of the total revenue from continuing operations in 2018, respectively.

Gross profit from continuing operations in 2018 amounted to RMB64,611 million, representing an increase of 6.9% from RMB60,437 million in 2017. Gross profit from infrastructure construction business, infrastructure design business, dredging business and other businesses increased by 6.5%, 4.2%, 5.6% and 102.3% respectively from 2017. Gross profit margin for infrastructure construction business, infrastructure design business, dredging business and other businesses in 2018 were 12.1%, 20.9%, 14.4% and 9.1%, respectively, as compared with 12.0%, 23.5%, 13.1% and 5.8% in 2017.

Mainly as a result of the growth in gross profit, operating profit from continuing operations in 2018 amounted to RMB33,321 million, representing an increase of 4.9%, from RMB31,768 million in 2017. Operating profit from infrastructure construction business, infrastructure design business and other businesses increased by 7.3%, 9.4% and 1,308.0%, respectively from 2017, while operating profit from dredging business decreased by 36.0% from 2017.

For the year 2018, profit attributable to owners of the parent amounted to RMB19,819 million, compared with RMB20,943 million in 2017. For the year 2018, earnings per share of the Group was RMB1.16, compared with RMB1.23 in 2017.

The following is a comparison of financial results between the years ended 31 December 2018 and 2017.

CONSOLIDATED RESULTS OF CONTINUING OPERATIONS

Revenue

Revenue in 2018 increased by 6.2% to RMB488,666 million from RMB460,067 million in 2017. Revenue from infrastructure construction business, infrastructure design business, and other businesses amounted to RMB431,817 million, RMB31,557 million, and RMB12,402 million (all before elimination of intersegment transactions), respectively representing a year-on-year growth rate of 5.3%, 17.0%, and 29.9%. Revenue from dredging business amounted to RMB32,796 million (before elimination of intersegment transactions and unallocated cost), representing a year-on-year decrease of 3.8%. Revenue from external customers attributed to the regions other than PRC amounted to RMB95,177 million, representing 19.5% of total revenue.

Cost of Sales and Gross Profit

Cost of sales in 2018 amounted to RMB424,055 million, representing an increase of 6.1%, from RMB399,630 million in 2017. Cost of sales from infrastructure construction business, infrastructure design business, and other businesses amounted to RMB379,413 million, RMB24,949 million and RMB11,275 million (all before elimination of intersegment transactions) respectively, representing an increase of 5.2%, 21.0% and 25.4%, respectively. Cost of sales from dredging business slightly decreased to RMB28,079 million from RMB29,641 million in 2017.

Cost of sales consisted mainly of subcontracting costs, cost of raw materials and consumables used, employee benefit expenses, cost of goods sold and minimum lease payments under operating leases. For the year 2018, raw materials and consumables used, employee benefit expenses and cost of goods sold increased by 14.3%, 3.3%, and 45.0%, respectively, while the cost of minimum lease payments under operating leases and subcontracting cost decreased by 1.8% and 0.1%, respectively.

As a result of the increase in both revenue and cost of sales in 2018, gross profit in 2018 amounted to RMB64,611 million, representing an increase of 6.9% from RMB60,437 million in 2017. Gross profit from infrastructure construction business, infrastructure design business, dredging business and other businesses increased by 6.5%, 4.2%, 5.6% and 102.3%, respectively, from the corresponding period of 2017. Gross profit margin increased to 13.2% in 2018 from 13.1% in 2017. Gross profit margin for the infrastructure construction business, infrastructure design business, dredging business and other businesses were 12.1%, 20.9%, 14.4% and 9.1%, respectively, as compared with 12.0%, 23.5%, 13.1% and 5.8% in the corresponding period of 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CONSOLIDATED RESULTS OF CONTINUING OPERATIONS (CONTINUED)

Administrative Expenses

Administrative expenses including impairment losses on financial and contract assets in 2018 amounted to RMB34,553 million, representing an increase of 5.8% from RMB32,647 million in 2017.

Operating Profit

Operating profit in 2018 amounted to RMB33,321 million, representing an increase of 4.9% from RMB31,768 million in 2017. The increase was mainly due to the increase in gross profit.

For the year 2018, operating profit from infrastructure construction business, infrastructure design business and other businesses increased by 7.3%, 9.4% and 1,308.0% (all before elimination of intersegment transactions and unallocated cost), respectively from 2017; operating profit from dredging businesses decreased by 36.0% (before elimination of intersegment transactions and unallocated cost) from 2017.

Operating profit margin decreased to 6.8% in 2018 from 6.9% in 2017.

Finance Income

Finance income in 2018 amounted to RMB5,314 million, representing an increase of 73.0% from RMB3,071 million in 2017. The increase was mainly due to the increase of interest income.

Finance Costs, Net

Net finance costs in 2018 amounted to RMB12,660 million, representing an increase of 13.3% from RMB11,176 million in 2017. The increase was mainly due to the increase in total borrowings.

Share of Profit of Joint Ventures

Share of profit of joint ventures in 2018 amounted to RMB168 million, as compared with a loss of RMB294 million in 2017. The profit was mainly due to the increase profit of a joint ventures.

Share of Loss of Associates

Share of loss of associates in 2018 amounted to RMB97 million, as compared with a profit of RMB282 million in 2017.

Profit before Income Tax

Profit before income tax in 2018 amounted to RMB26,046 million, representing an increase of 10.1% from RMB23,651 million in 2017.

Income Tax Expense

Income tax expense in 2018 amounted to RMB5,608 million, representing an increase of 9.8% from RMB5,109 million in 2017. Effective tax rate for the Group in 2018 decreased to 21.4% from 21.6% in 2017.

Profit Attributable to Non-Controlling Interests

Profit attributable to non-controlling interests in 2018 amounted to RMB619 million compared to RMB783 million in 2017.

Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent in 2018 amounted to RMB19,819 million, compared with RMB20,943 million in 2017; while profit attributable to owners of the parent from continuing operations in 2018 amounted to RMB19,819 million, compared with RMB17,913 million in 2017.

Profit margin with respect to profit attributable to owners of the parent decreased to 4.1% in 2018 from 4.6% in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCUSSION OF SEGMENT CONTINUING OPERATIONS

The following table sets forth the segment breakdown of revenue, gross profit and operating profit of the Group for the years ended 31 December 2018 and 2017.

Business	Revenue Year ended 31 December		Gross Profit Year ended 31 December		Gross Profit Margin Year ended 31 December		Operating Profit/(loss) [1] Year ended 31 December		Operating Profit Margin Year ended 31 December	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	(RMB million)	*(RMB million)*	***(RMB million)***	*(RMB million)*	***(%)***	*(%)*	***(RMB million)***	*(RMB million)*	***(%)***	*(%)*
Infrastructure Construction	**431,817**	410,014	**52,404**	49,211	**12.1**	12.0	**27,726**	25,846	**6.4**	6.3
% of total	**85.0**	85.3	**80.8**	81.2	**–**	–	**82.5**	81.4	**–**	–
Infrastructure Design	**31,557**	26,965	**6,608**	6,342	**20.9**	23.5	**3,510**	3,207	**11.1**	11.9
% of total	**6.2**	5.6	**10.2**	10.5	**–**	–	**10.4**	10.1	**–**	–
Dredging	**32,796**	34,108	**4,717**	4,467	**14.4**	13.1	**1,769**	2,766	**5.4**	8.1
% of total	**6.4**	7.1	**7.3**	7.4	**–**	–	**5.3**	8.7	**–**	–
Other businesses	**12,402**	9,546	**1,127**	557	**9.1**	5.8	**604**	(50)	**4.9**	(0.5)
% of total	**2.4**	2.0	**1.7**	0.9	**–**	–	**1.8**	(0.2)	**–**	–
Subtotal	**508,572**	480,633	**64,856**	60,577	**–**	–	**33,609**	31,769	**–**	–
Intersegment elimination and unallocated profit/(costs)	**(19,906)**	(20,566)	**(245)**	(140)	**–**	–	**(288)**	(1)	**–**	–
Total	**488,666**	460,067	**64,611**	60,437	**13.2**	13.1	**33,321**	31,768	**6.8**	6.9

[1] Total operating profit/(loss) represents the total of segment profit less unallocated costs or add unallocated profit.

Infrastructure Construction Business

The financial information for the infrastructure construction business presented in this section is before elimination of intersegment transactions and unallocated costs.

The following table sets out the principal profit and loss information for the infrastructure construction business for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Revenue	**431,817**	410,014
Cost of sales	**(379,413)**	(360,803)
Gross profit	**52,404**	49,211
Selling and marketing expenses	**(433)**	(253)
Administrative expenses	**(26,699)**	(24,759)
Other income, net	**2,454**	1,647
Segment result	**27,726**	25,846
Depreciation and amortisation	**8,198**	7,178

Revenue. Revenue from the infrastructure construction business in 2018 was RMB431,817 million, representing an increase of 5.3% from RMB410,014 million in 2017. This growth was primarily attributable to the increase of construction contract generated from PPP investment projects.

Cost of sales and gross profit. Cost of sales for the infrastructure construction business in 2018 was RMB379,413 million, representing an increase of 5.2% from RMB360,803 million in 2017. Cost of sales as a percentage of revenue slightly decreased to 87.9% in 2018 from 88.0% in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCUSSION OF SEGMENT CONTINUING OPERATIONS (CONTINUED)

Infrastructure Construction Business (continued)

Gross profit from the infrastructure construction business in 2018 increased by 6.5% to RMB52,404 million from RMB49,211 million in 2017. Gross profit margin slightly increased to 12.1% in 2018 from 12.0% in 2017.

Selling and marketing expenses. Selling and marketing expenses for the infrastructure construction business in 2018 were RMB433 million, as compared with RMB253 million in 2017.

Administrative expenses. Administrative expenses including impairment losses on financial and contract assets for the infrastructure construction business were RMB26,699 million in 2018, representing an increase of 7.8% from RMB24,759 million in 2017. The increase was mainly attributable to the increase in research and development cost. Administrative expenses including impairment losses on financial and contract assets as a percentage of revenue increased to 6.2% in 2018 from 6.0% in 2017.

Other income, net. Other net income for the infrastructure construction business increased to RMB2,454 million in 2018 from RMB1,647 million in 2017, mainly attributable to the gain in foreign exchange.

Segment result. As a result of the above, segment result for the infrastructure construction business in 2018 was RMB27,726 million, representing an increase of 7.3% from RMB25,846 million in 2017. Segment result margin slightly increased to 6.4% in 2018 from 6.3% in 2017.

Infrastructure Design Business

The financial information for the infrastructure design business presented in this section is before elimination of intersegment transactions and unallocated costs.

The following table sets out the principal profit and loss information for infrastructure design business for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Revenue	**31,557**	26,965
Cost of sales	**(24,949)**	(20,623)
Gross profit	**6,608**	6,342
Selling and marketing expenses	**(362)**	(332)
Administrative expenses	**(3,268)**	(2,943)
Other income, net	**532**	140
Segment result	**3,510**	3,207
Depreciation and amortisation	**274**	253

Revenue. Revenue from the infrastructure design business in 2018 was RMB31,557 million, representing an increase of 17.0% from RMB26,965 million in 2017. The increase in revenue was mainly due to the growing scale of comprehensive contracts.

Cost of sales and gross profit. Cost of sales for the infrastructure design business in 2018 was RMB24,949 million, representing an increase of 21.0% from RMB20,623 million in 2017. Cost of sales as a percentage of revenue increased to 79.1% in 2018 from 76.5% in 2017.

Gross profit from the infrastructure design business in 2018 was RMB6,608 million, representing an increase of 4.2% as compared with RMB6,342 million in 2017. Gross profit margin decreased to 20.9% in 2018 from 23.5% in 2017, mainly attributable to the increased proportion of revenue generated from comprehensive contracts, which have lower gross profit margin.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCUSSION OF SEGMENT CONTINUING OPERATIONS (CONTINUED)

Infrastructure Design Business (continued)

Selling and marketing expenses. Selling and marketing expenses for the infrastructure design business in 2018 increased to RMB362 million from RMB332 million in 2017.

Administrative expenses. Administrative expenses including impairment losses on financial and contract assets for the infrastructure design business in 2018 were RMB3,268 million, representing an increase of 11.0% from RMB2,943 million in 2017. Administrative expenses including impairment losses on financial and contract assets as a percentage of revenue decreased to 10.4% in 2018 from 10.9% in 2017.

Other income, net. Other net income for the infrastructure design business in 2018 was RMB532 million, as compared with RMB140 million in 2017, mainly attributable to the gain from disposal of asset.

Segment result. As a result of the above, segment result for the infrastructure design business in 2018 was RMB3,510 million, representing an increase of 9.4% from RMB3,207 million in 2017. Segment result margin decreased to 11.1% in 2018 from 11.9% in 2017.

Dredging Business

The financial information for the dredging business presented in this section is before elimination of intersegment transactions and unallocated costs.

The following table sets out the principal profit and loss information for the dredging business for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Revenue	**32,796**	34,108
Cost of sales	**(28,079)**	(29,641)
Gross profit	**4,717**	4,467
Selling and marketing expenses	**(128)**	(90)
Administrative expenses	**(3,295)**	(3,278)
Other income, net	**475**	1,667
Segment result	**1,769**	2,766
Depreciation and amortisation	**1,140**	1,073

Revenue. Revenue from the dredging business in 2018 was RMB32,796 million, representing a decrease of 3.8% from RMB34,108 million in 2017, primarily attributable to decreasing dredging activities.

Cost of sales and gross profit. Cost of sales for the dredging business in 2018 was RMB28,079 million, representing a decrease of 5.3% as compared with RMB29,641 million in 2017. Cost of sales as a percentage of revenue for the dredging business in 2018 decreased to 85.6% from 86.9% in 2017.

Gross profit from the dredging business in 2018 was RMB4,717 million, representing an increase of 5.6% from RMB4,467 million in 2017. Gross profit margin for the dredging business increased to 14.4% in 2018 from 13.1% in 2017, mainly attributable to certain projects with higher profit margin.

Selling and marketing expenses. Selling and marketing expenses for the dredging business in 2018 were RMB128 million, as compared with RMB90 million in 2017.

Administrative expenses. Administrative expenses including impairment losses on financial and contract assets for the dredging business in 2018 were RMB3,295 million, representing a slightly increase of 0.5% from RMB3,278 million in 2017. Administrative expenses including impairment losses on financial and contract assets as a percentage of revenue increased to 10.0% in 2018 from 9.6% in 2017.

Other income, net. Other net income for the dredging business in 2018 decreased to RMB475 million from RMB1,667 million in 2017. The decrease is mainly attributable to the profit realized from the disposal of certain financial assets in 2017.

Segment result. As a result of the above, segment result for the dredging business in 2018 was RMB1,769 million, representing a decrease of 36.0% from RMB2,766 million in 2017, which mainly attributes to the decrease in other income. Segment result margin decreased to 5.4% in 2018 from 8.1% in 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DISCUSSION OF SEGMENT CONTINUING OPERATIONS (CONTINUED)

Other Businesses

The financial information for the other businesses presented in this section is before elimination of intersegment transactions and unallocated costs.

The following table sets out the revenue, cost of sales and gross profit information for the other businesses for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Revenue	**12,402**	9,546
Cost of sales	**(11,275)**	(8,989)
Gross profit	**1,127**	557

Revenue. Revenue from the other businesses in 2018 was RMB12,402 million, representing an increase of 29.9% from RMB9,546 million in 2017. This increase was mainly due to sales of certain assets by subsidiaries in 2018.

Cost of sales and gross profit. Cost of sales for the other businesses in 2018 was RMB11,275 million, representing an increase of 25.4% from RMB8,989 million in 2017. Cost of sales as a percentage of revenue decreased to 90.9% in 2018 from 94.2% in 2017.

Gross profit from the other businesses in 2018 was RMB1,127 million, representing an increase of 102.3% from RMB557 million in 2017. This increase was due to the increase of revenue. Gross profit margin increased to 9.1% in 2018 from 5.8% in 2017.

LIQUIDITY AND CAPITAL RESOURCES

The Group's business requires a significant amount of working capital to finance the purchase of raw materials and to finance the engineering, construction and other work on projects before payment is received from clients. The Group historically met its working capital and other capital requirements principally from cash provided by operations, while financing the remainder of the Group's requirements primarily through borrowings. As at 31 December 2018, the Group had unutilised credit facilities in the amount of RMB903,100 million. The Group's access to financial markets since its public offering in Hong Kong Stock Exchange and Shanghai Stock Exchange has provided additional financing flexibility.

Cash Flow Data

The following table presents selected cash flow data from the Company's consolidated cash flow statements for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Net cash generated from operating activities	**9,098**	42,741
Net cash used in investing activities	**(50,312)**	(45,619)
Net cash generated from financing activities	**38,631**	24,309
Net increase in cash and cash equivalents	**(2,583)**	21,431
Cash and cash equivalents at beginning of year	**129,197**	108,720
Exchange losses on cash and cash equivalents	**799**	(954)
Cash and cash equivalents at end of year	**127,413**	129,197

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Cash Flow Data (continued)

Cash flow from operating activities

During the year 2018, net cash generated from operating activities decreased to RMB9,098 million from RMB42,741 million in 2017, primarily due to increase in trade and other receivables in 2018 and the one-off large portion of advance payment of certain large projects in 2017. During the year 2018, trade and other receivables increased by RMB67,480 million, as compared with the amount of increase of RMB35,176 million during 2017.

Cash flow from investing activities

Net cash used in investing activities in 2018 increased to RMB50,312 million from RMB45,619 million in 2017. The increase of 10.3% was primarily attributable to the increase in additional investments in associates, additional investments in joint ventures and additions to prepaid land lease payments respectively amounting to RMB4,882 million, RMB8,473 million and RMB2,256 million in 2018, as compared with RMB2,124 million, RMB5,740 million and RMB868 million in 2017.

Cash flow from financing activities

Net cash generated from financing activities in 2018 was RMB38,631 million, representing an increase of 58.9% from RMB24,309 million in 2017. The increase was primarily attributable to the increase in proceeds from financial instruments classified as equity and decrease in repayments of bank and other borrowings.

Capital Expenditure

The Group's capital expenditure principally comprises expenditure from investment in BOT projects, purchases of machinery, equipment and vessels, and the building of plants. The following table sets forth the Group's capital expenditure by business for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Infrastructure Construction Business	**37,835**	42,545
– BOT projects	**23,829**	34,173
Infrastructure Design Business	**524**	481
Dredging Business	**1,503**	1,654
Other	**926**	1,107
Total	**40,788**	45,787

Capital expenditure in 2018 was RMB40,788 million, as compared with RMB45,787 million in 2017. The decrease of 10.9% was primarily attributable to the decrease of capital expenditure in infrastructure construction business.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Working Capital

Trade and bills receivables and trade and bills payables

The following table sets forth the turnover of the Group's average trade and bills receivable and average trade and bills payable for the years ended 31 December 2018 and 2017.

	Years ended 31 December	
	2018	2017
	(Number of days)	*(Number of days)*
Turnover of average trade and bills receivables[1]	**59**	61
Turnover of average trade and bills payables[2]	**196**	183

(1) Average trade and bills receivables equals trade and bills receivables net of provisions at the beginning of the year plus trade and bills receivables net of provisions at the end of the year divided by 2. Turnover of average trade and bills receivables (in days) equals average trade and bills receivables divided by revenue and multiplied by 365.

(2) Average trade and bills payables equals trade and bills payables at the beginning of the year plus trade and bills payables at the end of the year divided by 2. Turnover of average trade and bills payables (in days) equals average trade and bills payables divided by cost of sales and multiplied by 365.

The following table sets forth an ageing analysis of trade and bills receivables, net of provision, as at 31 December 2018 and 2017.

	As at 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Less than 6 months	**61,140**	47,570
6 months to 1 year	**9,417**	8,907
1 year to 2 years	**9,218**	7,838
2 years to 3 years	**3,950**	3,222
Over 3 years	**4,071**	1,769
Total	**87,796**	69,306

Management closely monitors the recovery of the Group's overdue trade and bills receivables on a regular basis, and, when appropriate, provides for impairment of these trade and bills receivables. As at 31 December 2018, the Group had a provision for impairment of RMB12,380 million, as compared with RMB10,881 million as at 31 December 2017.

The following table sets forth an ageing analysis of trade and bills payables as at 31 December 2018 and 2017.

	As at 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Within 1 year	**214,046**	191,288
1 year to 2 years	**19,779**	15,710
2 years to 3 years	**4,943**	2,816
Over 3 years	**3,399**	2,926
Total	**242,167**	212,740

The Group's credit terms with its suppliers for the year ended 31 December 2018 remained the same as that for the year ended 31 December 2017. Payments to suppliers and subcontractors may be delayed as a result of delays in settlement from the Group's customers. Nevertheless, there have been no material disputes arising from the non-timely payment of outstanding balances under the Group's supplier contracts or contracts with subcontractors.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEBTEDNESS

Borrowings

The following table sets out the maturities of the Group's total borrowings as at 31 December 2018 and 2017.

	As at 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Within 1 year	**79,243**	82,680
1 year to 2 years	**36,653**	36,380
2 years to 5 years	**50,666**	32,831
Over 5 years	**128,065**	109,311
Total borrowings	**294,627**	261,202

The Group's borrowings are primarily denominated in Renminbi, U.S. dollars, and to a lesser extent, Japanese Yen, Hong Kong dollars and Euro. The following table sets out the carrying amounts of the Group's borrowings by currencies as at 31 December 2018 and 2017.

	As at 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Renminbi	**272,367**	239,569
U.S. dollar	**14,925**	14,144
Japanese Yen	**3,992**	3,786
Hong Kong dollar	**1,404**	1,692
Euro	**1,386**	1,488
Others	**553**	523
Total borrowings	**294,627**	261,202

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheet plus net debt. The Group's gearing ratio, calculated as net debt divided by total capital, as at 31 December 2018 was 41.1%, as compared with 39.1% as at 31 December 2017.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEBTEDNESS (CONTINUED)

Contingent Liabilities

	As at 31 December	
	2018	2017
	(RMB million)	*(RMB million)*
Pending lawsuits[1]	**626**	689
Outstanding loan guarantees[2]	**8,217**	7,912
Total	**8,843**	8,601

(1) The Group has been named defendants in a number of lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice. No provision has been made for the above pending lawsuits of RMB626 million (31 December 2017: RMB689 million) when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable. The Group does not include any pending lawsuits in the contingent liabilities disclosed if the probability of loss is remote or the claim amount is insignificant to the Group.

(2) The Group has acted as the guarantor for several external borrowings made by certain joint ventures and associates of the Group. The above amount represents the maximum exposure to default risk under the financial guarantee. As at 31 December 2018, the above amount included the Group's guarantees for the borrowings of RMB6,430 million (2017: RMB6,325 million) in respect of Guizhou Zhong Jiao Gui Weng Expressway Limited Company ("Zhong Jiao Gui Weng"). Meanwhile Zhong Jiao Gui Weng has pledged its 100% highway toll rights and all relevant benefits to secure the borrowings. After the assessment of the financial position of these joint ventures and associates, the Directors concluded there is no significant default risk and no provision for such guarantees are required.

(3) As part of the normal business, the Group has entered into certain agreements with certain financial institution so as to establish asset backed securities (ABS) and asset backed notes (ABN). As at 31 December 2018, certain of the ABS and ABN in issue with an aggregate amount of RMB6,710 million (31 December 2017: RMB1,151 million) included the ABS and ABN issued to preferential investors of an aggregate amount of RMB6,322 million (31 December 2017: RMB1,040 million). Under the clauses of the agreements, the Group is subject to the obligations of liquidity supplementary payments to preferential investors when the cash available for distribution of the principal and fixed return at the due date is not sufficient. The directors of the Company evaluate the possibilities to assume the obligations of liquidity supplementary payments is low.

MARKET RISKS

The Group is exposed to various types of market risks, including changes in interest rate risks and foreign exchange risks in the normal course of business.

Marco-economy Risk

The Group's businesses are closely related to the development of macro-economy, especially for infrastructure design and infrastructure construction business, of which the industry development is subject to the effects of macro-economic factors including investment scale of social fixed assets and the process of urbanisation.

In recent years, the national economy has kept a rapid growth and the global economy has gradually come out of the shadow of financial crisis and is in the process of recovering. However, the possibility of periodic fluctuations of macro-economy cannot be eliminated. If the global macro-economy is in the down cycle or the national economic growth speed significantly slows down, there will be a gliding risk in the operation performance of the Group.

Market Risk

The Group conducts its business in over 139 countries and regions, with major overseas business in Africa, Southeast Asia, Oceania, Hong Kong, Macao, Taiwan, and South America. Due to various factors, the political and economic conditions in Africa, Middle East and Southeast Asia are usually subject to uncertainty. If the political and economic conditions of such countries and regions change adversely, or there are frictions or disputes in the diplomatic and economic relations among the PRC government and governments of such relevant countries and regions, the overseas business of the Group in such countries and regions would be exposed to certain risks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MARKET RISKS (CONTINUED)

Interest Rate Risk

The Group's interest rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2018 and 2017, the Group's borrowings at variable rates were mainly denominated in RMB, USD, Euro and Hong Kong Dollars ("HKD").

Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

Increases in interest rates will increase the cost of new borrowings and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have an adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group, and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the directors did not consider it was necessary to do so in 2018 and 2017.

As at 31 December 2018, the Group's borrowings of approximately RMB178,216 million (2017: RMB161,014 million) were at variable rates. As at 31 December 2018, if interest rates on borrowings had been 1.00 percentage-point higher/lower with all other variables held constant, profit before tax for the year would have been decreased/increased by RMB1,782 million (2017: RMB1,610 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

Foreign Exchange Risk

The functional currency of the majority of the entities within the Group is RMB. Most of the Group's transactions are based and settled in RMB. Foreign currencies are used to settle the Group's revenue from overseas operations, the Group's purchases of machinery and equipment from overseas suppliers, and certain expenses.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

As at 31 December 2018, the Group's aggregate net assets of RMB24,596 million, including trade and other receivables, cash and bank balances, trade and other payables and borrowings, were denominated in foreign currencies, mainly USD.

To manage the impact of currency exchange rate fluctuations, the Group continually assesses its exposure to currency risks, and a portion of those risks is hedged by using derivative financial instruments when management considers necessary.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against USD with all other variables held constant, pre-tax profit for the year would had been decreased/increased by approximately RMB543 million, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade and other receivables, cash and cash equivalents.

Price Risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified in the consolidated statement of financial position either as equity investments designated at fair value through other comprehensive income or financial assets or other financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Hainan Puqian Bridge, the first grand bridge in China crossing the seismically active fault designed and undertaken by the Company, is a cross-sea bridge with the highest seismic protection degree and design of the greatest resistance of basic wind speed in China.

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present its report together with the audited financial statements of the Group prepared in accordance with IFRS for the year ended 31 December 2018.

PRINCIPAL BUSINESS

We are a leading transportation infrastructure group in the PRC and are principally engaged in infrastructure construction, infrastructure design and dredging businesses.

RESULTS

Results of the Group for the year ended 31 December 2018 and the financial position of the Group as at 31 December 2018 are set out in the audited financial statements in this annual report.

DIVIDENDS

On 29 March 2019, the Board recommended a final dividend of RMB0.23077 (including tax) per Share (amounting to approximately RMB3,733 million in total) for the year ended 31 December 2018. The recommended final dividends are subject to Shareholders' approval at the annual general meeting to be held on 18 June 2019. The H Share register of Members of the Company will be closed for the purpose of determining H Share Shareholders' entitlement to attend the annual general meeting of the Company from Monday, 20 May 2019 to Tuesday, 18 June 2019 (both days inclusive). In order to attend the annual general meeting, H Share Shareholders shall complete the registration of H Share not later than 4:30 p.m. on Friday, 17 May 2019. The recommended final dividends distribution will be made based on the Company's entire issued share capital of 16,174,735,425 Shares. The final dividends are expected to be paid to Shareholders whose names appear on the register of members of the Company at the opening of business on 4 July 2019. The register of members will be closed from 29 June 2019 to 4 July 2019 (both days inclusive), during which period no transfers will be registered.

Dividends will be denominated and declared in Renminbi and will be paid to holders of H Shares in Hong Kong dollars. The relevant exchange rate is determined at RMB0.85779 equivalent to HK$1.00 as the middle rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China on the date when such dividends were declared.

Under relevant regulations of China Securities Depository and Clearing Corporation Limited ("CSDC") Shanghai Branch and in line with the market practice regarding dividend distribution for A shares, the Company will publish a separate announcement in respect of its final dividends distribution for A Shares after the Company's annul general meeting for 2018, which, among others, will set out the record date and ex-entitlement date of dividend distribution for A Shares.

Pursuant to relevant laws and regulations including the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and the Regulations for the Implementation of the Law of the People's Republic of China on Individual Income Tax (《中華人民共和國個人所得稅法實施條例》), and the letter dated 28 June 2011 from the State Administration of Taxation to the Inland Revenue Department of Hong Kong, as a withholding agent, the Company is required to withhold and pay the individual income tax at the tax rate of 10% in general on behalf of the Individual H Shareholders. For Individual H Shareholders who are citizens from countries under agreements to be entitled to tax rates lower than 10%, the Company can process applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to relevant regulations, and upon approval by the tax authorities, over withheld tax amounts will be refunded. For Individual H Shareholders receiving dividends who are citizens from countries under agreements to be entitled to tax rates higher than 10% but lower than 20%, the Company will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends, and no application procedures will be necessary. For Individual H Shareholders receiving dividends who are citizens from countries without taxation agreements with the PRC or are under other situations, the Company will withhold the individual income tax at a tax rate of 20% when distributing dividends.

In respect of the non-resident corporate shareholders, in accordance with the Law on Corporate Income Tax of the People's Republic of China and the Implementing Rules of the Law on Corporate Income Tax (collectively, the "Corporate Income Tax Law") implemented in 2008, starting from January 1, 2008, enterprises established in the PRC which distribute dividend to the non-resident corporate shareholders (namely, the legal person shareholders) for the accounting period from January 1, 2008 onwards shall withhold for payment of the corporate income tax, and the payer shall be the withholding agent. Therefore, the Company is required to withhold corporate income tax at the rate of 10% when distributing the 2018 final dividend to non-resident enterprise shareholders whose names appear on the H share register of members of the Company on the record date. The Company will distribute 2018 final dividend following withholding corporate income tax at the rate of 10% to all H share shareholders (including HKSCC Nominees Limited, other business agents or trustees, or other groups or organizations, all deemed as the non-resident corporate shareholders) who register in the name of a non-person shareholder on the H share register of members as of the record date.

REPORT OF THE BOARD OF DIRECTORS

DIVIDENDS (CONTINUED)

Any resident enterprise (as defined under the Corporate Income Tax Law) whose name appears on the H share register of members of the Company and which is set up in the PRC in accordance with the PRC law, or which is set up in accordance with the law of a foreign country (region) whose actual administration institution is in the PRC, in the event of being unwilling for the Company's withholding corporate income tax at the rate of 10%, should lodge with the Company's share registrar, Computershare Hong Kong Investor Services Limited the Organization Code Certificate of the People's Republic of China issued by the relevant Chinese government authority or the equivalent copy certified by the Hong Kong lawyer or accountant to certify the place of establishment or the relevant legal documents that it is a resident enterprise incorporated in China (as defined under the Tax Law of the People's Republic of China), on or before 4:30 p.m. on Friday, 28 June 2019.

The Company will withhold for payment of the income tax strictly in accordance with the relevant laws or requirements of the relevant government departments and strictly based on what has been registered on the Company's register of members for H Shares at the opening of business on 4 July 2019. Investors and potential investors in the H Shares of the Company are recommended to consult their professional tax advisors if they are in any doubt as to the implications of the above mechanism of withholding, and the Company does not accept responsibility for any effect the above mechanism of withholding may have on any person.

DISTRIBUTION OF FINAL DIVIDEND TO INVESTORS OF NORTHBOUND TRADING

For investors of Hong Kong Stock Exchange, including enterprises and individuals, investing in the A Shares of the Company listed on the Shanghai Stock Exchange (the "Investors of Northbound Trading"), their final dividends will be distributed in RMB by the Company through CSDC Shanghai Branch to the account of the nominees holding such shares. The Company will withhold and pay income taxes of 10% on behalf of those investors and will report to the tax authorities. For Investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities of the Company for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

The record date, the ex-entitlement date and the date of distribution of final dividend and other arrangements for the Investors of Northbound Trading will be the same with those for the A Shareholders of the Company.

DISTRIBUTION OF FINAL DIVIDEND TO INVESTORS OF SOUTHBOUND TRADING

(1) Distribution of Final Dividend to Investors of Southbound Trading on Shanghai Stock Exchange

For investors of the Shanghai Stock Exchange, including enterprises and individuals, investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the "Investors of Southbound Trading on Shanghai Stock Exchange"), the Company has entered into "the Agreement on Distribution of Cash Dividends of H shares for Southbound Trading" (港股通H股股票現金紅利派發協議) with CSDC Shanghai Branch, pursuant to which, CSDC Shanghai Branch, as the nominee holders of H shares for the Investors of Southbound Trading on Shanghai Stock Exchange, will receive the final dividends distributed by the Company and distribute the final dividends to the relevant Investors of Southbound Trading on Shanghai Stock Exchange through its depository and clearing system.

The cash dividends for the investors of H shares of Southbound Trading on Shanghai Stock Exchange will be paid in RMB. Pursuant to the relevant requirements under the "Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect" (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Caishui [2014] No. 81), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

REPORT OF THE BOARD OF DIRECTORS

DISTRIBUTION OF FINAL DIVIDEND TO INVESTORS OF SOUTHBOUND TRADING (CONTINUED)

(2) Distribution of Final Dividend to Investors of Southbound Trading on Shenzhen Stock Exchange

For investors of the Shenzhen Stock Exchange, including enterprises and individuals, investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the "Investors of Southbound Trading on Shenzhen Stock Exchange"), the Company has entered into "the Agreement on Distribution of Cash Dividends of H shares for Southbound Trading" (《港股通H股股票現金紅利派發協議》) with CSDC Shenzhen Branch, pursuant to which, CSDC Shenzhen Branch, as the nominee holders of H shares for the Investors of Southbound Trading on Shenzhen Stock Exchange, will receive the final dividends distributed by the Company and distribute the final dividends to the relevant Investors of Southbound Trading on Shenzhen Stock Exchange through its depository and clearing system.

The cash dividends for the investors of H shares of Southbound Trading on Shenzhen Stock Exchange will be paid in RMB. Pursuant to the relevant requirements under the "Notice on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect" (《關於深港股票市場交易互聯互通機制試點有關税收政策的通知》) (Caishui [2016] No. 127), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shenzhen-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors. The company of such H shares will not withhold and pay the income tax of dividends for domestic enterprise investors and those domestic enterprise investors shall report and pay the relevant tax themselves.

The record date, the ex-entitlement date and the date of distribution of final dividend and other arrangements for the Investors of Southbound Trading on Shanghai Stock Exchange and Investors of Southbound Trading on Shenzhen Stock Exchange will be the same with those for the H Shareholders.

SHARE CAPITAL

The share capital of the Company remains unchanged during the year of 2018. As at 31 December 2018, the share capital structure of the Company was as follows:

		Shareholding structure	
No.	Item	Number of shares	Percentage
1	A Shares	11,747,235,425	72.63%
2	H Shares	4,427,500,000	27.37%
	Total	16,174,735,425	100.00%

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the Company's issue of new shares at the time of its listing on the Shanghai Stock Exchange in March 2012 amounted to approximately RMB4,864 million.

At the second extraordinary general meeting of the Company on 30 October 2013, a resolution was passed in relation to the change in the use of proceeds raised from the A Share issue, details of which were set out in the circular published on the Hong Kong Stock Exchange on 13 September 2013 and the poll results of the abovementioned extraordinary general meeting was published on the Hong Kong Stock Exchange and on the Shanghai Stock Exchange on 30 October 2013, respectively.

According to the resolution, the Company (1) terminated the project to purchase dredging vessels where the Company originally planned to utilise proceeds of approximately RMB1,892 million, and the proceeds will be used as to RMB1,100 million in the development of the BOT Project of Guizhou Guiyang-Weng'an Expressway, RMB330 million in the BOT Project of Fengdu-Zhongxian Expressway of Chongqing Coastal Expressway, and approximately RMB462 million to supplement the Company's working capital permanently; (2) terminated the project to purchase engineering ships and mechanical equipment where the Company originally planned to utilize proceeds of approximately RMB1,080 million, and the proceeds are intended to be used to purchase 2 crane vessels and 8 shield machines; and (3) intended to use all accrued interests on the proceeds raised to supplement the Company's working capital permanently.

As at 31 December 2018, the proceeds from the Company's initial public offering have been fully utilised.

REPORT OF THE BOARD OF DIRECTORS

UTILISATION OF PROCEEDS FROM THE ISSUANCE OF CORPORATE BONDS BY THE COMPANY IN 2012

According to the Overseas Regulatory Announcement of the Company dated 14 August 2012 in relation to the result of corporate bond issuance in 2012, the corporate bonds for an aggregate amount of RMB12 billion have been issued by the Company to the public from 9 August 2012 to 13 August 2012, net proceeds (calculated by total proceeds minus underwriting fees) has been credited to the Company' s account on 14 August 2012.

According to the Overseas Regulatory Announcement of the Company dated 7 August 2012 in relation to the issuance of corporate bonds by the Company in 2012, the Company planed to utilise the proceeds from the issuance of corporate bonds as follows:

1. The proceeds from this issuance of corporate bonds was approximately RMB12 billion, among which RMB3 billion should be used to adjust debt structure and replace bank loans;
2. The remaining proceeds after deducting issuance costs should be used to supplement the working capital and improve the financial condition.

As at 31 December 2018, the proceeds from the issuance of corporate bonds have been fully utilised as planned.

UTILISATION OF PROCEEDS FROM THE ISSUANCE OF PREFERENCE SHARES BY THE COMPANY IN 2015

The Company's preference shares issued on Shanghai Stock Exchange were as follows:

Preference shares code	Abbreviation of preference shares	Date of Issue	Issue price *(in RMB)*	Dividend rate *(%)*	Number of shares issued	Listing date	Number of shares traded with listing approval	Delisting Date
360015	CCCC Preferred 1	26 August 2015	100	5.10	90,000,000	22 September 2015	90,000,000	
360017	CCCC Preferred 2	16 October 2015	100	4.70	55,000,000	6 November 2015	55,000,000	

In accordance with the Approval Regarding the Non-public Issuance of Preference Shares of China Communications Construction Company Limited (Zheng Jian Approval [2015] No.1348) from the CSRC and the Report on the Non-public Issuance of Preference Shares of China Communications Construction Company Limited, the Company made a non-public issuance of 90 million preference shares (First Tranche) and 55 million preference shares (Second Tranche) at a par value of RMB100 per share. The total proceeds amounted to RMB14,500 million and the actual proceeds net of relevant issuance expenses of RMB32 million amounted to RMB14,468 million.

In accordance with the commitment made in the application document for the issuance of preference shares, the net proceeds from the preference shares would be used for the following three types of projects: RMB4.909 billion for Type one infrastructure investment projects, RMB5.966 billion for Type two supplementing the operating capital for major construction contracting projects and RMB3.625 billion for Type three supplementing the general working capital.

Pursuant to the overseas regulatory announcement of the Company dated 31 October 2015 in relation to the replacement of self-raised funds already committed in advance to fund-raising investment projects with raised funds, the Company has agreed to replace the self-raised funds already committed to fund-raising investment projects with raised funds from the issuance of preference shares. As of 31 December 2018, the unused proceeds totaled RMB23 million (including the interest accrued on the bank deposit of proceeds and deducting the bank charges).

PUBLIC FLOAT

As at the date of this annual report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Hong Kong Listing Rules and as agreed with the Hong Kong Stock Exchange.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets out certain information concerning the Directors, Supervisors and senior management of the Company as at the date of this annual report.

Name	Age	Position in the Company	Date of appointment	Emoluments for the year ended 31 December 2018 (before tax) (Note 1) *(RMB'000)*
LIU Qitao	61	Executive Director and chairman	22 November 2017	1,024
CHEN Fenjian (Note 2)	56	Executive Director, president and vice chairman	22 November 2017	821
FU Junyuan (Note 3)	57	Executive Director and chief financial officer	22 November 2017	816
SONG Hailiang (Note 4)	53	Executive Director and president	20 November 2018 and 22 October 2018	956
CHEN Yun	55	Executive Director	22 November 2017	978
LIU Maoxun	63	Non-executive Director	22 November 2017	0
QI Xiaofei	61	Non-executive Director	22 November 2017	0
HUANG Long	65	Independent non-executive Director	22 November 2017	60
ZHENG Changhong	63	Independent non-executive Director	22 November 2017	60
NGAI Wai Fung	56	Independent non-executive Director	22 November 2017	128
LI Sen	54	Chairman of the Supervisory Committee (representative of the Shareholders)	22 November 2017	813
WANG Yongbin	53	Supervisor (representative of the Shareholders)	22 November 2017	907
YAO Yanmin	55	Supervisor (representative of the employees)	22 November 2017	908
WANG Haihuai	50	Vice president	22 November 2017	910
SUN Ziyu	56	Vice president	22 November 2017	907
WANG Jian	54	Vice president	22 November 2017	994
WEN Gang	52	Vice president	22 November 2017	611
ZHOU Changjiang	53	Secretary of the Board and company secretary	22 November 2017 and 13 December 2017	742
PENG Bihong (Note 5)	55	Chief Financial Officer	27 September 2018	184

Note 1: Please refer to Note 9 of the audited financial statements for details of the emoluments of the Directors and Supervisors of the Company in 2018. The emoluments payable to the Directors, Supervisors and senior management are determined with reference to responsibilities, years of service and performance of each individual, the results of the Group and prevailing market rate.

Housing allowances and contributions to pension plans are included in the emoluments of the Directors and Supervisors of the Company in 2018.

Note 2: Mr. Chen Fenjian resigned as the Executive Director, president and vice chairman on 16 July 2018.

Note 3: Mr. Fu Junyuan resigned as the Executive Director and chief financial officer on 27 September 2018.

Note 4: Mr. Song Hailiang was elected as the Executive Director on 20 November 2018 and appointed as the president on 22 October 2018.

Note 5: Mr. Peng Bihong was appointed as the Chief Financial Officer on 27 September 2018.

REPORT OF THE BOARD OF DIRECTORS

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY (CONTINUED)

Details of the emoluments of each senior management of the Company (excluding Directors who also hold executive positions) in 2018 are set out below:

Name	Basic salaries, housing allowances and other allowances *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
WANG Haihuai	221	55	634	910
SUN Ziyu	221	55	631	907
WANG Jian	501	55	438	994
WEN Gang	483	55	73	611
ZHOU Changjiang	469	55	218	742
PENG Bihong *(Note 1)*	74	19	91	184

Note 1: Mr. Peng Bihong was appointed as the Chief Financial Officer on 27 September 2018.

The biographical details of the Directors, Supervisors and senior management of the Company are set out in the "Profiles of Directors, Supervisors and Senior Management" in this annual report.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has confirmed its receipt of a confirmation from each of the independent non-executive Directors of the Company of its independence pursuant to Rule 3.13 of the Hong Kong Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

BOARD COMMITTEES

Committees under the Board include Strategy and Investment Committee, Audit and Internal Control Committee, Remuneration and Appraisal Committee as well as Nomination Committee. The composition of each committee is set out in the "Corporate Governance Report" in this annual report.

REPORT OF THE BOARD OF DIRECTORS

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2018, the interests or short positions of Shareholders (other than Directors, Supervisors and chief executive of the Company) who have an interest or short position in the shares, underlying shares and debentures of the Company which would fall to be disclosed by the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

Name of Shareholder(Note 1)	Number of shares held	Type of shares	Percentage of the respective type of shares(Note 2) (%)	Percentage of the total number of shares in issue(Note 3) (%)	Capacity in which the shares are held
CCCG	9,689,540,204 (Long position)	A Shares	82.48	59.91	Beneficial owner
	1,460,234,680 (Short position)	A Shares	12.43	9.03	Beneficial owner
BlackRock, Inc.	398,296,501 (Long position)	H Shares	8.99	2.46	Interest of controlled corporation
	1,232,000 (Short position)	H Shares	0.03	0.01	Interest of controlled corporation
The Bank of New York Mellon Corporation	266,889,268 (Long position)	H Shares	6.03	1.65	Interest of controlled corporation
	251,832,258 (Lending pool)	H Shares	5.69	1.56	Approved lending agent
JPMorgan Chase & Co.	266,314,610 (Long position)	H Shares	6.01	1.65	Interest of controlled corporation Investment manager Persons having a security interest in shares Trustee Approved lending agent
	21,209,558 (Short position)	H Shares	0.47	0.13	Interest of controlled corporation Investment manager
	202,422,498 (Lending pool)	H Shares	4.57	1.25	Approved lending agent

Note 1: The table is prepared based on the disclosure of interest fillings of the substantial Shareholders published on the website of the Hong Kong Stock Exchange for the relevant events as at 31 December 2018.

Note 2: The percentage of respective type of shares is based on 11,747,235,425 A Shares and 4,427,500,000 H Shares of the Company as at 31 December 2018, respectively.

Note 3: The percentage of total number of shares in issue is based on 16,174,735,425 shares of the total issued share capital of the Company as at 31 December 2018.

REPORT OF THE BOARD OF DIRECTORS

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

As at 31 December 2018, there were 13,929 H Shareholders and 118,391 A Shareholders as shown on the register of members of the Company. Particulars of the top 10 Shareholders of the Company as at 31 December 2018 were as follows:

	Name of shareholder	Nature	Percentage	Number	Number of shares subject to trading restriction	Number of shares pledged or frozen
1	CCCG	State	50.88	8,229,305,524	0	Nil
2	HKSCC NOMINEES LIMITED	Foreign legal person	27.11	4,385,098,983	0	Unknown
3	CCCG – Special Accounts of Pledge for non-public issuance of 2017 exchangeable corporate bonds	State	9.03	1,460,234,680	0	Pledged
4	China Securities Finance Corporation Limited	State-owned legal person	2.99	483,846,096	0	Unknown
5	Guoxin Investment Co., Ltd.	State-owned legal person	1.63	264,226,951	0	Unknown
6	Beijing Chengtong Financial Investment Co., Ltd.	State-owned legal person	0.99	160,807,951	0	Unknown
7	China Merchants Bank Co., Ltd.– Boshi CSI Tradable Open Index Securities Investment Fund for State-owned Enterprises Structure Adjustment	Unknown	0.78	125,687,365	0	Unknown
8	Central Huijin Asset Management Ltd.	State-owned legal person	0.61	98,075,800	0	Unknown
9	China Merchants Bank Co., Ltd.– ICBC Credit Suisse Shanghai 50 Index ETF Securities Investment Fund	Unknown	0.29	46,503,500	0	Unknown
10	Hong Kong Securities Clearing Company Limited	Foreign legal person	0.24	38,861,154	Nil	Unknown

Note: HKSCC Nominees Limited (香港中央結算(代理人)有限公司) is holding H Shares of the Company on behalf of various Shareholders of the Company.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, none of the Directors, Supervisors or chief executive of the Company had any interest or short position in the shares, underlying shares of equity derivatives or debentures of us or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to the Company notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules ("Model Code").

As at 31 December 2018, the Company had not granted its Directors, Supervisors or chief executive or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

REPORT OF THE BOARD OF DIRECTORS

COMPETING BUSINESS

None of the Directors of the Company, directly or indirectly, has any interest in any business which constitutes or may constitute a competing business of the Company.

FINANCIAL, BUSINESS AND FAMILY RELATIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There are no relationships among the Directors, Supervisors and senior management of the Company, including financial, business, family or other material relationships.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years and may be re-elected upon expiry of the term.

None of the Directors or Supervisors has any existing or proposed service contract with any member of the Group which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

Apart from the service contracts with the Company or its subsidiaries (if applicable), for the year ended 31 December 2018, none of the Directors or Supervisors of the Company was materially interested, whether directly or indirectly, in any transaction, arrangement or contract of significance to which the Company, its subsidiary or holding company or a subsidiary of the Company's holding company is a party.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group assumes its responsibility to build a beautiful country and promote green development. According to the unified arrangement of national ecological construction, putting forward detailed requirements for subsidiaries from 6 aspects including green development, technological innovation and capital investment by combining their features, thus having formed the responsible entities of promoting ecological construction. The Group vigorously carried out the activity of "establishing the green grassroots", implemented "Four Savings and Environmental Protection" (energy, land, water and materials saving and environmental protection) for construction projects and promoted the in-depth implementation of energy conservation and emission reduction work.

The Group insists on integrating energy conservation and environmental protection work into the whole process of its production, operation management and project construction. For further strengthening the rooftop design relating to energy conservation and environmental protection, the Company issued the Standard Framework and Guideline of Production Safety, Quality Supervision, and Energy Conservation and Environmental Protection Supervision of CCCC both in Chinese and English, which is comprised of 4 major categories, i.e. basic standards, management standards, working standards and operating standards, with its contents covering the energy conservation and environmental protection work in all business fields of the Company, thereby putting the concept of green development into practice throughout the whole process of planning, design, construction, operation and maintenance of transportation infrastructure. For details of the Group's environment policies and performance, please refer to the section headed "Environmental, Social and Governance Report" in this report and the Group's "2018 Environmental, Social and Governance Report of China Communications Construction Company Limited" published on the websites of the Hong Kong Stock Exchange and the Company.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognizes the importance of compliance with regulatory requirements. During the year ended 31 December 2018, the Group had complied in all material respects with relevant PRC laws and regulations, and the Company and all of its direct subsidiaries had obtained all licenses, approvals and permits from appropriate regulatory authorities that are material for its business operations in the PRC. As a result of our international activities, we are subject to the laws and regulations of the various countries and regions in which we do business, in addition to the laws of the PRC. Meanwhile, as the Company is listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, therefore we are also required to comply with the listing rules and applicable laws and regulations of listing places. As far as the Company is aware, the Group has also complied with overseas laws and regulations, as well as the listing rules and applicable laws and regulations of listing places during the year ended 31 December 2018. The Group has more sound internal control system in place, so as to monitor and ensure the legitimacy and compliance of our production, construction and operating activities.

REPORT OF THE BOARD OF DIRECTORS

KEY RELATIONSHIPS

The Group's success also depends on the support from employees, customers, suppliers and etc.

Employees

Adhering to the value creator-oriented concept, the Group actively protects the rights and interests of employees for whom the multi-level and multi-dimension career development space is created. The Group actively promotes the establishment of harmonious labour relations, provides good career development space and working environment for the employees, protects the career health of the employees, concerns about their lives, shares the corporate development results with them and realised mutual development between the employees and the Group.

Customers

Most of the customers of the Group's infrastructure construction business, infrastructure design business and dredging business are PRC government agencies at the national, provincial and local levels, and state owned enterprises. When providing prime-quality projects and products for customers, the Group performs its obligations under contracts in good faith, actively creates values for its customers, and enhances the level of service satisfaction. All subsidiaries of CCCC have established client visit systems.

Suppliers

The Group has established a list of qualified suppliers, regulates the management system of suppliers, and completes the admission and withdrawal mechanism for suppliers. As for the admission of suppliers, the Group reviews strictly the legal entity qualification, production and operation license, three major management systems (quality management system, environmental management system, occupational health and safety management system) certification, after-sales service tracking system and promising financial fund status and good business reputation, gives priority to suppliers with leading technology and outstanding results in the industry and carries out dynamic evaluation of the suppliers. The Group will then select the suppliers for next year based on the evaluation results.

PERMITTED INDEMNITY PROVISION

As at 31 December 2018, all directors of the Company were covered under the liability insurance purchased by the Company for its directors.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the year ended 31 December 2018.

REPORT OF THE BOARD OF DIRECTORS

SUMMARY OF FINANCIAL INFORMATION FOR THE LAST FIVE YEARS

The tables below set out a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2018.

Consolidated Income Statement

	2018	2017	2016	2015	2014
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
			(Restated)	(Restated)	(Restated)
Revenue	**488,666**	460,067	406,331	380,344	340,565
Gross profit	**64,611**	60,437	54,499	46,275	36,049
Profit before income tax	**26,046**	23,651	22,635	19,399	17,426
Profit for the year	**20,438**	18,542	17,458	15,768	13,734
Attributable to:					
– owners of the Company	**19,819**	17,913	17,100	15,779	13,892
– non-controlling interests	**619**	629	358	(11)	(158)
Earnings per share for profit attributable to the equity holders of the Company *(expressed in RMB)*					
Basic					
– For profit for the year	**1.16**	1.23	1.00	0.96	0.86
– For profit from continuing operations	**1.16**	1.04	0.99	0.96	0.86
Diluted					
– For profit for the year	**1.16**	1.23	1.00	0.96	0.86
– For profit from continuing operations	**1.16**	1.04	0.99	0.96	0.86
Dividends	**3,733**	3,913	3,145	3,079	2,778

Note: As affected by the disposal of ZPMC, ZPMC was classified as a discontinued operation and the comparative statement of profit or loss in 2014-2016 for the Group has been restated.

Consolidated Balance Sheet

	2018	2017	2016	2015	2014
Total assets	**960,476**	849,888	801,082	731,313	630,180
Total liabilities	**720,794**	644,294	614,512	562,307	498,568
Capital and reserves attributable to owners of the Company	**197,178**	180,922	159,323	146,724	116,531
Non-controlling interests	**42,504**	24,672	27,247	22,282	15,081

Note: The financial figures for the year 2017 and 2018 were extracted from the 2018 Consolidated Financial Statements. The financial figures for the year 2014 to 2016 were extracted from the 2014, 2015 and 2016 annual report, respectively.

BANK LOANS AND OTHER BORROWINGS

Please refer to Note 33 of the audited financial statements for details of bank loans and other borrowings of the Group.

REPORT OF THE BOARD OF DIRECTORS

ISSUANCE OF DEBENTURES

The first tranche of 2018 ultra-short-term financing bonds in an aggregate principal amount of RMB3 billion have been issued by the Company at the issue price of RMB100 for nominal value of RMB100 on 20 August 2018 and 21 August 2018. The maturity period of the bonds is 270 days, with interests of 3.75% accruing from 22 August 2018. For more details, please refer to the overseas regulatory announcement published by the Company on 24 August 2018.

FIXED ASSETS

Please refer to Note 15 of the audited financial statements for movements in the property, plant and equipment of the Group for the year ended 31 December 2018.

CAPITALISED INTEREST

Please refer to Note 8 of the audited financial statements for details of the capitalised interest expense of the Group for the year ended 31 December 2018.

RESERVES

Please refer to Notes 53 and 39 of the audited financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2018 respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31 December 2018 amounted to approximately RMB15,238 million.

DONATIONS

For the year ended 31 December 2018, the Group made charitable and other donations in a total amount of approximately RMB42 million.

SUBSIDIARIES

Please refer to Note 1 of the audited financial statements for details of the Company's principal subsidiaries as at 31 December 2018.

REPORT OF THE BOARD OF DIRECTORS

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Please refer to Notes 16, 17, 18, 19, 20, 21, 22 and 43 of the audited financial statements for details of significant investments and acquisitions incurred during the year ended 31 December 2018.

CHANGE IN EQUITY

Please refer to Notes 37, 38 and 39 of the audited financial statements for detail of changes in equity.

RETIREMENT BENEFITS

Please refer to Note 35 of the audited financial statements for details of retirement benefits.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Company's Articles of Association which require the Company to offer new shares to the existing Shareholders in proportion to their shareholdings.

MAJOR CUSTOMERS AND SUPPLIERS

The diversified business structure of the Company had provided an extensive base of suppliers and customers with low concentration. There is no reliance of the Company on a single supplier or customer. As at 31 December 2018, the sales of the Group to the five largest customers amounted to RMB21,611 million, representing 4.40% of the Group's revenue; the aggregate purchase from the five largest suppliers by the Group amounted to RMB7,843 million, representing 1.85% of the Group's aggregate purchase for the year.

CONNECTED TRANSACTIONS

The Company has entered into the following connected transactions in the year 2018.

REPORT OF THE BOARD OF DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

Formation of a Joint Venture

On 1 February 2018, CCCC Investment, CCCC Southwest Investment (both wholly-owned subsidiaries of the Company) and Greentown Ideal Town Construction Group Co., Ltd. ("Greentown Town Group") (a non-wholly owned subsidiary of CCCG) entered into the shareholders' agreement in connection with the formation of the joint venture. Pursuant to the shareholders' agreement, the registered capital of the joint venture is RMB400 million, of which RMB184 million, RMB180 million and RMB36 million will be contributed by CCCC Investment, Greentown Town Group and CCCC Southwest Investment, accounting for 46%, 45% and 9% of the total registered capital of the joint venture, respectively.

Upon establishment of the joint venture, the Company will indirectly hold an aggregate of 55% of the equity interests in the joint venture. Therefore, the joint venture will be a subsidiary of the Company, and its financial results will be consolidated into those of the Group.

On 1 February 2018, Greentown Town Group is a subsidiary of CCCG, and CCCG is the controlling Shareholder of the Company, which holds approximately 63.84% interests in the Company. Greentown Town Group is thus a connected person of the Company. As such, the formation of the joint venture under the shareholders' agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the formation of the joint venture under the shareholders' agreement exceeds 0.1% but is less than 5%, the shareholders' agreement and the transaction contemplated thereunder is subject to announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 1 February 2018.

Finance Lease Agreements and Commercial Factoring Agreements

The Group and CCCC Financial Leasing and its subsidiaries have entered into certain new finance lease agreements and commercial factoring agreements since 1 January 2018. Pursuant to the finance lease agreements, CCCC Financial Leasing and its subsidiaries will provide finance lease services to the Group in respect of the leased assets through direct leasing, operating lease or sale and lease back arrangement. According to the finance lease agreements, the aggregate amount of the finance leases payable by the Group to CCCC Financial Leasing and its subsidiaries shall be a total of RMB2,535 million; while the total fees payable by CCCC Financial Leasing and its subsidiaries to the Group for the purchase of the leased assets amounted to RMB360 million under the sale and lease back arrangement. Pursuant to the commercial factoring agreements, CCCC Financial Leasing and its subsidiaries will provide commercial factoring services to the Group in respect of receivables through factoring or reverse factoring arrangement. According to the commercial factoring agreements, the total receivables to be transferred by the Group to CCCC Financial Leasing and its subsidiaries shall be approximately RMB4,300 million, and the financing amount to be provided by CCCC Financial Leasing and its subsidiaries to the Group shall be approximately RMB3,200 million.

Established in 2014, CCCC Financial Leasing is a subsidiary of the Company and it is owned as to 70% by the Group and 30% by ZPMC, respectively. CCCC Financial Leasing is primarily engaged in the finance lease services in relation to infrastructure, engineering equipment, ships and other assets and relevant consulting services, guarantee and factoring business, which provides strong financial support for the business development of the Group. As affected by the equity transfer of ZPMC, CCCC Financial Leasing became a connected subsidiary of the Company under Chapter 14A of the Hong Kong Listing Rules on 27 December 2017 and the transactions between the Group and CCCC Financial Leasing and its subsidiaries constitute the connected transactions under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) in respect of the transactions under the finance lease agreements exceeds 0.1% but is less than 5%, the transactions are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) in respect of the transactions under the commercial factoring agreements exceeds 0.1% but is less than 5%, the transactions are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

For details of the aforesaid connected transactions, please refer to the announcement of the Company dated 2 August 2018.

REPORT OF THE BOARD OF DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

Formation of a Project Company

On 12 September 2018, to jointly develop the expressway network PPP engineering project (phase III) in Yancheng City, the Company together with its subsidiaries, namely CFHEC and CTHEC, entered into the joint venture agreement with ZPMC, Yancheng Expressway Network Construction Co., Ltd. ("Yancheng Expressway") and China PPP Investment Funds Co., Ltd. ("CPPPF") (on behalf of CPPPF Jiangsu) in relation to the proposed formation of the project company. Pursuant to the joint venture agreement, the registered capital of the project company is RMB1156.20 million, of which RMB57.81 million, RMB115.62 million, RMB115.62 million, RMB231.24 million, RMB289.05 million and RMB346.86 million will be contributed by Yancheng Expressway, CFHEC, CTHEC, the Company, ZPMC and CPPPF Jiangsu, accounting for 5%, 10%, 10%, 20%, 25% and 30% of the total registered capital of the project company, respectively.

On 12 September 2018, ZPMC is a subsidiary of CCCG, the controlling Shareholder of the Company which holds approximately 59.91% interests in the Company. ZPMC is thus a connected person of the Company. As such, the formation of the project company under the joint venture agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the formation of the project company under the joint venture agreement exceeds 0.1% but is less than 5%, the joint venture agreement and the transaction contemplated thereunder is subject to announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 12 September 2018.

Capital Increase in CORE USA

On 19 October 2018, Zhen Hua Engineering Company Limited ("Zhen Hua HK") (a wholly-owned subsidiary of the Company), entered into the capital increase agreement with CCCG Overseas Real Estate Pte. Ltd. ("CCCG Overseas Real Estate") (a non-wholly owned subsidiary of CCCG), pursuant to which Zhen Hua HK agreed to make a capital contribution of US$55,513,457.62 (equivalent to approximately HK$435,131,134.86) to CORE (USA) Investment Holding LLC ("CORE USA") in cash.

On 19 October 2018, CCCG Overseas Real Estate is a subsidiary of CCCG, the controlling Shareholder of the Company which holds approximately 59.91% interests in the Company. CCCG Overseas Real Estate is thus a connected person of the Company. As such, the capital increase under the capital increase agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the capital increase under the capital increase agreement exceeds 0.1% but is less than 5%, the capital increase agreement and the transaction contemplated thereunder is subject to the announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 19 October 2018.

Formation of a Project Company

On 31 October 2018, to jointly invest in the construction of the Chentang Area integrated development project in Hexi District, Tianjin, CCCC First Harbour Real Estate Development Co., Ltd. ("CCCC First Harbour Real Estate") and CCCC Beijing-Tianjin-Hebei Investment and Development Co., Ltd. ("CCCC Beijing-Tianjin-Hebei Investment") (both are wholly-owned subsidiaries of the Company) entered into the cooperation framework agreement with Tianjin Greentown Northern Real Estate Co., Ltd. ("Greentown Northern Real Estate") (a non wholly-owned subsidiary of CCCG) for the formation of the project company. Pursuant to the cooperation framework agreement, the registered capital of the project company is RMB1,000 million, of which Greentown Northern Real Estate, CCCC First Harbour Real Estate and CCCC Beijing-Tianjin-Hebei Investment will contribute RMB410 million, RMB390 million and RMB200 million, accounting for 41%, 39% and 20% of the total registered capital of the project company, respectively.

On 31 October 2018, Greentown Northern Real Estate is a subsidiary of CCCG, the controlling Shareholder of the Company which holds approximately 59.91% interests in the Company. Greentown Northern Real Estate is thus a connected person of the Company. As such, the formation of the project company under the cooperation framework agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the formation of the project company under the cooperation framework agreement exceeds 0.1% but is less than 5%, the cooperation framework agreement and the transaction contemplated thereunder is subject to the announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 31 October 2018.

REPORT OF THE BOARD OF DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

Formation of a Project Company to Develop the Project Land Parcel

On 19 December 2018, CCCC Haixi Investment Company Limited ("CCCC Haixi"), a subsidiary of the Company, entered into the cooperation agreement with Fuzhou Metro Property Co., Ltd.("Fuzhou Metro") and Fuzhou Lurong Investment Development Co., Ltd. ("Fuzhou Lurong") for the formation of the project company and joint development of the project land parcel. Pursuant to the cooperation agreement, the registered capital of the project company is RMB800 million, of which Fuzhou Metro, CCCC Haixi and Fuzhou Lurong will contribute RMB80 million, RMB80 million and RMB640 million, accounting for 10%, 10% and 80% of the total registered capital of the project company, respectively. When capital needs arise during the development and construction of the project land parcel, all parties shall make further contributions to the Project Company in proportion to their respective shareholding percentage in the Project Company. Wherein, the capital contributions made by CCCC Haixi shall not exceed RMB231 million in total. Upon establishment of the project company, CCCC Haixi, Fuzhou Metro and Fuzhou Lurong will hold 10%, 10% and 80% equity interest in the project company, respectively. Accordingly, the project company will become a subsidiary of Fuzhou Lurong, and its financial results will be consolidated into that of Fuzhou Lurong.

On 19 December 2018, Fuzhou Lurong is a subsidiary of CCCG, the controlling Shareholder of the Company which holds approximately 59.91% interests in the Company. Fuzhou Lurong is thus a connected person of the Company. As such, the transaction contemplated under the cooperation agreement constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the transaction under the cooperation agreement exceeds 0.1% but is less than 5%, the cooperation agreement and the transaction contemplated thereunder is subject to the announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 19 December 2018.

Capital Increase in China Communications Information Center

On 21 December 2018, CCCC Water Transportation Consultants Co., Ltd.("CCCC WTC") (a wholly-owned subsidiary of the Company) and CCCG entered into the capital increase agreement, pursuant to which CCCG agreed to make a capital contribution in cash of RMB318 million in China Communications Information Center, while CCCC WTC agreed to make a capital contribution in China Communications Information Center with its 58% equity interests in CCCC ZiGuang Technology Co., Ltd. ("CCCC ZiGuang") (with an appraised value of RMB5.4747 million as at the valuation benchmark date, 31 December 2017).

Upon completion of the capital increase, 49% equity interests of China Communications Information Center will be held by the Company through CCCC WTC and 51% equity interests of China Communications Information Center will be held by CCCG. Meanwhile, the Company will no longer hold any equity interest in CCCC ZiGuang. As such, each of China Communications Information Center and CCCC ZiGuang will cease to be a subsidiary of the Company, and their financial results will not be consolidated into the consolidated financial statements of the Company.

On 21 December 2018, CCCG is the controlling Shareholder of the Company, holding approximately 59.91% interests in the issued ordinary shares of the Company. Therefore, CCCG is a connected person of the Company under the Hong Kong Listing Rules. As such, the capital increase under the capital increase agreement constitutes a connected transaction of the Company in accordance with Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in relation to the capital increase under the capital increase agreement exceeds 0.1% but is less than 5%, the capital increase agreement and the transaction contemplated thereunder is subject to the announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 21 December 2018.

Total Return Swap Arrangement Relating to Securities Issued by a Connected Person

On 21 December 2018, CCCI (a wholly-owned subsidiary of the Company), Twinkle Lights Holdings Limited (the "Issuer"), Greentown China Holdings Limited ("Greentown China"), Credit Suisse (Hong Kong) Limited and the Hongkong and Shanghai Banking Corporation Limited (collectively the "Placing Agents") and Credit Suisse AG, Singapore Branch and the Hongkong and Shanghai Banking Corporation Limited (collectively the "Subscribers") entered into the subscription agreement, pursuant to which, among other things, the Issuer agreed to issue and the Subscribers agreed to subscribe for securities in total principal amount of US$500 million. On the same date, as one of the conditions precedent of the subscription agreement, CCCI entered into financial contracts with each of the Subscribers, pursuant to which, among other things, each of the Subscribers shall pass through to CCCI full economic exposure to securities acquired by it under the subscription agreement.

On 21 December 2018, CCCG is a controlling Shareholder of the Company, holding approximately 59.91% interests in the Company. Greentown China is a non-wholly owned subsidiary of CCCG, and the Issuer is a wholly-owned subsidiary of Greentown China, therefore both Greentown China and the Issuer are connected persons of the Company under the Hong Kong Listing Rules. CCCI is a wholly-owned subsidiary of the Company, therefore the subscription agreement and the total return swap arrangement of securities issued by the Issuer under the financial contracts constitute a connected transaction of the Company.

As the highest applicable percentage ratio of the above connected transaction exceeds 0.1% but is less than 5%, therefore, the above connected transaction is subject to the announcement requirement but is exempted from the requirement of independent Shareholders' approval under Chapter 14A of the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 21 December 2018.

REPORT OF THE BOARD OF DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

Disposal of Shares in United Development

On 27 December 2018, the Company and CCCG Real Estate Corporation Limited ("CCCG Real Estate") entered into the equity transfer agreement, pursuant to which the Company has conditionally agreed to sell and CCCG Real Estate has conditionally agreed to acquire the entire shares in Beijing United Development Co., Ltd. ("United Development") at a consideration of RMB866,346,200 in cash.

Upon completion of the disposal of shares in United Development, the Company will no longer hold any share in United Development. Therefore, United Development will cease to be a subsidiary of the Company, and its financial results will not be consolidated into the consolidated financial statements of the Company.

On 27 December 2018, CCCG Real Estate is a subsidiary of CCCG, which holds approximately 59.91% interests in the Company. CCCG Real Estate is thus a connected person of the Company. As such, the disposal of shares in United Development constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio in respect of the disposal of shares in United Development exceeds 0.1% but is less than 5%, the disposal of shares in United Development is subject to the announcement requirement but is exempted from the independent Shareholders' approval requirement under the Hong Kong Listing Rules.

For details of the aforesaid connected transaction, please refer to the announcement of the Company dated 27 December 2018.

CONTINUING CONNECTED TRANSACTIONS

In respect of the continuing connected transactions of the Group, the Company has made proposals on the annual caps after taking into account the prevailing market price, the historical transaction amount, the Group's development needs and current capacity, and all the relevant proposals have been considered and approved by the Board or the shareholders' meeting (if applicable) in accordance with the Hong Kong Listing Rules and the Rules Governing the Listing of Stocks on Shanghai Stock Exchange. The Audit and Internal Control Committee of the Board of the Company monitored and confirmed the progress of the continuing connected transactions, made proposal on the revision of the annual caps once needed based on the actual situation and transaction amount and submitted the proposal for consideration and approval. The actual transaction amount under the continuing connected transactions of the Company in 2018 were within reasonable and controllable range and were in line with the expectations of the Company.

Mutual Project Contracting Framework Agreement Entered into between the Company and CCCG

On 28 March 2017, the Company and CCCG entered into the original mutual project contracting framework agreement, pursuant to which, during the period from 28 March 2017 to 31 December 2017, the Group agreed to provide project contracting services to CCCG Group and CCCG Group agreed to provide labour and subcontracting services to the Group for its construction projects.

On 29 March 2018, in order to renew the transactions under the original mutual project contracting framework agreement, the Company and CCCG entered into the mutual project contracting framework agreement for the period from 29 March 2018 to 31 December 2018, pursuant to which the Group agreed to provide project contracting services to CCCG Group, which may include (i) provision of construction services for real property development projects that may be undertaken by CCCG Group; (ii) design, construction, operation, management and dismantlement of temporary supporting facilities; and (iii) consultancy and management services that may be required for the development of real property projects, and CCCG Group agreed to provide labour and subcontracting services to the Group for its construction projects, which may include (i) provision of labour services; and (ii) provision of subcontracting services for those construction projects that may be undertaken by the Group.

On 29 March 2018, CCCG is the controlling Shareholder of the Company holding approximately 63.84% interests in the issued ordinary shares of the Company, and therefore, is a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the mutual project contracting framework agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) of the proposed caps for the transactions contemplated under the mutual project contracting framework agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the mutual project contracting framework agreement and the proposed annual caps are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

For details of the continuing connected transaction, please refer to the announcement of the Company dated 29 March 2018,.

The annual caps for the continuing connected transaction described above as compared with the actual transaction amounts receivable and payable by the Group for the year ended 31 December 2018 are set out as follows:

	Annual cap for 2018 *(RMB million)*	Actual amount for 2018 *(RMB million)*
Project contracting service fees receivable by the Group from CCCG Group	2,550	2,290
Labour and subcontracting service fees payable by the Group to CCCG Group	100	75

REPORT OF THE BOARD OF DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Financial Services Agreement Entered into between CCCC Finance and CCCG

On 12 August 2016, CCCC Finance (a subsidiary of the Company) entered into the original financial services agreement with CCCG, pursuant to which CCCC Finance shall provide financial services to CCCG Group for the period from 12 August 2016 to 31 December 2016. On 28 March 2017, CCCC Finance and CCCG renewed the original financial services agreement for the period from 28 March 2017 to 31 December 2017.

On 29 March 2018, in order to further renew the transactions under the original financial services agreement and the renewed original financial services agreement, CCCC Finance and CCCG entered into the financial services agreement for the period from 29 March 2018 to 31 December 2018, pursuant to which CCCC Finance agreed to provide deposit services, loan services and other financial services to CCCG Group.

CCCG is the controlling Shareholder of the Company holding approximately 63.84% equity interests in the issued ordinary shares of the Company on 29 March 2018, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the financial services agreement between CCCC Finance and CCCG Group constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

The provision of deposit services by CCCC Finance to CCCG Group is to be made on normal commercial terms or more favourable terms which is in the Group's interests, and no assets of the Group are to be pledged as security for such deposit services in favour of CCCG Group. Therefore, pursuant to Rule 14A.90 of the Hong Kong Listing Rules, the provision of deposit services by CCCC Finance to CCCG Group under the financial services agreement is exempt from the announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As estimated by the Company, during the effective term of the financial services agreement, the daily balance of loans provided by CCCC Finance to CCCG Group (including the interests accrued thereon) will not exceed RMB730 million. Since the highest applicable percentage ratio is more than 0.1% but less than 5%, the provision of loan services by CCCC Finance to CCCG Group is subject to the announcement and annual review requirements but is exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

On 28 August 2018, the Board estimates that the maximum daily balance of loans provided by CCCC Finance to CCCG Group (including the interests accrued thereon) will probably exceed the existing maximum daily loan balance (including the interests thereon) for the period ending 31 December 2018. Therefore, on 28 August 2018, CCCC Finance entered into the supplemental agreement of the financial services agreement with CCCG to revise the existing maximum daily loan balance (including the interests thereon) under the financial services agreement from RMB730 million to RMB1,043 million. The annual cap of daily balance of loans provided by CCCC Finance to CCCG Group (including the interests accrued thereon) shall not exceed 75% of the average daily balance of deposits of CCCG Group with CCCC Finance and shall not exceed RMB1,043 million.

CCCG is the controlling Shareholder of the Company holding approximately 59.91% interests in the issued ordinary shares of the Company on 28 August 2018, and is therefore a connected person of the Company under the Hong Kong Listing Rules.

As the highest applicable percentage ratio of the revised maximum daily loan balance (including the interests thereon) under the Financial Service Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Financial Service Agreement and the revised maximum daily loan balance (including the interests thereon) are subject to the reporting, announcement and annual review requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Although the abovementioned agreement and the transactions contemplated thereunder are exempt from the independent Shareholder's approval requirement under the Hong Kong Listing Rules, such transactions shall be subject to the approval by the Shareholders at the general meeting of the Company pursuant to the Rules Governing the Listing of Stocks on Shanghai Stock Exchange. The Company convened the extraordinary general meeting and sought approval for the abovementioned agreement and the transactions contemplated thereunder on 20 November 2018.

For details of the continuing connected transaction, please refer to the announcements of the Company dated 29 March 2018 and 28 August 2018.

The annual cap for the continuing connected transaction described above as compared with the actual daily balance of loans provided by CCCC Finance to CCCG Group (including the interests accrued thereon) for the year ended 31 December 2018 are set out as follows:

	Annual cap for 2018 *(RMB million)*	**Actual amount for 2018** *(RMB million)*
The annual cap of daily balance of loans provided by CCCC Finance to CCCG Group (including the interests accrued thereon)	**1,043**	**451**

REPORT OF THE BOARD OF DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Finance Lease Framework Agreement Entered into between CCCC Financial Leasing and CCCG

On 21 April 2017, CCCC Financial Leasing, a subsidiary of the Company, entered into the original finance lease framework agreement with CCCG, pursuant to which CCCC Financial Leasing agreed to provide finance lease services to CCCG Group in respect of the leased assets for the period from 21 April 2017 to 31 December 2017.

On 29 March 2018, in order to renew the transactions contemplated under the original finance lease framework agreement, CCCC Financial Leasing and CCCG entered into finance lease framework agreement for the period from 29 March 2018 to 31 December 2018.

On 29 March 2018, CCCG is the controlling Shareholder of the Company holding approximately 63.84% interests in the issued ordinary shares of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the finance lease framework agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules..

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) of the aggregate amount for the finance lease services offered by CCCC Financial Leasing contemplated under the finance lease framework agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the finance lease framework agreement and the aggregate amount thereunder are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

On 28 August 2018, the Board estimates that the aggregate amount of the finance lease provided by CCCC Financial Leasing to CCCG Group will probably exceed the existing cap for aggregate amount of the finance lease for the period ending 31 December 2018. Therefore, on 28 August 2018, CCCC Financial Leasing entered into the supplemental agreement of the finance lease framework agreement with CCCG to revise the existing cap for aggregate amount of the finance lease under the finance lease framework agreement from RMB2,200 million to RMB3,080 million.

CCCG is the controlling Shareholder of the Company holding approximately 59.91% interests in the issued ordinary shares of the Company on 28 August 2018, and is therefore a connected person of the Company under the Hong Kong Listing Rules.

As the highest applicable percentage ratio of the revised cap for aggregate amount of the finance lease under the Finance Lease Framework Agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the Finance Lease Framework Agreement and the revised cap for aggregate amount of the finance lease are subject to the reporting, announcement and annual review requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

Although the abovementioned agreement and the transactions contemplated thereunder are exempt from the independent Shareholder's approval requirement under the Hong Kong Listing Rules, such transactions shall be subject to the approval by the Shareholders at the general meeting of the Company pursuant to the Rules Governing the Listing of Stocks on Shanghai Stock Exchange. The Company convened the extraordinary general meeting and sought approval for the abovementioned agreement and the transactions contemplated thereunder on 20 November 2018.

For details of the continuing connected transaction, please refer to the announcement of the Company dated 29 March 2018 and 28 August 2018.

The annual cap for the continuing connected transaction described above as compared with the actual aggregate amount for finance lease services provided by CCCC Financial Leasing to CCCG Group for the year ended 31 December 2018 are set out as follows:

	Annual cap for 2018 *(RMB million)*	Actual amount for 2018 *(RMB million)*
Aggregate amount for finance lease services provided by CCCC Financial Leasing to CCCG Group	3,080	1,381

Mutual Product Sales and Purchase Agreement entered into between the Company and CCCG

On 29 March 2018, the Company entered into the mutual product sales and purchase agreement with CCCG, pursuant to which the Group agreed to sell and CCCG Group agreed to purchase material products, while CCCG Group agreed to sell and the Group agreed to purchase engineering products for the period from 29 March 2018 to 31 December 2018.

On 29 March 2018, CCCG is the controlling Shareholder of the Company holding approximately 63.84% interests in the issued ordinary shares of the Company, and is therefore a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the transactions contemplated under the mutual product sales and purchase agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Hong Kong Listing Rules) of the proposed annual caps for the transactions contemplated under the mutual product sales and purchase agreement exceeds 0.1% but is less than 5%, the transactions contemplated under the mutual product sales and purchase agreement and the proposed annual caps are subject to the reporting, annual review and announcement requirements, but are exempt from the independent Shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Mutual Product Sales and Purchase Agreement entered into between the Company and CCCG (Continued)

For details of the continuing connected transaction, please refer to the announcement of the Company dated 29 March 2018.

The annual cap for the continuing connected transaction described above as compared with the actual aggregate amount for the fees to be received by the Group from CCCG Group and to be paid by the Group to CCCG Group for the year ended 31 December 2018 are set out as follows:

	Annual cap for 2018 *(RMB million)*	Actual amount for 2018 *(RMB million)*
Aggregate amount for the fees to be received by the Group from CCCG Group	300	286
Aggregate amount for the fees to be paid by the Group to CCCG Group	2,000	1,604

Explanation on the Continuing Connected Transactions of CCCC Finance and CCCC Financial Leasing

CCCC Finance is a non-bank financial institution established in July 2013 with the approval of the China Banking Regulatory Commission. CCCC Finance is jointly funded by CCCG and the Company (5% of CCCG, 95% of CCCC) with a registered capital of RMB3.5 billion.

As a specialized financial services company, CCCC Finance provides various professional financial services such as fund settlement, deposits, credit, entrusted loans, financial leasing, financial and financing consultants. The deposit and loan connected transactions between CCCC Finance and its connected persons are one of its main businesses. By absorbing the deposits of the members of CCCG and granting loans with reference to market pricing to improve the efficiency of capital use, which will have positive significance for the development of the Company and benefit the interests of the Company and all shareholders.

1. **Pricing Principle**

   The financial services provided by CCCC Finance to connected persons adopted a market-based fair pricing principle. When providing deposit service, the interest rate of deposit interest received by CCCG and its subsidiaries is not higher than the interest rate range set by the People's Bank of China for similar deposits during the same period, nor higher than the interest rate of similar deposit provided by CCCC Finance to other member of the Group during the same period. When providing loan services, the daily average amount of loan to CCCG and its subsidiaries is no more than 75% of the daily average deposit balance in CCCC Finance. The loan interest rate is implemented with reference to the price of similar products of the bank without violating the relevant policies of the People's Bank of China.

2. **Risk Management and Review Process**

   CCCC Finance has established certain internal rules and policies related to the management and control of operational risks and credit risks in accordance with relevant PRC laws and regulations regarding financial services, with a relatively complete internal control system. CCCC Finance has established a standardized corporate governance structure to ensure effective internal control, including the implementation of the general manager responsibility system under the leadership of the board of directors, established an organizational structure based on decision-making, implementation and regulatory regime, and formulated different work procedures and risk control systems based on different duties. CCCC Finance monitored transactions in a timely manner through centralized management, safe and effective business system.

   CCCC Finance conducts credit review before conducting business, and perform credit rating and credit asset rating based on internal rating standards, and regularly arrange post-loan inspections (every six months).

   The decision-making process of CCCC Finance is a three-tier structure of the shareholders' meeting, the board of directors and the general manager's office. CCCC Finance has four professional committees, namely the Audit and Internal Control Committee, the Risk Management Committee, the Credit Review Committee and the Investment Decision Committee, which manage and control the business, risks, internal control and major investments of CCCC Finance.

3. **Risk Control Measures of CCCC over CCCC Finance**

   The Company requires CCCC Finance to submit to the Company a monthly report on the provision of deposit services and loan services to CCCG and its subsidiaries, provide its financial statements on a quarterly basis, and provide a copy of the regulatory report submitted to the Bank of China Insurance Regulatory Commission. The independent non-executive directors and auditors of the Company will conduct an annual review on the continuing connected transactions under the Financial Services Agreement.

REPORT OF THE BOARD OF DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Explanation on the Continuing Connected Transactions of CCCC Finance and CCCC Financial Leasing (continued)

4. **2018 Deposit and Loan business of CCCC Finance**

   In 2018, the amount of deposits from connected persons to CCCC Finance amounted to approximately RMB45 billion, accounting for 4% of the total deposit of CCCC Finance, and paid interest of RMB78 million to connected persons. The loan amount to connect persons amounted to RMB670 million, accounting for 3% of the total loan amount of CCCC Finance, and collected a loan interest of RMB10 million.

CCCC Financial Leasing was established in Shanghai Free-Trade Zone in May 2014 with registered capital of RMB5 billion. The shareholding structure is as follows: 70% in total held by CCCC and its subsidiaries (45% by CCCC, 15% by Chuwa Bussan, 10% by CCCI), and 30% held by ZPMC. In 2017, CCCC's corporate credit rating was AAA.

CCCC Financial Leasing devotes itself to developing industry and finance, and provides comprehensive investment and financing services including finance leases, operating leases, and commercial factoring, expanding the financing channels for the principal business for CCCC. To expand business, CCCC Financial Leasing offers finance leases to CCCG and its subsidiaries at the same time and gains the profit. The above businesses are in the interests of the Company and the Shareholders as a whole.

1. **Pricing Principle**

   CCCC Financial Leasing provides CCCG with finance leases and commercial factoring services. Finance leases include, without limitation, direct leases, after-sale leaseback and other forms. Fixed assets under the finance leases service mainly includes construction equipment, hotel equipment and device, and commercial properties and its equipment. Commercial factoring includes, without limitation, recourse factoring agreements and non-recourse factoring agreements and other forms. The finance leases between CCCC Financial Leasing and connected persons (CCCG and its subsidiaries) adopted a market-based fair pricing principle. CCCC Financial Leasing entered into the finance lease transactions with connected persons at the interest rate which increased certain percentage according to the loan rates of the bank in the corresponding period (specific percentage depends on the credit information of the lessee) and is negotiated by CCCC Financial Leasing and the lease. CCCC Financial Leasing provided CCCG with the pricing principle of commercial factoring service, the quoted price of which is offered by CCCC Financial Leasing and determined by CCCG after negotiation with CCCC Financial Leasing with reference to the quoted price for the factoring service of same type offered by the independent third parties and with consideration for relevant factors. Designated departments and personnel of CCCG are responsible for reviewing the quoted price of the factoring of same type by the independent third parties and market trading price.

2. **Risk Control and Audit Procedures**

   CCCC Financial Leasing formulated certain internal rules and policies for managing and controlling the operating risks with a comprehensive internal control system. CCCC Financial Leasing has established standardized corporate governance structure to ensure the effectiveness of its internal control, including the implementation of the general manager responsibility system under the leadership of the board of directors, established an organizational structure based on decision-making, implementation and regulatory regime, and formulated different work procedures and risk control systems based on different duties. CCCC Financial Leasing monitored transactions in a timely manner through centralized management, safe and effective business system.

3. **Finance leases of CCCC Financial Leasing in 2018**

   For the year 2018, CCCC Financial Leasing entered into five finance lease transactions with the connected persons with the total amount of RMB1,182 million, accounting for 5% of the total amount of the finance leases of CCCC Financial Leasing for that year.

The independent non-executive Directors have reviewed the relevant agreements for the above non-exempt continuing connected transactions of the Group and the transactions contemplated thereunder and are of the opinion that such transactions are:

(i) entered into in the ordinary and usual course of business of the Group;

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

(iii) conducted on the term of the relevant transaction agreements, which are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

REPORT OF THE BOARD OF DIRECTORS

CONTINUING CONNECTED TRANSACTIONS (CONTINUED)

Explanation on the Continuing Connected Transactions of CCCC Finance and CCCC Financial Leasing (continued)

The auditors of the Company have performed certain procedures and issued a letter to the Board in accordance with Rule 14A.56 of the Hong Kong Listing Rules, stating that nothing has come to its attention that may cause it to believe that such transactions:

(i) have not been approved by the Board;

(ii) were not entered into, in all material respects, in accordance with the pricing policy of the Company if the transactions involved the provision of goods or services by the Group;

(iii) were not entered into, in all material respects, in accordance with the relevant agreements governing these transactions; and

(iv) the actual annual amounts have exceeded the relevant caps as previously disclosed in the announcements of the Company.

Others

Except the aforesaid connected transactions, the Group did not enter into any other connected transactions or continuing connected transactions which should comply with the reporting, announcement and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

For related party transactions discussed in Note 48 of the audited financial statements which are also connected transactions under Chapter 14A of the Hong Kong Listing Rules, the Company had made disclosure when required under the Hong Kong Listing Rules.

EMPLOYEES

As at 31 December 2018, the Group had 135,813 employees that had signed labor contracts with the Group. The Group was responsible for the expenses of 50,041 retired employees. The breakdown of employees as at 31 December 2018 was as follows:

1. Categorized by Major

Major	Number of Employees	Percentage
Management	29,947	22.0%
Specialist	88,533	65.2%
Technician	17,333	12.8%
Total	135,813	100.0%

2. Categorized by Degree Held

	Number of Employees	Percentage
Master and above	12,324	9.1%
Bachelor	80,527	59.3%
Junior college degree	22,833	16.8%
Associate degree	4,484	3.3%
Junior high school degree and other	15,645	11.5%
Total	135,813	100.0%

Note: The percentage figures mentioned above have been rounded to the nearest one decimal places.

REPORT OF THE BOARD OF DIRECTORS

EMPLOYEES (CONTINUED)

2. Categorized by Degree Held (continued)

In accordance with applicable regulations, the Group makes contributions to the employees' pension plan, medical insurance plan, unemployment insurance plan, maternity insurance plan and personal injury insurance plan. The amount of contributions is based on the specified percentages of employees' aggregate salaries as provided for by relevant PRC authorities. The Group also makes contributions to an employee housing fund according to applicable PRC regulations. In addition to statutory contributions, the Group also provides voluntary benefits to current employees and retired employees. Current employees of the Group are also entitled to performance-based annual bonus. Please refer to Note 32 of the audited financial statement for details of the payroll and social security payable by the Company during the year ended 31 December 2018. Please refer to Note 9 of the audited financial statement for information about the emoluments of the directors and chief executives. Please refer to Note 35 of the audited financial statements for details of the supplementary pension subsidies and medical benefits provided by the Company to its employees.

BUSINESS REVIEW

Please refer to the section of "Management's Discussion and Analysis" in this report for the principal risks and uncertainties of the Group. Please refer to the section of "Business Overview" in this report for business review and business outlook of the Group.

MATERIAL LAWSUITS AND ARBITRATIONS

As at 31 December 2018, as far as the Directors are aware, except as disclosed in Note 42 of the audited financial statements, the Group was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Group.

AUDITORS

On 26 April 2016, the Board resolved to propose the appointment of Ernst & Young and Ernst & Young Hua Ming LLP as the international auditor and the domestic auditor of the Company, respectively. The 2015 annual general meeting of the Company held on 16 June 2016 considered and approved the appointment of Ernst & Young as the Company's international auditor to replace PricewaterhouseCoopers and Ernst & Young Hua Ming LLP as the Company's domestic auditor to replace PricewaterhouseCoopers Zhong Tian LLP for a term starting from the date of passing the resolution at the 2015 annual general meeting and ending at the 2016 and 2017 annual general meeting of the Company. The 2016 and 2017 annual general meetings of the Company held on 16 June 2017 and 20 June 2018 considered and approved the re-appointments of Ernst & Young as the Company's international auditor and Ernst & Young Hua Ming LLP as the Company's domestic auditor for a term starting from the date of passing the resolution at the 2016 and 2017 annual general meetings and ending at the 2017 and 2018 annual general meetings of the Company, respectively. Ernst & Young has audited the accompanying financial statements, which have been prepared in accordance with IFRS.

On 8 December 2018, the EPC Project for Relocation (Phase II) – Comfortable Housing Project aimed for Targeted Poverty Alleviation of Maizhokunggar County was completed, which was a key project of Lhasa “Poverty Alleviation by Relocation” Initiative.

REPORT OF THE SUPERVISORY COMMITTEE

In 2018, the Supervisory Committee of the Company fulfilled its duties with dedication, diligence and responsibility, performed its duties carefully and exercised its supervisory authority in accordance with the Company Law, the Articles of Association and the requirements of rules and regulations of the Supervisory Committee. The Supervisory Committee thoroughly inspected the financial positions and material decisions of the Company as well as the implementation of the resolutions of the shareholders' meeting and the Board meeting, independently supervised legal compliance of the Company's operations and duty performance of the Company's Directors and senior management, maintained the legitimate interests and rights of the Company and its shareholders, and greatly promoted the healthy operations of the Company, thereby offering guarantee and support for developing the Company into a world-class enterprise with global competence.

I. STANDARDIZING SUPERVISION OVER PROCEDURES TO SAFEGUARD COMPLIANT OPERATION

In 2018, the Supervisory Committee of the Company totally held 13 meetings, and considered a total of 61 resolutions. All Supervisors attended and voted at such meetings except for Mr. Yao Yanmin, a supervisor, who was unable to attend the 8th meeting of the fourth session of the Supervisory Committee due to business engagement and appointed Mr. Wang Yongbin, a supervisor, to attend the meeting and vote on his behalf. The number of Supervisors attending at the meetings and the procedures for convening such meetings were all in compliance with the provisions of the Company Law and the Articles of Association. The resolutions adopted at such meetings were all announced according to requirements, except for that announcement was not required as only the 2018 First Quarterly Report of the Company was considered at the 6th meeting of the fourth session of the Supervisory Committee convened on 27 April 2018. The resolutions considered at the meetings of the Supervisory Committee are detailed as follows:

During the reporting period, the Supervisory Committee considered a total of 12 resolutions on routine supervision matters (including regular financial reports and annual production and operation objectives of the Company); considered a total of 6 resolutions on use of funds, which ensured that the deposit and use of proceeds of the Company fulfilled regulatory provisions as well as the intended use of proceeds and the undertakings of related parties; considered a total of 26 resolutions on related-party (connected) transactions, which ensured that the plans and relevant annual caps for related-party (connected) transactions were determined in a scientific and reasonable manner and the pricing of related-party (connected) transactions was fair under transparent procedures; considered a total of 4 resolutions on guarantees, which further improved prevention of guarantee risk of the Company; considered a total of 2 resolutions on convertible bonds, which ensured the strict execution of procedures by the Company and the standardization of the issuance of convertible bonds; considered a total of 4 resolutions on investment projects, which facilitated the rational control by the Company over investment scale, standardized the introduction of financing channels, and practically prevented investment risk.

In 2018, the Supervisory Committee convened 2 regular meetings in total. At the regular meeting convened on 29 March 2018, the Priorities in Work of the Supervisory Committee for 2018 and the Supervision and Inspection Plan for 2018 was considered, which defined the ways for supervision and inspection and the key areas concerned with an aim to further improve the planning and scientificity of the work of the Supervisory Committee and laid a solid foundation for continuous improvement in the effectiveness of supervision and development of its role in supervision.

II. IMPLEMENTING SUPERVISION AND INSPECTION TO IMPROVE OPERATION QUALITY AND EFFICIENCY

During the reporting period, in addition to convening regular meetings to consider relevant resolutions, the Supervisory Committee also carried out supervision work through overseas field inspection and domestic special survey by focusing on financial inspection and adhering to strategy-oriented, issue-oriented, market-oriented, value-oriented and high objective-oriented principles. In respect of special survey of loss-making projects, the Supervisory Committee identified the fundamental reasons for the loss of such projects through debriefing, site survey, feedback and exchange focusing on project management quality and operation performance of key projects of CCCC Second Harbor Engineering Company Ltd., CCCC Fourth Harbor Engineering Company Ltd., CCCC First Highway Engineering Co., Ltd. and CCCC Second Highway Engineering Co., Ltd., and analyzed the weakness in management, summarized experience in loss prevention and reduction, formed suggestions for management and reported to the management of the Company. In respect of overseas on-site inspection, the Supervisory Committee conducted on-site inspections on quality and efficiency improvement of overseas projects for Mombasa-Nairobi Railway in Africa, Ethiopia Office of China Road & Bridge Corporation and Maputo Bridge in Mozambique, and provided optimization suggestions for improving overall management capability of large projects, resource allocation and business reception capability of overseas regional headquarters, and integrated management capability of operation projects according to inspection results. Upon completion of on-site inspection and survey, the Supervisory Committee continuously followed up the implementation of suggestions proposed and ensured the practical implementation of relevant measures with effective rectification results. According to the supervision work throughout the year, the Supervisory Committee organized and summarized common problems, issued annual supervision opinions, and also provided suggestions for improving project management quality and project operation performance in respect of improving information-based and standard management level, strengthening talent team building and improving assessment and incentive mechanism, etc., which contributed to the sustainable sound development of the Company.

REPORT OF THE SUPERVISORY COMMITTEE

III. STRENGTHENING FUNCTION DEVELOPMENT TO IMPROVE SUPERVISION SYSTEM

During the reporting period, the Supervisory Committee of the Company further strengthened the top-level design, established and improved the annual work report system of the supervisory committees of wholly-owned subsidiaries, and formed into the up-and-down interconnected supervision work mechanism. The supervisory committees at various levels were advanced to practice their supervision duties, reinforce their inspection efforts, and enhance their supervision quality and effectiveness to fully maintain the interests of shareholders. The Company also promoted the construction of working institutions of the Supervisory Committee, so as to standardize the working institutions and staffing of the supervisory committees for subsidiaries, clarify the functions and business processes of the institutions, and offer effective guarantee for supervision and duty performance of the supervisory committees at various levels. The business guidance and process control of the supervisory committees for subsidiaries were strengthened to further improve the construction of mechanisms and systems for the supervisory committees at various levels, thereby effectively enhancing the corporate governance capability and level. In 2018, the Company held the CCCC Supervisory Committee Work Training Program and a total of 93 supervisors from secondary subsidiaries participated in business training. By explaining frequently asked questions, such as function positioning and duty performance procedures of supervisory committee, regulatory provisions, internal control building and internal audit, duty performance level of members of supervisory committees of all units was improved. The training program offered a structured discussion on "how to achieve effective supervision results and improve the value of supervision", and provided a useful exploration into the improvement of supervision results of the supervisory committees of all units. The Company formulated and issued the Work Manual of Supervisory Committee of CCCC which systematically elaborated the theoretical origin of supervisory committee, laws and regulations, regulatory provisions and corporate systems, incorporated excellent cases and answered frequently asked questions, hence providing an important reference for the supervisory committees of all units to improve duty performance efficiency and supervision result.

IV. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT ISSUES OF THE COMPANY DURING THE REPORTING PERIOD

(I) Independent Opinions of the Supervisory Committee on the Legal Compliance of the Operations of the Company in 2018

During the reporting period, the Supervisory Committee supervised the duty performance of the Directors and senior management of the Company, attended the Board meetings and shareholders' meetings, and supervised the significant decisions and decision-making procedures. The Supervisory Committee was of the opinion that the Board operated in strict compliance with the Company Law, Securities Law, the Articles of Association and other relevant laws, regulations and requirements and operated lawfully. Significant operational decisions made by the Company were reasonable and the procedures were legitimate and valid. The Company further established and refined its internal management system and internal control system. Directors and senior management of the Company had duly performed their duties with dedication, diligence and responsibility in strict compliance with the laws and regulations of the PRC, the Articles of Association, resolutions of the shareholders' meeting and resolutions of the Board meeting. The Supervisory Committee was not aware of any act of the Directors or senior management of the Company which was in violation of any laws, regulations and the Articles of Association or was detrimental to the interests of the Company and its shareholders.

(II) Independent Opinions of the Supervisory Committee on the Review of the Financial Positions of the Company

During the reporting period, the Supervisory Committee examined and supervised the financial operations of the Company through listening to the debriefing report of the responsible person of the financial department of the Company, reviewing the financial statements of the Company, deliberating the regular reports of the Company and conducting the on-site investigation. The Supervisory Committee was of the opinion that the financial system of the Company in 2018 was comprehensive, the financial control effect was outstanding, the procedures for various regular reports complied with the laws, administrative regulations and provisions of the CSRC and that the financial report gave a true view of financial positions and operating results of the Company. The accounting firm has audited the financial report of the Company and issued a standard and unqualified audit report confirming that the financial report of the Company was in compliance with the related provisions of Enterprise Accounting Standards and Enterprise Accounting System and gave an objective, fair, true and accurate view of statement of affairs of the Company in 2018, and that there were no false representations, misleading statements, or material omissions contained therein.

REPORT OF THE SUPERVISORY COMMITTEE

IV. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT ISSUES OF THE COMPANY DURING THE REPORTING PERIOD (CONTINUED)

(III) Independent Opinions of the Supervisory Committee on the Use of Proceeds

During the reporting period, the Company ensured that the proceeds were safely utilized and placed, and used the proceeds in strict compliance with the relevant requirements of usage of the proceeds. The Supervisory Committee considered that the actual usage of the proceeds was in line with the committed purposes without prejudice to the interests of the Company and the shareholders during the reporting period.

(IV) Independent Opinions of the Supervisory Committee on Related-Party/Connected Transactions

During the reporting period, the Supervisory Committee duly supervised the related-party/connected transactions of the Company and was of the opinion that all related-party/connected transactions made by the Company were in compliance with the rules and regulations under the Company Law, Securities Law, Rules Governing the Listing of Stocks on Shanghai Stock Exchange and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as well as the provisions under the Articles of Association, Rules for the Management of A Share Related-party Transactions of China Communications Construction Company Limited, and the Rules for the Management of Related-party/Connected Transactions of China Communications Construction Company Limited. All related-party/connected transactions of the Company were conducted at fair market prices after thorough discussion and cautious decision-making by the Board and the management under the principle of making compensation for equal value. The legal approval procedures were followed and no acts were found to be in violation of open, equal and fair principles. No acts were detrimental to the interests of the Company and the minority shareholders.

(V) Review of the Supervisory Committee on the Self-Assessment Report on Internal Control

During the reporting period, the Supervisory Committee reviewed the Self-Assessment Report on Internal Control and considered that the Company had complied with the laws and regulatory requirements, further improved the internal control system and improved the internal control organization mechanism with reference to its actual conditions and ensured the orderly function of the Company's production and operation as well as the effective implementation of the internal control system. In 2018, the Company's key internal control activities were regulated, conducted in compliance with the law and were valid without any instance of breaching the relevant requirements of the national securities regulatory authorities and the Company's internal control system. To sum up, the Supervisory Committee considered that the 2018 Self-Assessment Report on Internal Control reflected the actual situation of the establishment, improvement and operation of the Company's internal control system in a comprehensive, objective and truthful manner.

(VI) Opinions of the Supervisory Committee on Implementation of the System of Registration of Owners of Insider Information

During the reporting period, the Company registered for record of relevant insider information in accordance with the management system for insider information. Through verification, the Supervisory Committee were unaware that the directors, supervisors and senior management of the Company and relevant owners of insider information bought or sold shares on the basis of inside information before the disclosure of material and sensitive information that may affect stock price of the Company.

In 2019, the Supervisory Committee will perform its duties with dedication and diligence, further promote the inspection depth and expand the supervision breadth by innovating the work modes, improve the work mechanism and refining the duty performance procedures, further strengthen function development, improve supervision system and the value of supervision, and make new contributions to the continual perfection of the Company's corporate governance structure and the sustainable development of the Company.

On 19 December 2018, the Phase II Project undertaken by CCCC, one of the four major bid sections of Xiamen Metro Line 2, realised tunnel connection.

CORPORATE GOVERNANCE REPORT

OVERVIEW

As a both H share and A share company, the Company operates in strict compliance with the requirements of the applicable laws, administrative regulations and regulatory documents, including the Company Law, the Securities Law and relevant rules of the Hong Kong Stock Exchange in relation to corporate information disclosure, the management and services of investor relations. In addition, the Company amended the Articles of Association and the related internal governance rules in 2011 and 2012 according to the requirements of the laws and regulations of the Code of Corporate Governance for Listed Companies, Rules for Shareholders' General Meetings of Listed Companies, the Guidelines for the Articles of Association of Listed Companies (as amended in 2006) and the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (as Amended in 2008). As a result, the Company has set up a corporate governance system that complies with the regulatory requirements for domestic listed companies and has further enhanced its corporate governance standard. During the reporting period, the Company had effectively implemented the corporate governance rules, including the Articles of Association, the Rules of Procedures for General Meetings, the Rules of Procedures for Board Meetings, the Working Manual of Independent Directors, the Rules of Procedures for the Supervisory Committee Meetings and the Working Rules of the President. The general meetings, Board meetings and Supervisory Committee meetings are convened independently and efficiently with their respective duties and obligations fully fulfilled.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to high standards of corporate governance. The Board believes that the Company complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules ("Corporate Governance Code") for the year ended 31 December 2018.

THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

As at 31 December 2018, the Board consisted of eight Directors, including three Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. Members of the Board were as follows:

Chairman of the Board: Liu Qitao

Executive Directors: Liu Qitao, Song Hailiang and Chen Yun

Non-executive Director: Liu Maoxun and Qi Xiaofei

Independent Non-executive Directors: Huang Long, Zheng Changhong and Ngai Wai Fung

The Company has appointed a sufficient number of Independent Non-executive Directors in compliance with the Rule 3.10A of the Hong Kong Listing Rules which requires that independent non-executive directors shall represent at least one-third of the board of a listed company.

The Company has received the confirmation on independence from each of the Independent Non-executive Directors for the year 2018 and the Company considers each Independent Non-executive Director to be independent.

Pursuant to the Articles of Association, the term of office for Directors (including Independent Non-executive Directors) is three years, which is renewable upon re-election and re-appointment and each Independent Non-executive Director shall not serve that position for more than six consecutive years in order to ensure its independence.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS (CONTINUED)

2. Shareholders' General Meetings

In 2018, the Company held two shareholders' general meetings. The table below sets out the details of shareholders' general meeting attendance of each Director in 2018:

Director	Number of Meetings Attended
Liu Qitao	2
Chen Fenjian(Note 1)	1
Fu Junyuan(Note 2)	0
Song Hailiang(Note 3)	0
Chen Yun	1
Liu Maoxun	2
Qi Xiaofei	1
Huang Long	2
Zheng Changhong	2
Ngai Wai Fung	2

Note 1: Mr. Chen Fenjian resigned as the Executive Director on 16 July 2018.

Note 2: Mr. Fu Junyuan resigned as the Executive Director on 27 September 2018.

Note 3: Mr. Song Hailiang was elected as the Executive Director on 20 November 2018.

3. Board Meetings

In 2018, the Company held 15 board meetings to discuss the fundamental system, the internal control system, the establishment of branches, fund raising and investment opportunities, the election of the Board and the appointment of the senior management of the Company. The table below sets out the details of Board meeting attendance of each Director in 2018:

Director	Number of Meetings to be Attended	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Liu Qitao	15	15	0	100%
Chen Fenjian(Note 1)	6	5	1	83%
Fu Junyuan(Note 2)	8	7	1	88%
Song Hailiang(Note 3)	4	4	0	100%
Chen Yun	15	12	3	80%
Liu Maoxun	15	15	0	100%
Qi Xiaofei	15	15	0	100%
Huang Long	15	15	0	100%
Zheng Changhong	15	15	0	100%
Ngai Wai Fung	15	15	0	100%

Note 1: Mr. Chen Fenjian resigned as the Executive Director on 16 July 2018.

Note 2: Mr. Fu Junyuan resigned as the Executive Director on 27 September 2018.

Note 3: Mr. Song Hailiang was elected as the Executive Director on 20 November 2018.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS (CONTINUED)

4. Responsibilities and Operations of the Board

The principal responsibilities of the Board are, among other things, making decisions on business strategies, business plans, material investment plans, formulating annual financial budget, proposing profit distribution plan, appointing and dismissing the President of the Company and implementing shareholders' resolutions. There are currently four committees established under the Board, being the Strategy and Investment Committee, the Audit and Internal Control Committee, the Remuneration and Appraisal Committee and the Nomination Committee. Each committee has its respective operation rules and reports to the Board regularly.

The division of power between the Board and senior management complies with the Articles of Association and relevant regulations. The Chairman of the Board is responsible for ensuring that the Directors perform their duties properly and ensuring discussions on material matters are on a timely basis. Pursuant to the Articles of Association, the President is responsible to the Board and is delegated the authority to, among other things, oversee the operation and management of the Company, implement the decisions of the Board, carry out investment plans and establish an internal management system. While at all times the Board retains full responsibility for guiding and monitoring the Company in discharging its duties, the Board has also delegated the responsibility of implementing its strategies and the day-to-day operation to the management of the Company under the leadership of the executive Directors of the Company. Clear guidance has been made as to the matters that should be reserved to the Board for its decision which include matters on, inter alia, capital, financing and financial reporting, internal controls, communication with Shareholders and corporate governance. For the year ended 31 December 2018, Mr. Liu Qitao served as the Chairman of the Board, while Mr. Chen Fenjian served as the vice Chairman of the Board and the President of the Company for the period ended 16 July 2018 and Mr. Song Hailiang served as the President of the Company since 22 October 2018.

The corporate governance functions of the Company are performed by the Board. In 2018, the Board reviewed the Company's policies and practices on corporate governance, reviewed and monitored the training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements as well as the company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

5. Code for Securities Transactions by Directors

The Company has adopted the Model Code. The Company has made specific inquiries with all of its Directors and Supervisors. Each of the Directors and Supervisors has confirmed his compliance with the requirements set out in the Model Code for the year ended 31 December 2018.

6. Directors' Training

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has provided a comprehensive induction package covering the summary of the responsibilities and liabilities of a director of a Hong Kong listed company, the Company's constitutional documents and A Guide on Directors' Duties issued by the Companies Registry of Hong Kong to each newly appointed Director to ensure that he/she is fully aware of his/her responsibilities and obligations under the Hong Kong Listing Rules and other regulatory requirements. For the year ended 31 December 2018, Qi Xiaofei attended the training course for the party members and leading cadres of the full-time external director of Central Enterprises once, the training course for the external director of Central Enterprises twice, the rotational training course on conference spirit of the 19th CPC National Congress for the full-time external director of Central Enterprises once and the Singapore Temasek Board Operational Training Course once, all of which were organized by the SASAC. Liu Maoxun attended the training course for the party members and leading cadres of the full-time external director of Central Enterprises once, the training course for the external director of Central Enterprises once and the rotational training course on conference spirit of the 19th CPC National Congress for the full-time external director of Central Enterprises once, all of which were organized by the SASAC. Huang Long attended the training course for the external director of Central Enterprises organized by the SASAC once. Zheng Changhong attended the 60th Independent Directors' Qualification Training organized by the Shanghai Stock Exchange and obtained the diploma. Ngai Wai Fung attended the training by way of meeting in relation to listing rules and duties of Directors for over 60 hours.

The Company Secretary reports from time to time the latest changes and development of the Hong Kong Listing Rules, Corporate Governance Code and other regulatory regime to the Directors with written materials, as well as organizes seminars on the professional knowledge and latest development of regulatory requirements related to director's duties and responsibilities. During 2018, the Company Secretary undertook over 15 hours of professional training to update his skills and knowledge.

THE BOARD OF DIRECTORS (CONTINUED)

7. Committees under the Board

(a) Strategy and Investment Committee

The main duties of the Strategy and Investment Committee include, among other things, to review proposals and to make recommendations to the Board regarding the Company's strategic development plans, annual budgets, capital allocation plans, significant mergers and acquisitions and significant financing plans.

As at 31 December 2018, the Strategy and Investment Committee consisted of five members, namely Mr. Liu Qitao, Mr. Song Hailiang, Mr. Chen Yun, Mr. Liu Maoxun and Mr. Qi Xiaofei, and is chaired by Mr. Liu Qitao.

The Strategy and Investment Committee held 3 meeting in 2018 to review and discuss issues relating to the establishment and subscription plan of the fund, and provide recommendations on major issues such as domestic and overseas investment plans of the Company. The table below sets out the details of the Strategy and Investment Committee meeting attendance of each Director in 2018:

Director	Number of Meetings to be Attended	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Liu Qitao	3	3	0	100%
Chen Fenjian*(Note 1)*	2	2	0	100%
Fu Junyuan*(Note 2)*	3	3	0	100%
Song Hailiang*(Note 3)*	0	0	0	100%
Chen Yun	3	3	0	100%
Liu Maoxun	3	3	0	100%
Qi Xiaofei	3	3	0	100%

Note 1: Mr. Chen Fenjian ceased to serve as a member of the Strategy and Investment Committee with effect from 16 July 2018.

Note 2: Mr. Fu Junyuan ceased to serve as a member of the Strategy and Investment Committee with effect from 27 September 2018.

Note 3: Mr. Song Hailiang became a member of the Strategy and Investment Committee with effect from 20 November 2018.

(b) Audit and Internal Control Committee

The main duties of the Audit and Internal Control Committee include, among other things,

- to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor and the remuneration and terms of engagement of the external auditor;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- to monitor the integrity of financial statements of the Company and the Company's annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them; and
- to oversee the Company's financial reporting system and internal control procedures, including but not limited to, review of financial controls, internal control and risk management systems, consideration of action on any findings of major investigations of internal control matters as delegated by the Board or at its own initiative and management's response thereto, and review of the Company's financial and accounting policies and practices.

As at 31 December 2018, the Audit and Internal Control Committee consisted of four members, namely Mr. Liu Maoxun, Mr. Huang Long, Mr. Zheng Changhong and Mr. Ngai Wai Fung, and is chaired by Mr. Ngai Wai Fung. Three out of the four members of the Audit and Internal Control Committee were Independent Non-executive Directors.

CORPORATE GOVERNANCE REPORT

THE BOARD OF DIRECTORS (CONTINUED)

7. Committees under the Board (continued)

(b) Audit and Internal Control Committee (continued)

The Audit and Internal Control Committee held 12 meetings in 2018 to discuss, among other things, the audited annual financial statements of 2017, the internal control report of the Company of 2017, the internal audit summary of 2017 and the plan of 2018, the report of duty performance of the Audit and Internal Control Committee in 2017, the quarterly financial reports of 2018 and the interim financial report of 2018, the re-appointment of the international and domestic auditors for 2018 and their remuneration, the change of domestic accounting policy and matters concerning connected transactions. The table below sets out the details of Audit and Internal Control Committee meeting attendance of each Director in 2018:

Director	Number of Meetings to be Attended	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Liu Maoxun	12	12	0	100%
Huang Long	12	12	0	100%
Zheng Changhong	12	12	0	100%
Ngai Wai Fung	12	12	0	100%

(c) Remuneration and Appraisal Committee

The main duties of the Remuneration and Appraisal Committee include, among other things:

- to make recommendations to the Board on the Company's policy and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent process for developing policy on such remuneration;
- to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment) and make recommendations relating to the remuneration of independent non-executive Directors to the Board; and
- to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

As at 31 December 2018, the Remuneration and Appraisal Committee consisted of four members, namely Mr. Qi Xiaofei, Mr. Huang Long, Mr. Zheng Changhong and Mr. Ngai Wai Fung and is chaired by Mr. Huang Long. Three out of four members of the Remuneration and Appraisal Committee were Independent Non-executive Directors.

The Remuneration and Appraisal Committee held 2 meetings in 2018 to review and discuss the report on payment of total remuneration of CCCC for the year 2017, the report on total remuneration budget scheme of CCCC for the year 2018, the recommendation on the assessment of operational performance and remuneration of senior management of CCCC for the year 2017 and the remuneration standard for the chairman of the Supervisory Committee and secretary of the Board. The table below sets out the details of Remuneration and Appraisal Committee meeting attendance of each Director in 2018:

Director	Number of Meetings to be Attended	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Qi Xiaofei	2	2	0	100%
Huang Long	2	2	0	100%
Zheng Changhong	2	2	0	100%
Ngai Wai Fung	2	2	0	100%

THE BOARD OF DIRECTORS (CONTINUED)

7. Committees under the Board (continued)

(d) Nomination Committee

The main duties of the Nomination Committee include, among other things, to study the recruiting standard and procedure in respect of nomination of Directors and President and to review the credentials of Director or President candidates and make recommendations to the Board.

The Directors were nominated by criteria such as personal integrity, work experience relating to the Company's core business, performance track record, professional background, familiarity with corporate governance requirements for listed companies, etc.

As at 31 December 2018, the Nomination Committee consisted of five members, namely Mr. Liu Qitao, Mr. Song Hailiang, Mr. Huang Long, Mr. Zheng Changhong and Mr. Ngai Wai Fung, and is chaired by Mr. Liu Qitao.

The Nomination Committee held 2 meeting in 2018 to discuss the appointment of the chief financial officer of the Company. The table below sets out the details of Nomination Committee meeting attendance of each Director in 2018:

Director	Number of Meetings to be Attended	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Liu Qitao	2	2	0	100%
Chen Fenjian(Note 1)	0	0	0	100%
Song Hailiang(Note 2)	0	0	0	100%
Huang Long	2	2	0	100%
Zheng Changhong	2	2	0	100%
Ngai Wai Fung	2	2	0	100%

Note 1: Mr. Chen Fenjian ceased to serve as a member of the Nomination Committee with effect from 16 July 2018.

Note 2: Mr. Song Hailiang became a member of the Nomination Committee with effect from 20 November 2018.

For the year ended 31 December 2018, the Nomination Committee adopted a basic policy concerning diversity of Board members. Nomination Committee may consider diversity of Board members from a number of aspects, including but not limited to gender, age, ethnicity, education, specialty, experience, skills, knowledge and length of service and so forth. When reviewing the size and composition of the Board and searching for and recommending candidates for Directors, the Nomination Committee should take into account relevant factors mentioned above to try to achieve the diversity of the Board members in accordance with the Company's development strategy, business needs and specific functions of job vacancy. Upon selection, the Nomination Committee shall make a final recommendation to the Board based on merit of the selected candidates and fits with the development of the Company.

SUPERVISORY COMMITTEE

The Supervisory Committee is responsible for supervising the Board, its individual members and senior management to safeguard against any potential abuse of authority by the Board, its individual members and senior management so as to protect the interests of the Company and its Shareholders as a whole. As at 31 December 2018, the Supervisory Committee of the Company consisted of three members, Mr. Li Sen, Mr. Wang Yongbin and Mr. Yao Yanmin (as the representative of employees). The term of office for supervisors is three years which is renewable upon re-election.

The Supervisory Committee held 13 meetings in 2018 to consider and approve the 2017 report of the Supervisory Committee, the 2017 internal control assessment report of the Company, the 2018 first quarterly report, the 2018 third quarterly report of the Company and etc.. The table below sets out the details of Supervisory Committee meeting attendance of each Supervisor in 2018:

Supervisors	Number of Meetings to be Attended	Number of Meetings Attended in Person	Number of Meetings Attended by Proxy	Attendance Rate
Li Sen (chairman)	13	13	0	100%
Wang Yongbin	13	13	0	100%
Yao Yanmin	13	12	1	92%

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

Ernst & Young and Ernst & Young Hua Ming LLP are appointed as the international and domestic auditors of the Company, respectively. Breakdown of the remuneration to Ernst & Young and Ernst & Young Hua Ming LLP for audit services and other non-audit services provided for the year ended 31 December 2018 are as follows:

	RMB'000
Audit services	21,800
Other non-audit services	2,456

The Company has resolved the resolution on appointment of auditors at the 20th meeting of the fourth session of the Board, which will then be submitted to the AGM for consideration and approval.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Company's internal control and risk management system and reviews its efficiency through the Audit and Internal Control Committee. The Board and the Audit and Internal Control Committee of the Company will receive from the management the information about the internal control and risk management on a regular basis (at least once a year). The Company's internal control and risk management system is designed to manage risks and is unable to ensure the elimination of all risks. Such system can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company builds a comprehensive risk management-oriented internal control system. It determines the key points of internal control by identifying and assessing risks; improves the efficiency of internal control by optimizing processes and perfecting systems; enhances the executive ability of internal control by strengthening supervision and check. The risk management system of the Company mainly assesses the risk identification, risk analysis, risk response, etc.; includes the risk evaluation in the approval process on major investment projects by optimizing the risk evaluation mechanism; continuously advances the annual risk management report system; identifies major important risks and formulates the response strategy and measures in terms of these risks by combining with internal control department; regularly tracks the implementation of response measures for major important risks so as to further improve the risk management level of the Company. The Company has established a risk management structure with distinct hierarchy and reasonable authorization. The Company's functional departments and their organizations shall perform identification and response for major risks on the basis of respective duties, and shall report to the Audit and Internal Control Committee of the Company annually. The management and the Audit and Internal Control Committee of the Company carry out the annual assessment and review of risk control of all functional departments. Matters to be assessed include changes in nature and severity of material risks subsequent to review in the previous year, the Company's abilities to respond to material risks and the assessment on material risk management and internal control errors or material risk management and internal defects identified during the period. Based on the assessment, the Audit and Internal Control Committee arranges the annual work plan, which covers the Company's strategies, market, operation, financial capital, law and major procedures of its affiliated entities, and urges relevant entities to rectify the problems identified in the audit process and reports the progress of rectification to the management and the Audit and Internal Control Committee of the Company on a regularly basis.

The Company establishes a supervision mechanism for internal control, and stipulates its duty and powder, job requirements and methods. The Supervisory Committee supervises the establishment and the implement of internal control by the Board; the Board and the Audit and Internal Control Committee supervise the internal control system of the Company; the supervisory departments carry out supervision on performance, discipline inspection and matters related tendering and bidding and bulk purchase of the Company; the audit departments audit and supervise the operation management, financial revenue and expenditure and economic results of the entities.

The Company's assessment process of internal control strictly implement basic specifications, assessment guideline and procedures stipulated in internal system. The internal control assessment group is set up, which made up of members from, among other things, strategy & development department, finance & fund department, audit department and other business departments, to carry out work by three steps including self-evaluation, defect rectification and sampling inspection by the Company. The affiliated entities implement the process of self-evaluation under unified deployment by the Company. The assessment collects the data and information related to the planning and operation of internal control of the Company by interview, sampling, walk through test and field inspection, on a business occurrence frequency basis, and fills out the working paper of the assessment honestly, which give a the true process of internal control of the Company.

During the reporting period, the Board reviewed and evaluated the internal control and risk management system. The Board considered that the Company's internal control and risk management system was effective. The 2018 Internal Control Self-assessment Report of the Company has been published on the Company's website.

CORPORATE GOVERNANCE REPORT

INSIDER INFORMATION

The Company formulated the Insider Information Management System, which set out the detailed rules for the handing, disclosure and internal control of inside information. In 2018, the Company strictly implemented the abovementioned policies, further strengthened the identification and evaluation work for inside information and narrowed down the scope of insiders as far as possible. Besides, before the disclosure of an inside information in accordance with law, the Company conducted strict registration for and management over the insiders. In case of major events which require deferral or exemption of disclosure, the main department or person in charge of the specific work shall, in addition to filling in the insider registration form, prepare the memorandum on progress of material matters, including but not limited to the time of various key nodes in the course of planning and decision-making, list of personnel participating in planning and decision-making, and the means of planning and decision-making. The relevant personnel involved in planning and decision-making shall sign and confirm on the memorandum, so as to ensure the relevant insiders to fulfill their confidentiality obligation, and effectively prevent the leakage of the information.

The Company attaches great importance to internal control and its corporate social responsibility. The 2018 Social Responsibility Report of the Company has been published on the Company's website.

ACCOUNTABILITY OF THE DIRECTORS IN RELATION TO FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of the financial statements for each fiscal period. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected appropriate accounting policies and applied them consistently and made prudent and reasonable judgment and estimates so as to give a true and fair view of the state of affairs of the Company and of the results and cash flow for that fiscal year.

SHAREHOLDERS' RIGHTS

The Company is committed to pursue active communications with Shareholders as well as to provide disclosure of information concerning the Group's material developments to Shareholders, investors and other stakeholders.

The AGM of the Company serves as an effective forum for communication between Shareholders and the Board. Notice of the AGM together with the meeting materials will be dispatched to all Shareholders not less than 45 days prior to the AGM. The Chairman of the Board and of the Strategy and Investment Committee, Audit and Internal Control Committee, Remuneration and Appraisal Committee and Nomination Committee, or in their absence, other members of the respective Committees, will be invited to the AGM to answer questions from Shareholders. External auditors will also be invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and the independence of auditors.

Shareholders individually or jointly holding in aggregate more than 10% of the shares of the Company are entitled to request the convention of a shareholders' general meeting. Shareholders individually or jointly holding more than 3% of the shares of the Company shall have the right to submit proposals to the Company at a shareholders' general meeting. Shareholders individually or jointly holding more than 3% of the shares of the Company may bring forward provisional proposals and submit the same in writing to the convener ten days prior to a shareholders' general meeting.

Voting by Shareholders at a shareholders' general meeting will be conducted by poll in accordance with the Hong Kong Listing Rules, unless otherwise required and permitted. Detailed procedures for conducting a poll will be explained to the Shareholders at the inception of a shareholders' general meeting to ensure that Shareholders are familiar with such voting procedures. Separate resolution will be proposed by the chairman of a shareholders' general meeting for each material issue. Poll results will be posted on the websites of the Company and the Hong Kong Stock Exchange on the same business day of the shareholders' general meeting.

Pursuant to the Articles of Association, a special general meeting can be convened upon the written requisition by any two or more Shareholders holding in aggregate not less than 10% in the paid up capital of the Company, provided that at the date of the lodging of such requisition such capital carries the right of voting at shareholders' general meetings of the Company. Such requisition must state the objects of the meeting and must be signed by the requisitionists and lodged at the office of the Company.

Enquiries directed to the Board or the Company are facilitated by email to ir@ccccltd.cn or through the online messaging system on the Company's website. All announcements, press releases and conducive corporate information of the Company are available on the Company's website to enhance the transparency of the Company.

INVESTOR RELATIONS

Please refer to the chapter headed "Investor Relations" for detailed information.

Lock No. 2 of Hunan Zhuzhou Power and Shipping Hub, which was undertaken by the Company, was completed and put into service, further improving the traffic capacity of Xiangjiang River.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

As at 31 December 2018, the Board consisted of eight Directors, including three Executive Directors, two Non-executive Director, three Independent Non-executive Directors. Profiles of the Directors are as follows:

Mr. Liu Qitao, born in 1957, Chinese nationality with no overseas permanent residence, is an Executive Director, Chairman of the Board and secretary of the Party Committee of the Company. Mr. Liu also serves as the chairman of the board and secretary of the Party Committee of CCCG. He has in-depth knowledge and extensive operational and management experience. Mr. Liu held positions as the deputy head of No.13 Bureau of Sinohydro, the assistant to general manager and deputy general manager of China National Water Resources and Hydropower Engineering Corporation and the general manager of its department of overseas operations, the deputy general manager at Sinohydro Corporation and the chairman of the board of directors of Sinohydro International Engineering Co., Ltd., director and general manager of Sinohydro Group Ltd. Mr. Liu graduated from Dalian University of Technology (formerly known as Dalian Institute of Technology) with a bachelor's degree in water conservancy and hydropower engineering construction, and is qualified as a first class constructor. He is a professor equivalent senior engineer and is entitled to the special government allowance awarded by the State Council. Mr. Liu has been serving as an Executive Director of the Company since January 2011 and Chairman of the Board since April 2013.

Mr. Song Hailiang, born in 1965, Chinese nationality with no overseas permanent residence, is an Executive Director, president, and the deputy secretary of the Party Committee of the Company. Mr. Song also serves as a director, the general manager and a deputy secretary of the Party Committee of CCCG. Mr. Song joined the Company in 1987 and has extensive operational and management experience. He served as the chairman and the general manager of CCCC Water Transportation Consultants Co., Ltd., the chairman of Shanghai Zhenhua Heavy Industries Co., Ltd., the assistant to president and vice president of the Company. Mr. Song graduated from Wuhan Institute of Water Transportation Engineering with a major in port machinery design and manufacture and subsequently obtained a master's degree in project management from Tsinghua University and a doctor's degree in engineering management from Tianjin University and is a professor equivalent senior engineer. Mr. Song has been serving as a president of the Company since October 2018.

Mr. Chen Yun, born in 1963, Chinese nationality with no overseas permanent residence, is an Executive Director and deputy secretary of the Party Committee of the Company, and the deputy secretary of the Party Committee of CCCG. Mr. Chen joined the Company in September 1998 and has extensive operational and management experience. He held positions as the deputy general manager of CHEC Group, the deputy general manager of CCCG, and the vice president of the Company. Mr. Chen graduated from Hehai University (formerly known as East China Institute of Water Conservancy) with a bachelor's degree in harbour and channel engineering. He also holds a master's degree in business administration from Tsinghua University. He is a senior engineer. Mr. Chen has been serving as an Executive Director of the Company since November 2017.

Mr. Liu Maoxun, born in 1955, Chinese nationality with no overseas permanent residence, is a Non-executive Director of the Company. Mr. Liu also serves as an external director of Dongfang Electric Corporation. He has extensive experience in corporate administration and financial management. Mr. Liu held positions as a cadre of Financial Department of and the deputy division director, division director and deputy director of Immediate Financial Division of the former Ministry of Chemical Industry of the PRC, the deputy director of Corporate Reform and Financial Department of the State Bureau of Petroleum and Chemical Industry, the deputy head and head of Service Administration Bureau (Administration Bureau of the Former and Retired Staff) of the former State Economic and Trade Commission, head of Service Administration Bureau (Administration Bureau of the Former and Retired Staff) under the SASAC, deputy head of Inspection Team under the SASAC; Mr. Liu also served as an external Director of China Energy Conservation and Environmental Protection Group. Mr. Liu graduated from Correspondence Department of Central Institute of Finance and Banking with a major in industrial accounting and later received a master's degree in law from the PRC Central Party College. He is a senior accountant. Mr. Liu has been serving as a Non-executive Director of the Company since April 2014.

Mr. Qi Xiaofei, born in 1957, Chinese nationality with no overseas permanent residence, is a Non-executive Director of the Company. Mr. Qi also serves as an external director of China International Intellectech Co., Ltd. and COFCO Corporation. Mr. Qi has extensive experience in the working for government authorities and business operations administration, and served in the Guizhou provincial committee of the communist youth league successively as the deputy director of the general office, deputy director of the Publicity Department and deputy director of the research office. He also served successively as deputy director of the system reform institute of Guizhou provincial Party committee of economic system reform, and deputy director of the secretariat of the general office, standing committee secretary (division level) and secretary of the general secretary to the Communist Party Committee, secretary of the governor (deputy provincial department level) of Hainan Province, deputy director and a member of the Party group of the economic cooperation department of Hainan province. He served as director of the general office, secretary to the Communist Party Committee of the suborganizations (concurrently), director of the training centre (concurrently), deputy director and a member of the Party group of State Bureau of Religious Affairs. He served successively as deputy secretary to the Communist Party Committee and secretary to the Disciplinary Committee of China Railway Construction Corporation, deputy secretary to the Communist Party Committee, secretary to the Disciplinary Committee and chairman of the supervisory committee of China Railway Construction Corporation Limited ("CRCC"), general manager and deputy secretary to the Communist Party Committee of China Railway Construction Corporation, and secretary to the Communist Party Committee and vice chairman of CRCC. Mr. Qi graduated from Guizhou University, majoring in philosophy with a bachelor's degree in philosophy and obtained a master's degree in business administration from Cheung Kong Graduate School of Business. Mr. Qi has been serving as a Non-executive Director of the Company since November 2017.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS (CONTINUED)

Mr. Huang Long, born in 1953, Chinese nationality with no overseas permanent residence, is an Independent Non-executive Director of the Company. Mr. Huang also serves as an external director of China National Petroleum Corporation and COSCO SHIPPING (Hong Kong) Co., Limited. He has extensive experience in corporate administration. Mr. Huang held positions as the deputy manager and manager of International Cooperation Department of and manager of International Cooperation and Commercial Contract Department of Huaneng International Power Development Corporation, deputy general manager and the vice chairman of Huaneng Power International, Inc., deputy general manager of China Huaneng Group. Mr. Huang graduated with a master's degree from the Department of Electrical Engineering of North Carolina State University in the United States, majoring in communications and auto-control. He is a senior engineer. Mr. Huang has been serving as an Independent Non-executive Director of the Company since April 2014.

Mr. Zheng Changhong, born in 1955, Chinese nationality with no overseas permanent residence, is an Independent Non-executive Director of the Company. Mr. Zheng also serves as an independent Director of China State Construction Co., Ltd. and an external Director of Overseas Chinese Town Group Co., Ltd.. He has extensive operational and management experience. He held positions as deputy head of Beijing Erqi Locomotive Works (北京二七機車廠), director of the general office, a director and deputy general manager of China National Railway Locomotive & Rolling Stock Industry Corporation (中國鐵路機車車輛工業總公司), a director and deputy general manager, deputy general manager, secretary of the Party Committee and deputy general manager and the general manager and the deputy secretary of the Party Committee of CSR Group Corporation (中國南車集團公司), an Executive director, vice chairman, president, chairman and secretary of the Party Committee of CSR Corporation Limited (中國南車股份有限公司), as well as an executive director, vice chairman and secretary of the Party Committee of CRRC Corporation Limited (中國中車集團). Mr. Zheng successively graduated from Lanzhou Railway College majoring in electronics technology and Northern Jiaotong University majoring in accounting, and completed his doctorate education in traffic and transportation planning and management and obtained a doctor's degree in engineering from Beijing Jiaotong University for the studies in transportation planning and administration. He possesses the Senior Professional Manager qualification (a talent with unique contribution), and is a professor equivalent senior engineer and a member of the World Academy of Productivity Science (世界生產力科學院). Mr. Zheng has been serving as an Independent Non-executive Director of the Company since November 2017.

Dr. Ngai Wai Fung, born in 1962, Chinese nationality and a resident of Hong Kong Special Administrative Region with no overseas permanent residence, is an Independent Non-executive Director of the Company. Dr. Ngai is the chief executive officer of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as: SW Corporate Services Group Limited), and also holds directorship in a number of companies listed on Hong Kong Stock Exchange and other stock exchanges, such as serving as an Independent Non-executive Director of Bosideng International Holdings Limited, Powerlong Real Estate Holdings Limited, BaWang International (Group) Holding Limited, Health and Happiness (H&H) International Holdings Limited, SITC International Holdings Company Limited, Beijing Capital Juda Limited, Yangtze Optical Fibre and Cable Joint Stock Limited Company, BBMG Corporation and TravelSky Technology Limited. He is also an independent director of LDK Solar Co., Ltd. and SPI Energy Co., Ltd. Dr. Ngai has over 20 years of experiences in accounting, finance and corporate governance. He has led or participated in a number of significant corporate finance projects including listings, mergers and acquisitions as well as issuance of debt securities. He was an independent non-executive director of China Railway Construction Corporation Limited, China Coal Energy Company Limited, China Railway Group Limited. Dr. Ngai is a senior member of the Association of Chartered Certified Accountants, a member of Hong Kong Certified Accountant Association, a senior member of Institute of Chartered Secretaries and Administrators, a senior member of The Hong Kong Institute of Chartered Secretaries, a senior member of Hong Kong Institute of Directors and a member of Hong Kong Securities and Investment Institute. Dr. Ngai is a member of The Chamber of Hong Kong Listed Companies and has also been appointed by the Ministry of Finance of the PRC as Finance Expert Consultant in 2016. Dr. Ngai was the former president of Hong Kong Institute of Chartered Secretaries (2014 to 2015) and a member of Work Group on Professional Services under the Economic Development Commission of the Hong Kong Special Administrative Region (2013-2018) and a member of Qualification and Examination Board of the Hong Kong Institute of Certified Public Accountants (2013-2018). Dr. Ngai obtained a doctor's degree in Finance at Shanghai University of Finance and Economics, a master's degree in Corporate Finance from Hong Kong Polytechnic University, a bachelor's degree in Law at University of Wolverhampton and a master's degree in Business Administration from Andrews University of Michigan, respectively. Dr. Ngai has been serving as an Independent Non-executive Director of the Company since November 2017.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORY COMMITTEE

As at 31 December 2018, the Supervisory Committee consisted of three Supervisors, including two shareholder representative Supervisors and one employee representative Supervisor. Profiles of the Supervisors are as follows:

Mr. Li Sen, born in 1964, Chinese nationality with no overseas permanent residence, is a Supervisor and the chairman of the supervisory committee of the Company. Mr. Li also serves as the general manager of the Human Resource Department and head of the Organizational Department of the Party Committee of the Company. Mr. Li has extensive management experience. He held positions as deputy division chief of Cadre Management, Division of Personnel of Ministry of Coal, head of the Division of Comprehensive Affairs of the Bureau of Cadre Education under the Organization Department of the Central Committee of the Party, deputy director of the Education Department of China National School of Administration (assisting roles of departments or equivalents), member of the Standing Committee of the Party Committee, deputy mayor, head of Propaganda Department, head of Organization Department of Liaoyuan Municipality, Jilin Province, temporary secretary of the Party Committee and vice chairman of Beijing United Development Co., Ltd. (北京聯合置業有限公司), chairman of the supervisory committee, temporary deputy secretary of the Party Committee, temporary secretary of Committee for Discipline Inspection and chairman of the Labor Union of CCCG Real Estate Group. Mr. Li successively graduated from Huaibei Coal Industry Normal College (淮北煤炭師範學院) majoring in Chinese language and literature, Capital University of Economics and Business majoring in business management and Tongji University majoring in management science and engineering. He obtained a doctor's degree in management from Tongji University and is a senior political engineer. Mr. Li has been serving as a Supervisor and the chairman of the supervisory committee of the Company since November 2017.

Mr. Wang Yongbin, born in 1965, Chinese nationality with no overseas permanent residence, is a Supervisor and the general manager of the auditing department of the Company. Mr. Wang also serves as a supervisor of China Northeast Municipal Engineering Design & Research Institute Co., Ltd., the Chairman of Supervisory Committee of Zhenhua Logistics Group Co., Ltd., and a supervisor of Zhen Hua (Shenzhen) Engineering Co., Ltd. and CCCC Hainan Construction Investment Limited (中交海南建設投資有限公司), a supervisor of Shanghai Zhenshalongfu Machinery Co., Ltd., a supervisor of CCCC Industrial Investment Holding Limited and a supervisor of CCCC Shanghai Equipment Engineering Co., Ltd. He has extensive management experience. Mr. Wang graduated from Changsha Communications University with a bachelor's degree in project finance and accounting. Mr. Wang is a professor-level senior auditor. Mr. Wang has been serving as a Supervisor of the Company since September 2006.

Mr. Yao Yanmin, born in 1963, Chinese nationality with no overseas permanent residence, is a staff representative supervisor of the Company. Mr. Yao also serves as the vice chairman of Union Federation and the chairman of Labor Union for Organs, and the director of the Office of Union Federation. Mr. Yao joined the Company in 1992, and has extensive management experience. He held positions as the head of president office, assistant to the general manager and the deputy general manager of China Road and Bridge Construction Corporation, the deputy head of general office of CCCG and the deputy head of general office of the Company. Mr. Yao graduated from Guangdong University of Foreign Studies and Renmin University of China with a bachelor's degree in English and a bachelor's degree in law, respectively. Mr. Wang has been serving as a Supervisor of the Company since April 2014.

SENIOR MANAGEMENT

As at 31 December 2018, the Company's senior management consisted of seven members with the profile as follow (for the profile of Mr. Song Hailiang, a senior management member who concurrently serves as a Director, please refer to the above):

Mr. Peng Bihong, born in 1963, Chinese nationality with no overseas permanent residence, is the Chief Financial Officer and a member of the Party Committee of the Company and a member of the Party Committee of CCCG. Mr. Peng has extensive experience in operation and financial management, and served in China Poly Group Corporation Limited ("Poly Group", formerly known as China Poly Group Corporation) for nearly 20 years, as the director of Financial Department of Poly Group, the general manager of Poly Finance Company Limited, the chief financial officer of Poly Real Estate Co., Ltd., the chief accountant and a member of the Party Committee of Poly Group, and the chairman of Poly Finance Company Limited and the chairman of Poly Investment Limited. Mr. Peng graduated from Hunan University of Finance and Economics majoring in Finance, and obtained a master's degree of Economics from Wuhan University. Mr. Peng is a certified public accountant. Mr. Peng has been serving as the Chief Financial Officer of the Company since September 2018.

Mr. Wang Haihuai, born in 1968, Chinese nationality with no overseas permanent residence, is a Vice President and a member of the Party Committee of the Company and a member of the Party Committee of CCCG. Mr. Wang joined the Company in 1991 and has extensive operational and management experience. He has been serving as the chairman and the general manager of CCCC Second Harbor Engineering Company Ltd. and the general manager of the port and waterway dredging division of the Company. Mr. Wang graduated from Chongqing Jiaotong College with a major in harbour and channel engineering and subsequently obtained a master's degree in the business administration from Wuhan University and is an excellent senior engineer and senior economist. Mr. Wang has been serving as a Vice President of the Company since April 2014.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT (CONTINUED)

Mr. Sun Ziyu, born in 1962, Chinese nationality with no overseas permanent residence, is a vice president, the chief engineer and a member of the Party Committee of the Company and a member of the Party Committee of CCCG. Mr. Sun joined the Company in 1983 and has extensive operational and management experience and profound professional attainments. He has been serving as the vice president of CCCC First Harbour Consultants Co., Ltd, the chief engineer of CHEC Group, the chief engineer of CCCG, the general manager and chairman of CHEC, the general manager of the overseas operations department of the Company and the chairman of CHEC. Mr. Sun graduated from Zhejiang University (formerly known as Hangzhou University) with a major in marine geology and geomorphology and subsequently obtained a master's degree from Delft University of Technology NL and a master's degree in Business Administration from Peking University. He is a professor-level senior engineer awarded special allowance by the State council, British royal chartered civil engineer and British royal chartered constructor. Mr. Sun has been serving as a Vice President of the Company since April 2014.

Mr. Wen Gang, born in 1966, with Chinese nationality and no overseas permanent residence, is a vice president and a member of the Party Committee of the Company and a member of the Party Committee of CCCG. Mr. Wen has rich operational and management experience. He successively held positions as the deputy general manager of China First Highway Engineering Company, the director and deputy general manager of CRBC, executive general manager of the overseas business department of the Company, chairman of CRBC and the assistant to president of the Company. Mr. Wen graduated from Guangzhou International Studies Institute, majored in French. He also holds a master's degree in project management engineering from Changsha University of Science and Technology. Mr. Wen is a professor-level senior economist and associate senior translator. Mr. Wen has been serving as the Vice President of the Company since December 2016.

Mr. Wang Jian, born in 1964, with Chinese nationality and no overseas permanent residence, is a vice president, the chief safety officer and a member of the Party Committee of the Company. Mr. Wang has rich operational and management experience. He successively held positions as the director and deputy general manager of CCCC Tunnel Engineering Co., Ltd., the general manager of East China Regional Headquarter, general manager of road, bridge and rail transportation department and the assistant to president of the Company. Mr. Wang graduated from Xi'an Highway Institute whose postgraduate study focused on bridge and structure engineering. He also holds a doctor's degree in geotechnical engineering of Central South University. Mr. Wang is a professor-level senior engineer. Mr. Wang has been serving as the Vice President of the Company since December 2016.

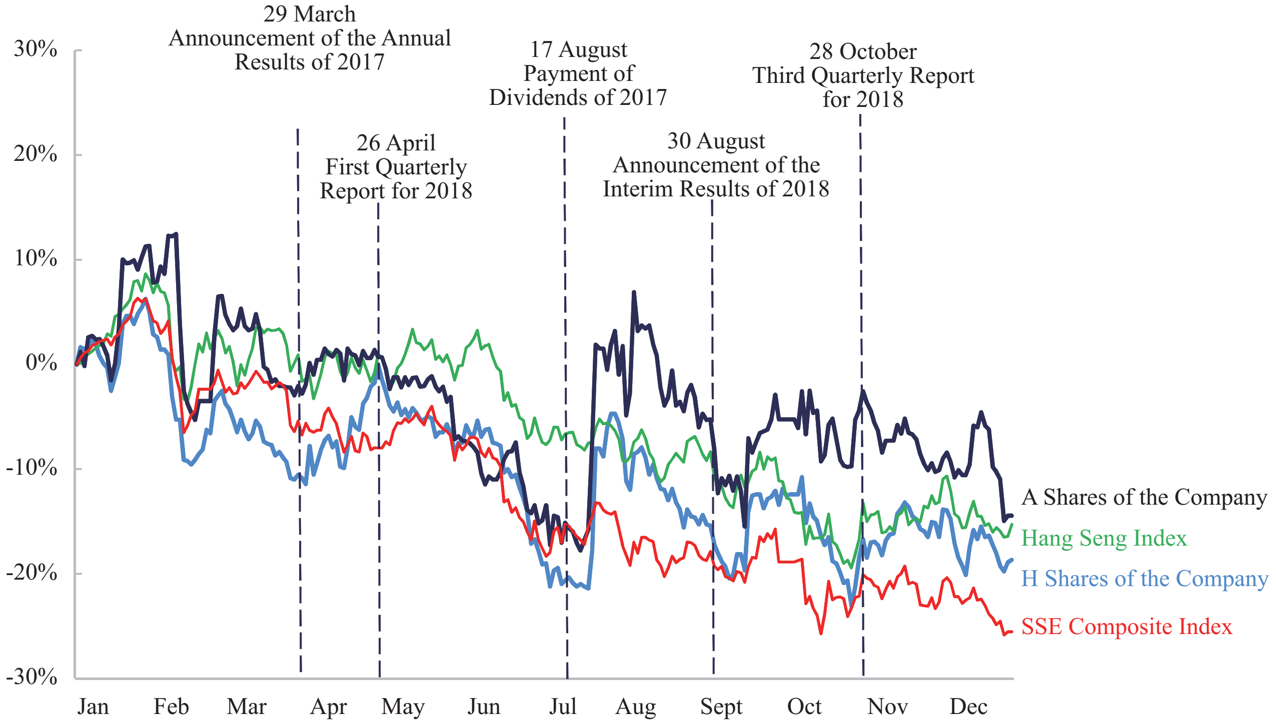
Mr. Zhou Changjiang, born in 1965, Chinese nationality with no overseas permanent residence, is the Board secretary and the Company Secretary of the Company. Mr. Zhou also serves as the head of the Board office. Mr. Zhou is familiar with enterprise management, corporate governance, capital operation, information disclosure and investor relations management and has extensive operational and management experience and profound professional knowledge. He served as the officer of the former State Administration for Commodity Price and the State Planning Commission, the deputy director of the general office of China National Machine Tool Corporation, deputy general manager of the enterprise planning department of China Harbour Engineering Company (Group) and deputy general manager of the enterprise development department of CCCG. Mr. Zhou graduated from Renmin University of China with a bachelor's degree in economics. He is a professor equivalent senior economist. Mr. Zhou has been serving as the Board secretary of the Company since November 2017 and the Company Secretary of the Company since December 2017.

This is the cutter suction dredger “Tian Da”, which is working in the Tangshan Gangjingtang Harbour District 250,000-ton Channel Dredging Project and No. 4 Harbour Basin 250,000-ton Channel Dredging Project.

INVESTOR RELATIONS

CAPITAL MARKET REVIEW

The closing price of the Company's H shares on 31 December 2018 was HKD7.40, representing a decrease of 16.70% as compared to the closing price of HKD8.88 on 31 December 2017. The closing price of the Company's A Shares on 31 December 2018 was RMB11.26, representing a decrease of 12.0% as compared to the closing price of RMB12.80 on 31 December 2017.



INVESTOR RELATIONS

COMPREHENSIVE, EFFICIENT AND INTERACTIVE INVESTOR COMMUNICATIONS

The Company maintained active communications with investors in a candid and practical manner with an initiative and open stance and established a comprehensive investor relations service system.

(1) Results Presentations and Non-deal Roadshows

In 2018, results presentations were timely held upon announcement of the annual and interim results, and the Company invited the leader in charge of investment business and the head of overseas operations department to attend interim result presentation, at which they had one-to-one meetings and group meetings with some investors. While presenting the latest operating results, the Company detailed the development and achievements of overseas operations and investment business, earning the understanding and support of shareholders and realising effective communication with them.

With a view to strengthening communications and conversations between the Company and small and medium investors, and protecting their legal interests, upon announcement of 2017 annual results and 2018 interim results, the Company held results presentations by using online interactive platforms to mainly communicate with various investors, especially small and medium investors, on the Company's strategic planning, operating performance, dividends distribution policy and related business issues, and gained valuable experience. In the future, we will create opportunities and increase the usage of online interactive platforms to debrief advice and suggestions raised by small and medium investors towards the Company.

(2) Reverse Roadshow

In June 2018, the Company held investment business reverse roadshow in Guiyang City, Guizhou Province, and 30 well-known securities analysts and institutional investors from the world attended the activity. On the one hand, the Company introduced the overall development of investment business, together with clear strategic positioning and future direction, offering investors a clear macro perspective and abundant information to know about the Company's investment project lifecycle management covering preliminary selection, project financing, construction, operation and maintenance, and asset-backed securitisation, and providing reasonable theoretical support and solid information basis for the Company to earn recognition of its market value from the capital market. On the other hand, the Company showed investors the investment business development and competitiveness in a vivid way through visit to representative projects and detailed introduction, enabling investors to have an in-depth understanding about all-round development of investment business from investment, financing to industry chain operation, and fully displaying the construction strength and efficient management capability of the Company. When answering investors' questions, the Company provided detailed policy interpretation and implementation plans, which, to some extent, released investors from doubts about market uncertainties and one-sided understanding about the Company, and enhanced investors' confidence about the Company's future development and profitability.

(3) Attending Strategy Sessions and Overseas Investors Conferences Organized by Investment Institutions

In 2018, the Company took the initiative to participate in 23 investment strategy report sessions and overseas investors conferences organised by domestic and international investment institutions. Through about 100 one-to-one meetings and group conferences, the Company met about 300 investors to exchange ideas with them over the macro economy of the PRC, the development prospect of the industry the Company is engaged in and the development of the Company's operations, etc. Efficiency was maximised by communicating with such large number of investors within a relatively short period of time.

INVESTOR RELATIONS

COMPREHENSIVE, EFFICIENT AND INTERACTIVE INVESTOR COMMUNICATIONS (CONTINUED)

(4) Reception of investors

In 2018, the Company exchanged ideas with over 400 institutional investors through about 100 one-to-one meetings and 12 investor group conferences. The Company's executives had participated in the communication activities with investors in person to respond to enquiries from visitors in an earnest and honest manner whenever time permits. Such arrangement was highly welcomed by the investors. Meanwhile, with over 110,000 minority Shareholders, the Company arranged dedicated staff to attend to calls to the IR hotline and handle the IR mailbox. During the year, hundreds of different kinds of enquiries were addressed, thus enabling the investors to have more and more understanding of the Company's strategic vision, integrated operating model and development characteristics of each business segment, etc. The Company also further formed a clearer view on concerns of investors, which laid a solid foundation for maintaining smooth communications and interactions and achieving mutual growth and development.

List of the Company's major investor relations activities in 2018

Month	Activity	Organiser
January	16th Annual DB Access China Conference	Deutsche Bank
	18th Greater China Conference	UBS Securities
	Exchange Meeting of Listed Companies	CITIC Securities
March	2017 Annual Results Announcement	CCCC
April	Online Results Presentation	CCCC
	Analysts Briefing	CCCC
	Press Conference	CCCC
	Non-deal roadshow	CCCC
	2018 Spring Exchange Meeting of Beijing-Tianjin-Hebei Listed Companies	Guosen Securities
	First Quarterly Report for 2017	CCCC
May	Global China Investment Summit	JP Morgan
	Innovation China Forum	BAML
	China Investment Conference	HSBC
	23th CLSA China Investment Forum	CLSA
	Reception Day for Investors of Listed Companies under the Jurisdiction of Beijing	CCCC
	4th China Summit	Morgan Stanley
	2018 Interim Investment Strategy Conference	Essence Securities
June	2018 Interim Investment Strategy Conference	Huatai Securities
	Industry and Auto Investment Summit	Daiwa
August	2018 Interim Results Announcement	CCCC
September	Online Results Presentation	CCCC
	Analysts Briefing	CCCC
	Press Conference	CCCC
	Non-deal roadshow	CCCC
	25th CLSA China Investment Forum	CLSA
October	Third Quarterly Report for 2017	CCCC
November	9th China Investment Forum	Credit Suisse
	2018 China Investment Forum	Goldman Sachs
	2018 China Investment Summit	BAML
	2018 China Investor Conference	Citigroup
	2019 Capital Market Investment Conference	CITIC Securities
	2019 Strategy Conference	Huatai Securities
December	2019 Investment Strategy Conference	China Merchants Securities
	2019 Investment Strategy Conference	Essence Securities
	2019 Capital Market Conference	China Securities
	"Focus on Railway Industry Chain" Seminar	CITIC Securities

During the communication with investors, the Company tried its best to satisfy the demands for investigation and research of investors, research institutions and financial media by answering each question seriously. During the course, other than fully fulfilling our information disclosure responsibility by communicating our business strategies and operation performance to investors, we also actively listened to the questions and suggestions raised by investors. We prepared the Market Weekly and Summary of Roadshows to pass the questions raised by investors to the management in a timely and comprehensive manner. Through our work and services, an effective and interactive bridge of communication was built between the investors from the capital market and the Company.

INVESTOR RELATIONS

TIMELY AND ACCURATE INFORMATION DISCLOSURE

During the reporting period, the Company carefully made every information disclosure in plain words without misleading and fraud contents, and uploaded those announcements on the websites of the Shanghai Stock Exchange and the Hong Kong Stock Exchange and the website of the Company in the stipulated time period, to facilitate timely and accurate understanding of investors in the Company's operations. Secondly, for discloseable important decisions and significant matters, the Company would publish impromptu announcements on the Shanghai Stock Exchange side by side with overseas regulatory announcements on the Hong Kong Stock Exchange to ensure fairness and consistency in information acquired by domestic and overseas investors, protect the interests of different types of investors and reduce market risks. Moreover, matters such as common questions from investors, the Company's dividends distribution, investor relations activities calendar and bids of representative projects were published in the Investor Relations section on the Company's website and newsletter (online version) to make full use of the fast, extensive and low-cost nature of the internet. Finally, the Company specially sorted out operating information such as successful bids and execution of agreement to send by email on a weekly basis to a variety of analysts and fund managers who usually paid attention to the Company, so as to enable them to be timely informed of the operating development of the Company.

All in all, the information release and publication system comprising regular reports, impromptu announcements and the Company's website has offered a comprehensive and multi-dimension channel for different types of investors and people who are concerned about the development of the Company to acquire information about the Company and further shortened the distance between the Company and investors.

CONTINUOUS IMPROVEMENT OF INVESTOR RELATIONS

Through the activities above, we strengthened communications between the management and the investors from the capital market, and enhanced the transparency of the operation and management of the Company. Upon relevant election, the Company won 8th China Golden Bauhinia Awards•Listed Company of Best Belt and Road Practice (第八屆中國證券金紫荊獎•一帶一路最佳實踐上市公司獎), China Top 100 Company of the Year (年度中國百強企業獎), Best Investor Relations of Asian Construction Industry (Buyer) (2nd Award) honored by the Institutional Investor magazine (美國《機構投資者》雜誌亞洲建築行業最佳投資者關係(買方)第二名), China Financial Award•Best Investor Relations (中國融資大獎•最佳投資者關係獎), 9th Tianma Award•Best Board of Listed Company (第九屆天馬獎•中國上市公司最佳董事會獎), Listed Company Most Respected by Investors of the Year honored by China Association for Public Companies (中國上市公司協會年度最受投資者尊重的上市公司獎) and 4th Golden Board Secretary of Sina Finance (第四屆新浪財經金牌董秘獎), and was included in "SGCX ESG50 Index". In addition, as evaluated by Shanghai Stock Exchange, the Company was considered as A Class (highest level of honor) in terms of information disclosure. All these achievements represent recognitions from investors of our unremitting efforts in corporate governance, operational management, information disclosure and investor relations management in the past year, which further reinforced the sound image of the Company on capital market.

The Company will continue to enhance the management of capital market, highly value its investor relations work, attach great importance to the value creation for small and medium investors and further improve its information disclosure to continually increase the transparency of the Company in 2019. Investor relation management will be taken as a sustainable development strategy. We are committed to maximising shareholders' return through effective multi-channel and multi-level communication with investors that features equality, sincerity and mutual respect.

Rizhao Haizhou Bay Beach Building Project undertaken by the Company commenced surface construction. The project is the first one in the country to return the port to the sea.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

As a both H shares and A shares listed company, CCCC operates in strict compliance with the requirements of the relevant laws and administrative regulations, including the Company Law, the Securities Law and relevant rules of the Hong Kong Stock Exchange, and conducts the corporate information disclosure, investor relations management and services according to law.

This report is prepared in accordance with the "Environmental, Social and Governance (ESG) Reporting Guide" contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("ESG Reporting Guide of Hong Kong Stock Exchange"). Furthermore the 2018 Social Responsibility Report of China Communications Construction Company Limited has been published on Shanghai Stock Exchange and the Company's website.

The Company has set up a set of integrated management systems, including quality governance system, environmental management system and occupational health and safety management system based on international standards. These management systems have passed external audit for recertification of quality, environment, occupational health and safety management systems in 2018.

The Company is committed to compliance with laws and regulations in relation to environmental and social responsibilities that have a significant impact on the Company. We insist on the strengthening of corporate social responsibility governance. We are committed to promoting the sustainable development of the Company, and create and share a sustainable value with the stakeholders in the economic, social, and environmental fields.

CORPORATE PROFILE AND BUSINESS PERFORMANCE

For details, please refer to the chapters of "Corporate Profile" and "Business Overview" in this Annual Report.

THE BOARD OF DIRECTORS AND SOCIAL RESPONSIBILITY MANAGEMENT COMMITTEE

The Board of Directors of the Company has been responsible for the environmental, social and governance strategy and report of the Company, sustainable development involving or affecting businesses or operation of the Company, shareholders and other key stakeholders, supervision of positions and practices of the Company, and approval of the disclosures on environmental, social and governance strategy.

For further implementation of the Plan on Corporate Culture Development during the "13th Five-Year Plan Period" (《"十三五"企業文化建設規劃》), the Company strengthened the rooftop design and communication relating to social responsibility management, vigorously promoted the integration of social responsibility into daily management; optimized the social responsibility institutional framework and management system, and carried out multi-level trainings on social responsibility to enhance employees' sense of responsibility, and responsibility management and practice in an all-round way.

The Company incorporated the environmental, social and governance indicator system into the social responsibility organization management, and therefore established the social responsibility management committee, which is accountable to, reports on a regular basis to, and coordinates the implementation of strategies and policies of the Board of Directors of the Company, prepares the social responsibility report and environmental, social and governance report. It also established the executive body of social responsibility management to ensure the implementation of social responsibilities at various levels by setting up special positions for social responsibility in all subsidiaries, business divisions, regional companies and functional departments of the Company to perform the internal and external importance assessment and other functions and powers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IDENTIFICATION AND COMMUNICATION OF STAKEHOLDERS

CCCC adheres to the business philosophy of "creating a more expedite world, a more hospitable city and a more pleasant life". While improving management and creating values, the Company also opens multiple channels for stakeholders including governments, investors, employees, customers, suppliers, subcontractors, regulatory institutions, etc., enabling them to participate in the Company's production and operating activities. By continual communications and exchanges, the stakeholders can know about and supervise the Company's business operations, while the Company can fully understand their opinions and respond positively.

Stakeholders	Communication Mechanism and Modes	Response and Feedback
Regulatory institutions (SASAC)	Implement requirements of various documents and spirits of meetings; Business communication with counterpart departments; Work reporting, report and statement.	Achieve Class-A rating in comprehensive assessment; Improve corporate management and control capability; Fulfill social responsibility.
Governments at various levels (local government)	Special topic meeting and information reporting; Strategic cooperation; High-level business meeting.	Abide by laws and regulations; Implement national policies; Conduct integrity management in accordance with laws; Sign strategic cooperative agreement.
Shareholders	Regular or interim report; General meeting of shareholders and written notice; Investor meetings.	Keep stable profitability; Maintain rights and interests of shareholders; Good credit rating.
Customers and clients	Contract performance; Visits and meetings; Documents and mails; Customer assessment and management.	Guarantee 100 percent of contract performance and acceptance rate of projects; Conduct constant innovation in techniques and products; Provide satisfied services.
Suppliers	Tendering and bidding, and business negotiation; Contract performance, and business letters and communications.	Adhere to principles of integrity, mutual benefits and equal consultation; Keep good cooperative relations.
Subcontractors	Contract performance; Business letters and communications.	Strictly manage and control the quality of subcontracted projects; Keep good cooperative relations.
Employees	Worker supervisor, and workers' congress; Solicit rational suggestions; Trainings and meetings; Day-to-day work communication.	Stable compensation incentives; Protect rights and interests of employees; Care career development of employees; Conduct various activities.
Community and the public	Various communications and visits; Participate in public welfare activities.	Protect environment and eco-friendly constructions; Support harmonious development of local communities; Public welfare and donation.
NGO and other third-party organizations	Maintain close contact and information sharing; Develop cooperation.	Participate in and organize social contribution activities; Keep communication channels open.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IDENTIFICATION AND COMMUNICATION OF STAKEHOLDERS (CONTINUED)

In 2018, to make the social responsibility report more targeted and responsive, CCCC analyzed and compared the influence of different social responsibility issues to stakeholders and the importance to corporate development in accordance with social responsibility material issue analysis model, and then identified the high-profile material issues.

Step One: Identification

Based on the social responsibility standards both in China and abroad, the policy requirements of Chinese government, benchmarking with leading enterprises, and investigation and research of stakeholders as well as its own development plan, CCCC has established social responsibility topic pool, and then classified the topics into 8 categories of responsibility management, corporate governance, high-quality projects, supplier management, employee responsibility, community responsibility, environment responsibility, and overseas social responsibility performance, covering a total of 35 items.

Table: Stakeholders – Identification of Issues

Stakeholders	Social responsibility issues
Responsibility management	1. Responsibility strategy 2. Responsibility governance 3. Social responsibility training 4. Stakeholder communication
Corporate governance	5. Improve governance structure 6. Investor relations management 7. Regular information disclosure 8. Prohibit bribery and corruption 9. IPR protection
High-quality projects	10. Engineering quality 11. Scientific and technological innovation 12. Work safety 13. Customer satisfaction enhancement
Supplier management	14. Contractor/subcontractor selection mechanism 15. Standardized tendering process 16. Encouraging contractors/subcontractors to perform social responsibilities 17. Protection of rights and interests of migrant workers
Employee responsibility	18. Protection of basic rights and interests of employees 19. Democratic management 20. Employee training and career development 21. Prevention and control of occupational disease 22. Support employees with difficulties
Community responsibility	23. Public welfare and charity 24. Precision poverty alleviation 25. Volunteer activities of employees
Environment responsibility	26. Establishment of environmental management systems 27. Energy-saving and emission reduction 28. Cyclic utilization 29. Ecological protection 30. Environmental protection publicity
Overseas social responsibility performance	31. Response to the “the Belt and Road” Initiative 32. Promotion of local employment 33. Local purchase 34. Local volunteer assistance 35. Local environmental protection

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IDENTIFICATION AND COMMUNICATION OF STAKEHOLDERS (CONTINUED)

Step Two: Issue Analysis

CCCC conducted a special survey on those 35 sustainable development issues among stakeholders by using online questionnaire, aiming to understand the importance of those issues in their minds, and a total of 8,239 questionnaires were recovered. Through the two-dimensional matrix of "attention of stakeholders" and "importance to sustainable development of CCCC", the Company identified the material issues of social responsibility.

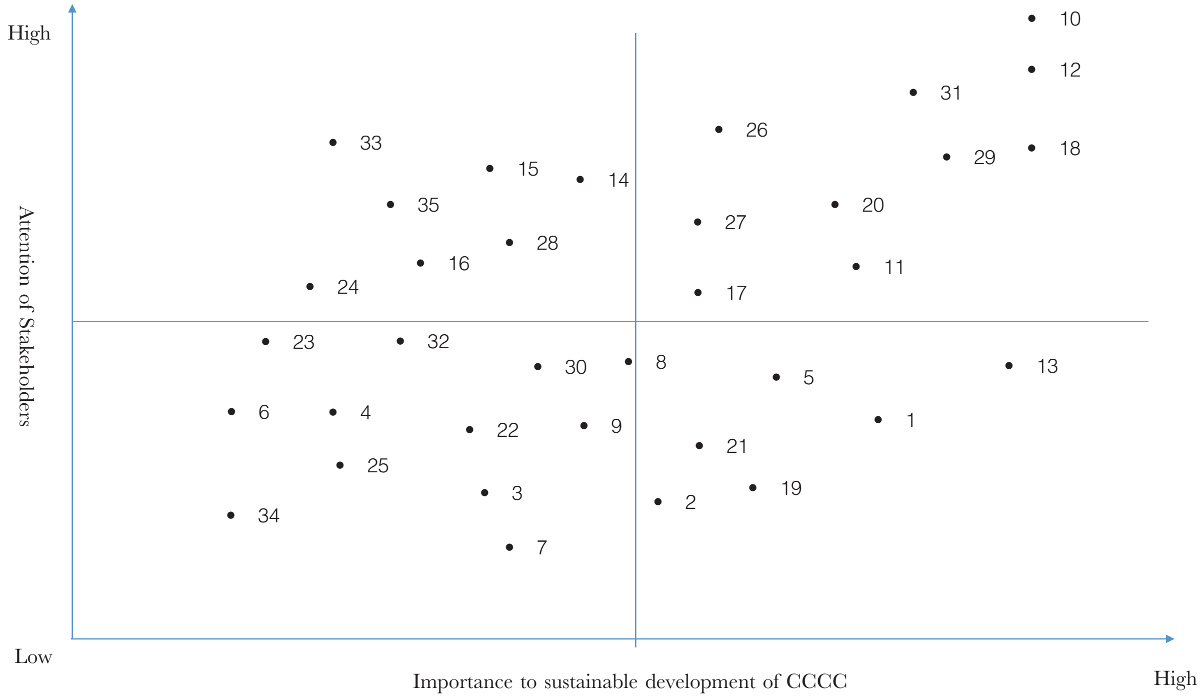


Chart: Material issues analysis of stakeholders of CCCC

ENVIRONMENTAL

Wastes and Emissions

The Company has strictly implemented international conventions and domestic laws in relation to air pollution, including the Environmental Protection Law, the Interim Measures for Supervision and Administration of Energy Conservation and Emission Reduction in Central Enterprises (《中央企業節能減排監督管理暫行辦法》), and has strictly controlled the emission in the production process, and strengthened the environmental monitoring capability building. The Company has strictly implemented relevant national energy-saving and emission reduction policies and standards, and continuously promoted energy-saving and emission reduction work, low-energy, pollution-free and high-efficiency technology, equipment and products. The production and operation of construction companies belong to temporary items, so there is no stationary source. According to the requirements of the "Notice of Printing the Measures for the Monitoring of Reduction of Total Emissions of Major Pollutants in the '12th Five-Year Plan' Period" (《關於印發"十二五"主要污染物總量減排統計、監測辦法的通知》) issued by the Ministry of Environmental Protection, the emissions of COD, ammonia nitrogen, SO_2 and NOx are not included in the statistics of environmental pollutants of construction companies.

I. Emission Reduction of Exhaust Gas and Greenhouse Gas

According to the Provisional Measures on Supervision and Management of Energy-Saving and Emission Reduction of Central SOEs, CCCC has calculated the emission of CO_2 in the production process. In 2018, the CO_2 emission was 4.605 million tons, down 2.9% from a year earlier.

In terms of greenhouse gas emission reduction, the Company attached great importance to carbon trading related policy that 11 Beijing-based entities were included in the list of carbon emission reporting entities of Beijing Municipal Commission of Development and Reform, actively participated in technical calculation and formulation of standards in the carbon trading market in the transportation industry, and submitted the annual carbon emission report to the competent authority in a timely manner.

In 2018, ZPMC was no longer a controlling subsidiary of the Company, therefore during the reporting period, the Company no longer separately analysed the impact of exhaust gas emission, the original source of which was the VOCS generated by ZPMC during the spray-painting process.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (CONTINUED)

Wastes and Emissions (continued)

II. Wastes Disposal and Sewage Treatment

As for classification of wastes, due to the industry attributes, the main wastes of CCCC are non-hazardous wastes as compared with hazardous wastes. The non-hazardous wastes are mainly steel bars, concrete, bricks and tiles, and other construction wastes, which are all sorted, broken up and reused according to the requirements of customers. In promoting grass-roots projects of "Four Savings and Environmental Protection" (energy, land, water and material saving and environmental protection), there were a great number of high-quality and high-efficiency model green construction projects. For example, the Nansha Mingzhuwan General Contracting Department of CCCC crushes, classifies and processes concrete, waste bricks, marble and other solid wastes in construction wastes, using "mobile construction waste crushers", and produces green materials such as integrated walls, pervious concrete and road base materials, thus realizing zero discharge of solid waste.

In reducing wastewater discharge, the Company achieves green manufacturing and sustainable development by introducing environmental protection equipment and developing environmental protection technology. It enhances application of water and soil pollution control technologies in projects and insists on paying equal attention to energy-saving and emission reduction and technologies. The Chongqing Company of CCCC First Highway established a "garden like" plant for the loop utilization of wastewater by introducing the loop pool to achieve the recovery and reuse of rainwater and zero discharge of wastewater, saving 12,528 tonnes of water and increasing revenue of RMB30,000.

Meanwhile, the Company actively undertakes new types of environmental protection businesses including sewage treatment, municipal environmental protection, and promotes environmental protection through main businesses, so as to realize organic combination of the social responsibility and the enterprise benefit. The Company actively follows up and carries out ecological management projects in Xiong'an New Area, Shanmei Reservoir in Quanzhou, and Jinjiang Basin in Chengdu etc., so as to build an industry brand of "CCCC Environmental Protection". Kunming Haihe River, as one of 16 main rivers which are required to meet the Dianchi governance requirements, was listed by the Ministry of Housing and Urban-Rural Development and the Ministry of Environmental Protection as one of the 12 urban black-odor rivers in Yunnan. The Company dredged a river of approximately ten thousand meters in total and removed over 100 thousand m^3 of contaminated sediment, using environmental protection technologies with independent intellectual property rights, thus effectively changing the Haihe River from a black-odor river within a short time. Through regular testing by a third-party organization, the river meets requirements in terms of 4 black-odor indicators, becoming the first successful case in China for elimination of "black-odor" water through comprehensive improvement.

Resource Utilization

I. Energy Management

1. Strengthening rooftop design and system construction

According to the principle of "giving high priority to conserving resources and improving efficiency", and in accordance with the general requirements of the Provisional Measures on Supervision and Management of Energy-Saving and Emission Reduction of Central SOEs and the CCCC Measures for Supervision and Management of Energy-Saving and Emission Reduction (《中國交建節能減排監督管理辦法》), the Company improves the energy efficiency, and reduces emission to air, sewage and waste discharge. It has established and improved the environmental management system, gradually forming a closed loop of "organization, system, monitoring and appraisal". It kept a stable situation in the aspect of energy-saving and emission reduction, and there were no middle or high-level environmental emergencies in 2018.

For further strengthening the rooftop design relating to energy conservation and environmental protection, the Company issued the Standard Framework and Guideline of Production Safety, Quality Supervision, and Energy Conservation and Environmental Protection Supervision of CCCC both in Chinese and English versions to establish a standard system framework for green management in line with corporate development, which is comprised of 4 major categories, i.e. basic standards, management standards, working standards and operating standards, with its contents covering the energy conservation and environmental protection work in all business fields of the Company, thereby putting the concept of green development into practice throughout the whole process of planning, design, construction, operation and maintenance of transportation infrastructure.

2. Consolidating management foundation and putting main responsibility into actual implementation

The Company issued the Work Report for 2017 and Priority for 2018 on Energy Conservation and Environmental Protection of CCCC (Zhong Jiao Gu An Fa [2018] No. 277) (《中國交建節能環保2017年工作情況通報和2018年工作要點》(中交股安發[2018]277號)), revised the measures for supervision, management and assessment of, and incentives and punishments for energy conservation and emission reduction, pushed forward research works such as environmental protection checklist, pollutant emission statistics for infrastructure construction, etc. to implement the principles of "the party and government with the same responsibility" and "one post and two responsibilities"; submitted the draft for comments of the Evaluation Standards for Green Construction of Highway Engineering (《公路工程綠色施工評價標準》) and 8 rules for energy conservation accounting including the "warm mix asphalt mixture technology" for approval; specified the energy conservation and environmental protection responsibilities at all levels, and conducted assessment to 38 entities under the Company, the results of which were included in the annual performance evaluation of the person in charge of the entity. The Company had zero tolerance for entities that had experienced environmental incidents and material environmental violations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (CONTINUED)

Resource Utilization (continued)

II. Energy Use and Energy Efficiency Improvement

1. Optimizing the energy consumption structure and improving the energy management system that adapts to corporate transformation and upgrading

In line with the "Belt and Road" strategy, the Company vigorously developed overseas infrastructure interconnection business and reduce the proportion of domestic energy consumption; greatly promoted the application of clean energy such as solar energy, electricity and natural gas to increase the proportion of clean energy in the energy consumption structure with the purpose of energy consumption structure adjustment; accelerated the pace of corporate transformation and upgrading by setting energy-saving targets by category with reference to the new organizational structure and features of each business segment, specifying management responsibility through tiered authorization system, stirring up the Company's initiative and enthusiasm through the innovation, incentive and restraint mechanism, and leading to the integration of the energy management work flow and evaluation methods into daily management through assessment by categories, and rewards and punishments, thereby establishing a long-term management mechanism for energy conservation and environmental protection.

2. Attaching importance to technology research and development to improve energy efficiency

In 2018, the Company set up 446 technological transformation projects with a total investment of RMB290 million, resulting in an annual saving of 28,000 tonnes of standard coal and a saving of RMB180 million. Upon collection of and research on the construction materials in relation to the effect of various soil parameters on excavation productivity, CCCC Tianjin Dredging Co., Ltd. controlled the deviation between the predicted cutter excavation productivity and the actual excavation productivity within 20% by fitting the relationship curve of soil parameter, cutter power and productivity, which resulted in the increase in productivity.

3. Renovating large-scale mechanical equipment and strengthening supervision of major energy-consuming equipment

The Company formulated the plan on and proposal for elimination of backward production capacity, such as phasing out old vessels with low efficiency and high consumption, and build and renovate new energy-saving and environmentally-friendly vessels powered by clean energy such as LNG; conducted strict inspection of newly purchased equipment without acceptance of those which fail to meet the emission standards; strictly complied with national policies and standards on energy conservation and emission reduction, and withdrew the technique, equipment and product with high energy consumption, high emission of pollutants and low efficiency from the market; strengthened effective monitoring of the energy efficiency of key energy-consumption equipment by implementing the renovation and installation of fuel consumption monitoring systems for large-scale vessel, and it is expected that the renovation and installation of the fuel consumption monitoring systems for 56 large dredgers will be completed by 2020.

4. Improving the composition of equipment to strengthen corporate competitiveness

In 2018, the Company phased out 2,470 sets of equipment of various kinds with a total value amounting to RMB820 million, and purchased 2,700 sets of new devices and equipment with capital investment amounting to RMB2,310 million. "Tiankun", the heavy self-propelled cutter-suction dredger self-developed by CCCC Dredging, has completed various testing and is ready for shipment. It is an environmentally-friendship, highly efficient and intelligent heavy self-propelled cutter-suction dredger with automatic dredging, monitoring and unmanned control.

Meanwhile, the Company has established an information management system for the reporting of energy conservation and environmental protection information and statistics to achieve extensive coverage of energy conservation and environmental protection data and statistics.

During the reporting period, the Company obtained the following recognitions for its efforts in energy management, energy conservation and emission reduction:

(1) 7 entities/projects were granted the innovation award of China Energy Conservation Association

(2) 2 projects were selected as outstanding cases in the Report on Energy Conservation Development of Central Enterprises by SASAC

(3) 6 green construction demonstration projects

(4) 16 green engineering demonstration projects

(5) 4 projects were listed in the Catalogue for Promoting the Key Energy-saving and Low-carbon Technologies in the Transportation Industry

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL (CONTINUED)

Resource Utilization (continued)

II. Energy Use and Energy Efficiency Improvement (continued)

4. Improving the composition of equipment to strengthen corporate competitiveness (continued)

During the reporting period, the overall energy consumption and emissions of the Company are as follows:

Table: Statistics of the Company's Major Energy Indicators

Indicators	Unit	2018
Total energy consumption	10,000 tce	**174.75**
Energy saving amount	10,000 tce	**1.93**
Emission of CO_2	10,000 tons	**460.5**
Emission of greenhouse gas per unit output	ton CO_2 equivalent	**0.11**
Total electric power consumption	10,000 kWh	**270,197.02**
Total gas consumption	10,000 standard m^3	**2,829.18**
Total oil consumption	10,000 tons	**91.91**
Green procurement rate	%	**100%**

Note: In response to the national strategic arrangement for the development of ecological civilization, the SASAC of the State Council issued the revised Statistical Report of Central Enterprises on Energy Conservation and Eco-environmental Protection(《中央企業能源節約與生態環境保護統計報表》) in March 2019, and standardized the statistical calibers. In compliance with this requirement, in 2019, the Company will conduct calculation and disclosure of the standardized calibers of indicators such as total volume and density of non-hazardous wastes, total water consumption and density, etc., and further improve the relevant work.

III. Conservation of Water Resources

In terms of system framework for resource conservation, the Company also continued to make diligent efforts and vigorously carried out the activity of "establishing the green grassroots". CCCC required all grassroots units to save resources and reduce the negative impact on the environment to the maximum by means of scientific management and technical progress, provide customers with green and energy-saving products or services, and implemented "Four Savings and Environmental Protection" (energy, land, water and materials saving and environmental protection) for construction projects. So far, all affiliated units have established the "green grassroots" evaluation standards to clarify the work objectives, contents and relevant responsibilities, carried out supervision, inspection and assessment of "green grassroots", fully mobilized the subjective initiative of grassroots units, enhanced the energy conservation and emission reduction awareness of all staff, and effectively promoted the in-depth implementation of energy conservation and emission reduction work in the grassroots level.

In terms of the practice of water efficiency improvement, the Company required applying for the water withdrawal license for all construction projects according to law, and paying the water resource fees to obtain the water withdrawal right. In terms of selection of the water withdrawal points, CCCC always avoided the sensitive areas such as ecological reserves and water source protection areas. Meanwhile, the Company continued optimizing and improving the construction and maintenance techniques, and reduced water consumption by water resources collecting and recycling technology via well point dewatering, automatic sprinkling and maintenance system, etc. After sedimentation, the construction water was used for car washing and irrigation, so as to enhance the recycling rate of water resources.

IV. Consumption of Packaging Materials

As an enterprise in construction industry, CCCC is mainly engaged in the construction of infrastructure, urban complex, etc., and consumption of packaging materials or businesses in relation to packaging materials is not involved in the production and operation process. Therefore, this indicator is not applicable.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL AND NATURAL RESOURCES

Ecological Protection

Insisting on the development path of environmental protection and sustainability, CCCC has always taken environmental protection measures in the process of design, development and operation of each and every project.

CCCC has attached importance to the protection of natural environment and biodiversity of coverage areas in the process of project development, prepared the "Environmental Risk Management Guidance Manual of CCCC", improved internal environmental risk management and control, and built a full lifecycle environmental risk management system for design, construction, acceptance, transportation and maintenance and withdrawal, so as to reduce the impact of construction projects on the surrounding environment and biodiversity. The Company has committed to maintaining a harmonious relationship between business development and the natural environment.

During the reporting period, CCCC has made the following efforts in environmental and natural resources and ecological protection:

(1) Improve the system and gradually promote ecological construction. According to the unified arrangement of national ecological construction, CCCC has earnestly learnt the Notice on Key Work of Promoting Central SOEs to Accelerate Ecological Construction (《關於中央企業加快推進生態文明建設有關重點工作的通知》) of the State-owned Assets Supervision and Administration Commission, putting forward detailed requirements for affiliated units from 6 aspects including green development, technological innovation, fund investment, key energy-consuming equipment management, statistics and monitoring, and market mechanism by combining their features, thus having formed the responsible entities of promoting ecological construction.

The Company set up a project, i.e. the Identification and Control of Environmental Risks of Construction Projects of CCCC (《中國交建建設項目環境風險識別與控制》), made a list for the identification of energy-saving factors, and pushed forward the preparation of the Evaluation Standard for Green Design and Construction of Highway/Shipping Projects (公路／水運工程綠色設計、綠色施工評價標準), the Environmental Protection Inspection List (環境保護檢查清單) and other standards to put the low-carbon concept into practice throughout the whole process of transportation infrastructure construction with the assistance of the above standards; and carried out the Special Environmental Protection Inspection and the Special Project for Environmental Projection Risk Prevention and Control for the first time to cooperate with the SASAC carrying out environmental protection supervision and inspection of central enterprises in the construction and construction building industry.

The Company improved the emergency management system for environmental incidents through formulation of the Emergency Response Plan for Environmental Incidents (Draft for Comment) of CCCG (《中交集團突發環境事件應急預案(徵求意見稿)》), and established a database of emergency management personnel for environmental incidents and environmental emergency response experts of CCCC, making sure that the emergency response plan covering environmental incidents is available for all entities and key projects.

(2) Take active participation in environmental protection promotion and charity events on environmental protection. The Company carries out the national energy conservation promotion week each year on a regular basis to effectively promote green development. In 2018, in line with the requirements of the Notice on Commencement of 2018 National Energy Conservation Promotion Week and National Low-carbon Day (《關於開展2018年全國節能宣傳周和全國低碳日活動的通知》) issued by the SASAC, the Company centered around the 2 major themes of "Energy Conservation and Consumption Reduction for a Blue Sky" for the energy conservation promotion week and "Raising Awareness of Climate Change, Promoting Low-carbon Concept by Action" for the low-carbon day to carry out a promotion activity themed with "Development of Beautiful China and Promotion of Green Development".

During the event, the Company, in joint efforts with China Energy Conservation Association and China Academy of Transportation Science, organized the Green Transportation Innovative Technology Exchange Conference for sharing and exchange in prefabricated construction and green construction; organized training sessions on energy conservation for Beijing-based entities; made full use of the internet to carry out the award-winning contest on energy conservation knowledge, so as to stir up employees' enthusiasm to participate in the energy conservation promotion activity, strengthen their awareness of green development and raise their awareness of energy conservation and low carbon life.

During the reporting period, outstanding achievements were made by the Company in ecological and environmental protection:

(1) The thematic project of environmentally-friendly and low-carbon highway of the island tunnel construction of Hong Kong-Zhuhai-Macao Bridge achieved a total energy saving of 547,000 tonnes of standard coal and a total emission reduction of 120.97 tonnes of CO_2;

(2) 26 environmentally-friendly circular supporting projects achieved 100% completion, saving 115,500 tonnes of standard coal;

(3) Organized trainings on the protection of sousa chinensis, with nearly 900 persons obtaining the certificate of "dolphin guardian" for offshore construction, resulting in the increasing of sousa chinensis from more than 1,000 at the commencement of construction to more than 2,000 at the time when the project was put into operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL

Employment and Labour Practices

I. Employment

The Company has strictly abided by the regulations of Labor Law of the People's Republic of China and the Contract Law of the People's Republic of China, actively implemented the talent idea of "the value creator first", and established the harmonious labor relations. The Company's employment system is based on our corporate strategic development. According to our corporate development needs, CCCC has employed all kinds of talents that meet the job position requirements and recognized the Company's cultural philosophy on the open, fair, competitive, merit-based principle.

The Company has zero tolerance for discrimination against nationality, gender, age, race, religion, pregnancy and disability, and treat all employees with equality; strictly complies with the Provisions on the Prohibition of Using Child Labour, prohibits the recruitment of minors under the age of 16, strengthens the inspection of illegal employment of child labour by sub-contractors, and jointly perform responsibilities with supply chain partners; and increase the recruitment of local employees to effectively alleviate the local unemployment rate, improve the living standards of local people and achieve a win-win situation.

During the reporting period, the Company recruited talents by the following approaches:

(1) Internal recruitment: Suitable employees were selected by means of internal promotion, personnel secondment, job rotation, etc. from the Company's HR reserve system to engage in the vacant or urgent job positions.

(2) External recruitment: High-end management talents, professional technical talents and skillful craftsmen necessary for the Company's business were recruited by means of campus and social recruitment, school-enterprise cooperation in orientated training, special recruitment of overseas students, recruitment by public media, introduction of high-end talents, etc.

In 2018, the Company has had 135,813 in-service employees, among whom female employees accounted for 14%, and the social insurance coverage for employees was 100%.

Table: Major Indicator Statistics of the Company's Employees

Indicator	Unit	2018
Total number of employees	Person	**135,813**
Labour contract signing rate	%	**100%**
Collective contract signing rate	%	**99%**
Labour union membership rate	%	**95%**
Social insurance coverage	%	**100%**
Employee paid leave rate	%	**97%**
Physical examination coverage	%	**96%**
Percentage of female employees	%	**14%**
Percentage of female management personnel	%	**15%**
Number of employees with graduate degree and above	%	**9%**
Number of employees with bachelor's degree	%	**59%**
Number of employees with junior college degree	%	**17%**
Number of employees with secondary technical school degree and below	%	**15%**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Employment and Labour Practices (continued)

I. Employment (continued)

Indicator	Unit	2018
Employee satisfaction rate	%	**98.0%**
Employee turnover rate	%	**3.15%**

The Company has strictly abided by relevant laws and regulations such as the Labor Law of the People's Republic of China, and formulated the Management Measures for Attendance (《考勤工作管理辦法》), Management Measures for Employees (《員工管理辦法》) and other relevant institutions to facilitate talent management and labor protection. We also provided fair and equal opportunities for matters related to recruitment, training, promotion, job transfer, vacation, remuneration, benefit and termination of contract. CCCC guaranteed all employees had enjoyed holidays and weekly rest days stipulated by the national provisions, paid vacations such as annual leave, home leave, marriage or bereavement leave, family planning leave, etc., and other leaves agreed in the labor contract and collective contract. The Company implemented the working day system of 8 hours per day and 40 hours per week. However, in case of production demand or other special circumstances, we guaranteed to arrange employees to extend their working time according to the overtime procedures without prejudice to the national provisions and on the principle of employee voluntariness and not damaging their physical health. Meanwhile, the Company insisted on formulating and implementing forcibly the annual leave measures, so as to effectively safeguard the leave rights of employees during the reporting period.

II. Remuneration and Benefits

The Company established and improved the performance assessment system covering the management personnel and above the middle level and the ordinary employees by adhering to the principle of "distribution according to work and equal pay for equal work", and provided remuneration with market competition according to job position requirements as well as achievements and contributions of employees. Meanwhile, the assessment and evaluation results were considered as an important basis of job adjustment and dismissal of employees, in an attempt to continuously optimize the HR team. In 2018, the Company revised the Measures for the Administration of Total Remuneration Budget (《工資總額預算管理辦法》) to push forward the reform of differentiated remuneration, and proposed incentives such as equity incentive, dividend incentive and employee stock ownership;

CCCC organized physical examination for all employees every year, with the physical examination coverage ratio up to 100%. Meanwhile, the Company insisted on localized cultivation of talents, and on the basis of the basic employee remuneration and benefit system, provided well-organized benefits for employees every year according to local government regulations, including the social insurances and welfares such as timely and full contribution to the endowment insurance, work-related injury insurance, maternity insurance, medical insurance and unemployment insurance, enterprise annuity and housing accumulation fund, with the insurance coverage ratio of 100%. In 2006, the Company established the enterprise annuity system, and became one of the first companies that had established the enterprise annuity system.

The Company took the initiative to promote the development of the "workers' home". It issued the Guiding Opinions on Further Promotion of the Activity Themed with "Developing Model Workers' Home and Striving to be the Employees' 'Family'" in the New Era (關於深入推進新時代"創建模範職工之家、爭做職工信賴娘家人"活動指導意見》) to enhance the sense of belonging of employees; pushed forward the implementation of the "Healthy CCCC" action by holding cultural and sports activities such as the first badminton invitational tournament and tug-of-war competition to enrich employees' leisure time and enhance their sense of happiness. In 2018, the Company promoted the construction of 896 qualified workers' home, 16 national demonstration book corners, 54 "love cottages" and 31 EAP mental pressure relief rooms. The Labor Union of the Company has established many kinds of clubs for employees, such as Photography Club, Badminton Club, Basket-ball Club and Football Club, and organized multiple leisure-time activities irregularly to encourage the participation of employees and enrich their diversified interests. Meanwhile, CCCC established the "Blue Vest" voluntary service system within the Company and our subsidiaries, and enhanced the good awareness of employees in serving the society and actively participating in voluntary activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Employment and Labour Practices (continued)

III. Health and Safety

CCCC has attached importance to the protection of employees' occupational health. The Company established the "Responsibility System for Occupational Health, Work Safety and Environmental Protection" according to requirements and in accordance with relevant laws and regulations, which clarified the responsibility of the subjects at various levels, and formulated the management measures related to occupational health. In view of the fact that the majority of the Company's projects are of the construction and engineering nature, the Company focused its attention on the improvement of project production safety and protection of employees' safety and health. The Company improved the organizational structure of production safety supervision and management and the safety management system on an on-going basis, and therefore had established the safety production committee and a production safety responsibility system for the purpose of clarifying responsibilities for different positions and ensure effective operation of the production safety responsibility system; established the monitoring center for shield construction safety and production safety in tunnels, and the research center for the safety, quality and environmental protection of road transportation and shipping, and strengthen the development of a professional team for safety management. In 2018, 6 projects of the Company were awarded as the "Standardized Site of Safety Production of Construction Engineering Project" (建設工程項目施工安全生產標準化工地), and 1 entity was awarded as the "Leading Enterprise of the National 'Production Safety Month'".

1. **Increased special investment in production safety**

   The Company took the initiative to give full play to the strong support of special funds for production safety, and prepared and revised the Rules for the Management of Projects Supported by the Special Funds for Production Safety (《安全生產專項資金支援項目管理細則》) for the purpose of increasing investment of the special funds for production safety, so as to provide an all-round financial guarantee for safety management and further consolidate the safety management foundation.

2. **Strengthened safety management of sub-contractors**

   In response to the frequent incidents of the subcontractors, the Company dismissed those who were listed on the "blacklist" to effectively ensure the quality of the subcontracted products and further strengthen the internal control of safety management. In 2018, the Company issued and implemented the Order of Alcohol Prohibition on Construction Sites of CCCC (《中國交建施工現場禁酒令》), requiring that smoking and drinking are prohibited on construction site, which was conducive to ensuring safe and orderly operation and construction on the sites.

3. **The "full-coverage" comprehensive production safety supervision and inspection**

   In 2018, the Company conducted supervision and inspection of 4 secondary entity headquarters and 3 tertiary entity headquarters in 28 provinces, 92 domestic key projects and 5 overseas key projects, in which more than 480 hazards were investigated and rectified. Such supervision and inspection fully covered all high-risk tunnels and shield tunneling machines in use in all provinces of China, through which the Company maintained intensified safety management throughout the year, achieved a year-on-year decrease of 14 accidents and 15 deaths during the year, and created 4 records in the "Zero Accident Month".

4. **Education and training on safety**

   The Company carried out in-depth safety culture construction, with focus on cultivating advanced safety culture concepts, enhancing the safety awareness of all employees and strengthening safety action and execution; implemented the Guiding Opinions on Five-year Work of Production Safety Education and Training of CCCC (《中國交建安全生產教育培訓五年工作指導意見》) by innovating safety training methods, and carrying out extensively the "Production Safety Month" activity with the assistance of technology information and the "full-coverage" safety education and trainings in the form of safety knowledge contest; held monthly meetings on production safety on a regular basis to exchange management requirements and experience through video conferencing; and conducted research on overseas training modes and conducted overseas training in Bangladesh for the first time. In 2018, the Company carried out 46 sessions of safety trainings, with a participation of 5,638 persons in total.

Table: Suppliers of CCCC by Region

Indicator	Unit	2018
Number of major safety accidents	Time	1
Death toll in major safety accidents	Person	12
Number of employees participated in safety training	Person/time	5,908
Length of work safety training	Hour	1,816

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Employment and Labour Practices (continued)

IV. Development and Training

Upholding the idea that talents are vital to corporate development, the Company attaches great importance to talent cultivation. The establishment of a scientific, systematic and differentiated education and training system contributes to the enhancement of the employees' duty performance and value creation capabilities, and provides a powerful driving force for improving the overall qualification of talents and promoting the sound development of the Company. In 2018, the Company launched an international financial management talent training program, innovatively adopted the method of joint training with Shanghai National Accounting Institute and ACCA, which was beneficial to the cultivation of high-end international financial management talents that can meet the needs of enterprises. In 2018, the Company invested RMB206.2864 million in training with participation of 321,565 persons.

CCCC took more than 30 employee management measures including Management Measures of China Communications Construction Company Limited for Employee Education and Training (《中國交通建設股份有限公司員工教育培訓管理辦法》) as the institutional foundation, considered Party School, Management College and Training Center of the Company as the major battlefields, regarded the branches of Management College, overseas training bases as well as the internally and externally specially-appointed professors as the resource guarantee, relied on the "Five Major Talent Cultivation Projects of CCCC" and fully adopted the Internet approaches to provide employees with scientific, systematic and differentiated education and training, thereby effectively enhancing their duty performance capability. Meanwhile, CCCC has developed a number of training brands with great influence, including "Enterprise Leader Class", "Young and Middle-Aged Manager Class", "International Business Class", "International Project Manager Class", "Excellent Chief Engineer Class", etc., which gradually formed into the characteristic training programs covering the whole staff. Specific measures were as follows:

1. Five Major Talent Cultivation Projects of CCCC

"11711" Key Talent Cultivation Project

Innovative Talent Cultivation Project

International Talent Cultivation Project

Urgently-Needed Talent Cultivation Project

Versatile Party-Mass Work Talent Cultivation Project

2. Characteristic Training Programs Covering the Whole Staff of CCCC

(1) Comprehensive tiered training system with coverage of all employees

Training for enterprise leaders: CCCC has attached importance to trainings for the "critical minority", including the trainings for the enterprise leaders and special trainings on political literacy, and strengthened the construction of enterprise leadership.

Training for operation and management talents: including training class of young and middle-aged backbone managers, international engineering business management training class, international project management training class, safety training class, emergency management training class, head-quarters key staff training class, etc.

Training for professional technicians: CCCC held training programs for the fresh troops for production and operation of the Company every year, currently including training class of excellent chief project engineers, high-end training class of professional test and detection technologies, high-end training class of professional measurement technology, and senior seminar of excellent backbone crew.

Training for urgently-needed talents in shortage: including business model innovation training class of the construction industry, PPP investment and financing training class, special training class for urban planning and construction, etc.

Training for party-masses working talents: including the Internet training class for implementing the CPC 19th National Congress, Internet training class for "Two Studies, One Action", demonstration class of the grassroots Party branch secretary, etc.

Training for industrial workers: Based on the Company's training resources, CCCC provided skills and qualifications trainings for the front-line workers, including business training for migrant workers and skill trainings for industrial workers.

(2) Joint cultivation of schools and enterprises

The Company continued to push forward the "3+1" college graduates joint cultivation program to provide overseas projects, domestic PPP projects and subway projects with the urgent-needed talents on an ongoing basis. In 2018, the Company offered 7 sessions of customized courses in international engineering management, PPP project management and metro shield engineering management in 5 colleges, i.e. Chang'an University, Southwest Jiaotong University, Changsha University of Science & Technology, Chongqing Jiaotong University, and held 3 sessions of "Outstanding CCCC Training Camp" in 3 colleges, i.e. Lanzhou Jiaotong University, Changsha University of Science & Technology and Chongqing Jiaotong University.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Employment and Labour Practices (continued)

IV. Development and Training (continued)

2. Characteristic Training Programs Covering the Whole Staff of CCCC (continued)

(3) Skill training for migrant workers

Relying on the management institute and key projects of each entity, the Company had established approximately 600 part-time school in multiple places for migrant workers to provide them with continuous skill and qualification trainings for the purpose of turning them into the industrial workers in the new era. At present, an aggregate of 350,000 persons have received trainings, which is conducive to raising their awareness of production safety and overall qualification, as well as vigorous promotion of the development of industrial workforce.

Table: Training Indicator Statistics of the Company's Employees

Indicator	Unit	2018
Input for employee training	10,000 yuan	**20,628.64**
Number of employees participated in training	Person/time	**321,565**
Training coverage of ordinary employees	%	**100**
Training coverage of middle management	%	**100**
Training coverage of senior management	%	**100**
Average training hours	Class hour	**62**
Average training hours of ordinary employees	Class hour	**63**
Average training hours of middle management	Class hour	**125**
Average training hours of senior management	Class hour	**114**

V. Labour Rules

CCCC has strictly abided by the "Provisions on the Prohibition of Using Child Labor" of the Decree (No. 364) of the State Council, prohibited the employment of minors under 16 years old, and adopted the zero tolerance policy for child labor and forced labor. Meanwhile, the age of the recruited personnel has been clearly stipulated in the "Management Measures for Recruitment of Employees", under which the identification information of the candidates shall be verified during the recruitment process and child labor shall be strictly prohibited. To further promote the supply chain responsibility fulfillment and build a good responsibility environment, CCCC has enhanced management of use of labor by labor subcontracting companies in project construction. If the Company finds that a subcontractor illegally uses child labour, the Company orders the subcontractor to stop doing so and remove the subcontractor from the qualified subcontractor list.

Operation Practices

I. Supply Chain Management

1. Develop supply chain of responsibility

Adhering to the goal of "building CCCC into a world-class enterprise", the Company has established the supplier evaluation and management mechanism, selected and re-evaluated the suppliers according to their supply price, safety management, environmental protection capability, inspection and testing capability, product infringement status, production capability, supply cycle, after-sales service and support capability, etc., and gave priority to choosing the suppliers with high-quality, safe and environmentally-friendly products in accordance with the Detailed Rules of CCCC on Management of Material Suppliers (《中國交建物資供應商管理細則》).

For steady improvement of the supply chain management system, the Company contributed to the establishment of a special group for further reform and enhancement of the supply chain management and took supply chain as one of the focuses of the all-round and in-depth reform, and therefore formulated the Material Suppliers Management Rules of China Communication Construction Company Limited (《中國交通建設股份有限公司物資供應商管理細則》), which stipulates the full-cycle management of approval, assessment and dismissal of suppliers. In 2018, the Company initiated the establishment of the Research Institute of Modern Supply Chain of Internet of Things of China, and successfully applied for the Supply Chain Innovation and Application Pilot Enterprise of the Ministry of Commerce for the purpose of in-depth participation in the cutting-edge research and practical experiments of modern supply chain and becoming a benchmark enterprise in the construction industry.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Operation Practices (continued)

I. Supply Chain Management (continued)

1. Develop supply chain of responsibility (continued)

The Company has actively promoted e-procurement and centralized procurement, and improved the material procurement management system by issuing 7 material procurement management regulations in 2018 to strengthen the implementation of such system. In 2018, the total e-procurement of materials amounted toRMB145.8 billion with saved costs of RMB4.257 billion.

Table: Suppliers of CCCC by Region

Region	Unit	2018
Northeast China	Nos.	**35**
Northwest China	Nos.	**49**
Central and South China	Nos.	**197**
Southwest China	Nos.	**85**
North China	Nos.	**262**
East China	Nos.	**428**
Total	Nos.	**1,056**

2. Supplier review

The Company implemented the unified access conditions for suppliers, including: necessary legal subject qualifications, production and operation license, certification of the 3 management systems (quality management system, environmental management system, and occupational health and safety management system), after-sales service tracking system, good financial and capital position, good business reputation, etc.

The Company adopted the hierarchical examination and approval system for suppliers, implemented strict access conditions for suppliers according to the Detailed Rules of CCCC on Management of Material Suppliers (《中國交建物資供應商管理細則》), and strictly sorted out basic information of suppliers; strengthened supplier assessment and comprehensive ranking, and promoted the source suppliers to improve product quality and comprehensive management level. In addition, the ratio for the suppliers of the Company to go through the certification of the quality, environmental and occupational health and safety management system has remained 100 percent each year since 2015.

3. Supplier training

To satisfy the talent needs for construction of the Company's supply chain management system, the Company holds the supplier conference regularly every year, carries out introductions and trainings on such topics as anti-corruption and integrity initiatives, supplier access and performance evaluation standard, etc. and promoted the suppliers to performance their responsibility. From 2016 to 2018, approximately 1,200 suppliers received the relevant social responsibility trainings.

II. Product Liability

1. Create high-quality projects and guarantee the project quality

The Company has been committed to putting into practice the strategy of "corporate development driven by high quality" and in strict compliance with the "Quality, Health, Safety, Environment (QHSE)" management system: firstly, CCCC responded to the national call, practiced "quality improvement and efficiency increase", carried out high-quality project construction demonstration actions, and built a number of industry-leading high-quality demonstrating projects, such as Oujiang Estuary Bridge, East Tianshan Tunnel, etc., which greatly enhanced the Company's brand value and influence; secondly, CCCC accelerated the project quality information construction, realized trial running of the process quality inspection and control information system during the reporting period, and comprehensively promoted application of the monitoring information system for the whole process of concrete production; thirdly, CCCC innovated management and carried out construction of the quality and safety management system based on BIM technology; fourthly, by pursuing excellence with high quality, CCCC chose high-quality projects to apply for the national-level quality awards, such as Luban Award, striving to be the best and establishing the famous brand.

In 2018, 8 projects of the Company won the Luban Award, and 34 projects won the National Quality Project Award, with the number of national construction project quality awards hitting another record high.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Operation Practices (continued)

II. Product Liability (continued)

2. Customer satisfaction and product complaints

The Company has attached importance to the communications with customers while committing to providing high-quality products to customers, learning the demands of customers in a timely manner, and offering satisfied services. Meanwhile, the Company attached importance to protecting the customer information in communications, formulated and improved the Customer Information Protection System (《客戶信息保護制度》), and applied the principle of uniform leadership, classified custody and hierarchical access to customer information and data. On this basis, CCCC improved the customer archives management platform, established the sophisticated Customer Archives Management System (《客戶檔案管理制度》), defined the customer information modules in the project management system, set the limits of authority and appointed special persons to maintain the customer information, and strictly set the limits of authority for the personnel in reviewing and inquiring the customer information. Meanwhile, the Company optimized the customer feedback and complaint handling mechanism, formulated the Customer Satisfaction Monitoring and Measurement Control Procedures (《顧客滿意度監視測量控制程序》), clarified the customer feedback mechanism and channel, and paid regular return visits to the projects under construction and the delivered projects within the warranty period.

In 2018, the Company was not involved in any major lawsuit and complaint arising from product quality and service.

Table: Product Recall and Customer Complaint Statistics

Indicator	Unit	2016	2017	2018
Proportion of product recall	%	0%	0%	**0%**
Customer complaint rate	%	0%	0%	**0%**

3. Intellectual property protection and management

CCCC strictly abided by the laws and regulations such as the Trademark Law, Patent Law, Copy-right Law, Anti-Unfair Competition Law and Foreign Trade Law. As early as in 2007, the Company had formulated the management measures for intellectual property rights, definitely specifying the ownership of rights, responsibilities and obligations of related parties, distribution of proceeds from transfer of results, etc. During the reporting period, the Company took the scientific and technological achievements, patents, software copyright, standards, construction methods, thesis and mono-graphs as the assessment indexes in the assessment measures for scientific and technological advancement in the Company's subsidiaries, and covered these indexes into the annual business performance assessment on senior management of the subsidiaries, so as to further motivate the enthusiasm of the subsidiaries in scientific and technological innovation.

The Company made continuous efforts to safeguard the intellectual property rights, and dispose of and solve infringement disputes in a timely manner. It has also strengthened trademark management, preventing the abuse of registered trademarks; focused on brand protection in the process of promoting brand and improving brand value; and conducted IPR strategy research with emerging industries at the center. In 2018, the Company obtained 84 construction methods at provincial and ministerial level; among the standards which the Company played a leading role or participated in formulation, 2 are international standards, 9 are national standards, 25 are industry standards and 23 are compiled standards. The 2 international standards for dredgers which the Company played a leading role in formulation were reviewed and approved by International Organization for Standardization and issued for implementation.

Table: Product Recall and Customer Complaint Statistics

Indicator	Unit	2016	2017	2018
Number of newly added patents	Piece	1,226	1,330	**1,712**
Number of patents	Piece	4,908	6,238	**7,950**

4. Quality inspection and product recall

Adhering to the quality work guidelines of putting people first and giving priority to quality, the Company has improved the project quality management system, conducted the "three-level inspection" on products in accordance with the Product Inspection and Test Control Procedures (《產品檢驗和試驗控制程序》), guaranteeing the delivery of qualified products. If the products delivered have any problems, the Company will handle strictly in accordance with the systems of the Company. The Company has printed and distributed the CCCC Quality Accident Reporting, Investigation and Handling Methods (《中國交建質量事故報告調查處理辦法》) and the CCCC Quality Accident Accountability Methods (《中國交建質量事故責任追究辦法》), specifying the handling process upon occurrence of engineering quality problems.

In 2018, the Company kept a general stable situation in product quality and there were no product quality incidents and recall incidents, and the qualification rate of projects upon first acceptance check was 100%.

Table: Product Qualification Rate Statistics

Indicator	Unit	2016	2017	2018
Qualification rate of project acceptance check	%	100%	100%	100%
Qualification rate of project under first acceptance check	%	100%	100%	100%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SOCIAL (CONTINUED)

Operation Practices (continued)

III. Anti-Corruption

The Company insisted on taking supervision of disciplines execution and accountability as one of its main tasks, put the "two responsibilities" into strict implementation, and rectified the issue of "four working styles" on an on-going basis to promote new achievements in improving the conduct of the Communist Party of China and upholding integrity, and anti-corruption. For improving the anti-corruption system, the Company formulated relevant work regulations such as Public Complaint Work Measures, Notice on Further Promoting the Integrity Prevention and Control Work, Mechanism for Promoting the Anti-Corruption System, Opinions on Strengthening Inspection Tour Rectification Work, Notice on Further Standardizing Discipline Review Work, etc. During 2018, the Company revised the Opinions on Implementing the Eight Provisions of the Central Government by the Party Committee of the Company (《公司黨委落實中央八項規定精神實施意見》), and held a conference for warning and educational purposes participated by cadres of the Group, so as to create a fully positive environment for corporate development; identified the problems and provided solutions by conducting special inspections of the use of public service vehicles and use of office properties, and established archives of integrity conducts for 572 management cadres of the Party Committee of the Company; and carried out the "three-in-one" construction, i.e. contact point for management of project in losses, contact point for the establishment of anti-corruption system and mechanism and contact point for risk prevention and control regarding integrity and honest behaviors. During 2018, the Company was not involved in any lawsuit against corruption, bribery, blackmail, fraud, money laundering, etc.

During the reporting period, the Company adopted the following measures to propagandize the prevention against corruption, bribery, blackmail, fraud and money laundering:

(1) Carried out the integrity publicity month activities each year on a regular basis to create the culture of integrity and honest behaviors with the characteristics of CCCC;

(2) Strengthened learning and training, and carry out activities such as Integrity & Morality Lecture Hall, Integrity Poetry Contest, and Integrity Story Collection Activity;

(3) Documents were sent before major festivals and holidays to remind of and impose strict control over the management above the middle level.

(4) Enhanced the effectiveness of the promotion of and education on integrity and honest behaviors by adopting the forms of "Internet + Integrity Test" and "Microfilm + Integrity Education".

We've been devoted to smoothing the public complaints reporting channels, and dealing with clues to problems timely. The employees may report the acts in violation of rules and regulations to suitable persons via the informants' hotline, letter or e-mail. The employees, who violate any rules or regulations and constitute a crime, will be transferred to the judicial organs for handling. The Company has resolutely implemented the requirements of strictly enforcing Party discipline. The Party Committee of the Company has undertaken the entity responsibility and signed the "Letter of Responsibility on Integrity Building" with affiliated companies and ensured performance of the responsibility through Party building objective management assessment. The discipline inspection committee of the Company has effectively fulfilled the supervision responsibility, and promoted the implementation of responsibility system by means of work report, interviews, and accusation. During the year, the discipline inspection and supervision departments at all levels of the Company accepted a total of 372 complaints via letter, visit, telephone and internet, handled 344 clues to discipline violation, had talks with 271 persons, filed 55 cases and took disciplinary actions against 75 persons.

COMMUNITY

Social Benefits

Our community co-construction goal is to create effective and sustainable benefits for the community where our business is operated. In addition to corporate philanthropy, we've also supported the long-term public welfare investment in the community by establishing the community partnership and encouraging employees to participate in voluntary services.

We've participated in community construction mainly through the following approaches:

(1) Donations: CCCC has actively fulfilled social responsibility of central SOEs, provided relief donations for disaster-stricken areas, vulnerable groups and people with difficulties, and supported public welfare causes including education, science, culture, sport, medical care, environmental protection and public facilities construction.

(2) Targeted poverty alleviation: In order to put the Spirit of the 19th CPC National Congress and the Xi Jinping's Strategic Thought on Poverty Alleviation Development in the New Era into active implementation, the Company gave play to its industrial advantage and insisted on the "six provisions" to assist in poverty alleviation in Lushui City, Lanping County, Fugong County, Gongshan County in Nujiang, Yunnan and Yingjisha County in Xinjiang, contributing its power and strength to fight against poverty. In 2018, the Company invested RMB40.22 million in poverty alleviation with approximately 20,000 persons obtaining immediate benefits. Therefore, the "CCCC mode" was preliminarily formed and the phased results in poverty alleviation were achieved.

(3) Volunteer service: The Company continued to improve the "2 + X Blue Vest" voluntary service system, carried out voluntary service activities on an on-going basis by the "Blue Vest" voluntary service team, and established various types of voluntary service platforms. At present, there are approximately 10,000 "Blue Vest" volunteers. During the reporting period, the Company held the first "Blue Vest" volunteer backbone training course to improve the volunteer service quality and volunteer service capability of employees.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of China Communications Construction Company Limited

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Communications Construction Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 105 to 228, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (the "Code") issued by the Hong Kong Institute of Certified Public Accountants, and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR’S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction services The Group has adopted IFRS 15 *Revenue from Contracts with Customers* since 1 January 2018. The Group derives most of its revenue from construction services that is accounted for by measuring progress towards completion of the performance obligations (measuring progress). The measuring progress method involves the use of significant judgement and estimates, including estimates of total contract revenue and total contract cost. The management of the Group will continue to reappraise total contract revenue and total cost according to the scope of deliveries and services required, remaining cost to completion, etc. In addition, revenue, cost and gross profit realised on such contracts can vary (sometimes significantly) from the Group’s original estimates because of changes in conditions. The accounting policies and disclosures for the revenue recognition on construction services are included in notes 2.4, 3, and 5 to the financial statements.	We evaluated and tested the Group’s internal controls over the process to recognise revenue, including the record of expected contract cost and contract revenue, and revenue recognised based on the measurement of the progress toward satisfaction of the performance obligations. We selected material construction contracts to review key contract terms and check to the expected total contract revenue and contract cost. We examined the contract cost incurred by selecting samples to reconcile with related documents. We performed cut-off testing procedures to check that cost had been recognised in the appropriate accounting period. We re-calculated the proportion of the actual cost incurred relative to the estimated total cost and the revenue recognised under the measuring progress method. In addition, we performed analytical procedures on the gross margins of material construction contracts of the Group.
Impairment of contract assets, trade receivables and long-term receivables The Group has adopted IFRS 9 *Financial Instruments* since 1 January 2018. The impairment of contract assets, trade receivables and long-term receivables was recognised based on the allowance for expected credit loss (ECL). The management of the Group ascertain the ECL of contract assets, trade receivables and long-term receivables based on historical information of settlement of contract assets and collection of trade receivables and long-term receivables, customers’ creditworthiness, and forward-looking economic conditions, etc., involving the use of significant judgement and estimates. The accounting policies and disclosures for the impairment of contract assets, trade receivables and long-term receivables are included in notes 2.4, 3, 27 and 29 to the financial statements.	We evaluated and tested the Group’s internal controls over the process to recognise the allowance for ECL of contract assets, trade receivables and long-term receivables. We reviewed the management’s analysis of historical information of settlement of contract assets and collection of trade receivables and long-term receivables. We tested the accuracy of the ageing of trade receivables and long-term receivables balances by tracing details of selected samples to related documents. We evaluated the management’s credit risk assessment on contract assets, trade receivables and long-term receivables.
Impairment assessment on concession assets For those concession assets with indications of impairment, the management of the Group performed impairment tests thereon to ascertain the recoverable amounts of such concession assets. The recoverable amounts of such assets are determined using the discounted cash flow method which requires the Group to make assumptions on the underlying cash flow forecasts. The assumptions include expectations for the traffic volume, also with necessary maintenance and operating costs incurred for the concession assets, and discount rates. Hence the assessment of recoverable amounts involve significant judgements and estimation. The accounting policies and disclosures for the impairment assessment on concession assets are included in notes 2.4, 3 and 18 to the financial statements.	We evaluated and tested the Group’s internal controls over the process of impairment assessment on concession assets. We evaluated the competence and capabilities of management’s specialists employed by the Group. We reviewed the basis and assumptions used in the future cash flow forecasts by comparing with the designed traffic volume, the current operation of these concession assets and the development plan of relevant areas in which these concession assets operated. We compared the prior year’s forecast with the Group’s actual performance in 2018. We also evaluated the reasonableness of the discount rates.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, 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 ISAs 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.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the 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 Yim Chi Hung, Henry.

Ernst & Young

Certified Public Accountants

Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	**2018** **RMB million**	2017 *RMB million*
Continuing operations			
Revenue	4, 5	**488,666**	460,067
Cost of sales		**(424,055)**	(399,630)
Gross profit		**64,611**	60,437
Other income	5	**4,051**	3,893
Other gains, net	5	**1,892**	2,369
Selling and marketing expenses		**(1,177)**	(872)
Administrative expenses		**(31,800)**	(32,647)
Impairment losses on financial and contract assets, net		**(2,753)**	–
Other expenses		**(1,503)**	(1,412)
Operating profit		**33,321**	31,768
Finance income	7	**5,314**	3,071
Finance costs, net	8	**(12,660)**	(11,176)
Share of profits and losses of:			
– Joint ventures		**168**	(294)
– Associates		**(97)**	282
Profit before tax from continuing operations	6	**26,046**	23,651
Income tax expense	11	**(5,608)**	(5,109)
Profit for the year from continuing operations		**20,438**	18,542
Discontinued operation			
Profit for the year from a discontinued operation	12	**–**	3,184
Profit for the year		**20,438**	21,726
Attributable to:			
– Owners of the parent		**19,819**	20,943
– Non-controlling interests		**619**	783
		20,438	21,726
Earnings per share attributable to ordinary equity holders of the parent	14		
Basic			
– For profit for the year		**RMB1.16**	RMB1.23
– For profit from continuing operations		**RMB1.16**	RMB1.04
Diluted			
– For profit for the year		**RMB1.16**	RMB1.23
– For profit from continuing operations		**RMB1.16**	RMB1.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 RMB million	2017 RMB million
Profit for the year		**20,438**	21,726
Other comprehensive (loss)/income			
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods, net of tax:			
Actuarial (losses)/gains on retirement benefit obligations		**(49)**	26
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(3,017)**	–
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods		**(3,066)**	26
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods, net of tax:			
Available-for-sale investments			
– Changes in fair value	23	**–**	5,759
– Release of investment revaluation reserve upon disposal	23	**–**	(1,647)
Cash flow hedges		**(4)**	2
Share of other comprehensive loss of joint ventures and associates		**(106)**	(72)
Exchange differences on translation of foreign operations		**249**	(785)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**139**	3,257
Other comprehensive (loss)/income for the year, net of tax		**(2,927)**	3,283
Total comprehensive income for the year		**17,511**	25,009
Attributable to:			
– Owners of the parent		**16,908**	24,292
– Non-controlling interests		**603**	717
		17,511	25,009

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** **RMB million**	2017 *RMB million*
Non-current assets			
Property, plant and equipment	15	**56,365**	52,751
Investment properties	16	**3,463**	2,275
Prepaid land lease payments	17	**9,683**	7,230
Intangible assets	18	**188,370**	161,158
Investments in joint ventures	19	**18,646**	11,133
Investments in associates	20	**23,019**	19,409
Financial assets at fair value through profit or loss	21	**5,893**	3,451
Debt investments at amortised cost		**109**	–
Equity investments designated at fair value through other comprehensive income	22	**21,257**	–
Available-for-sale investments	23	**–**	25,908
Held-to-maturity investments		**–**	104
Contract assets	29	**28,698**	–
Trade and other receivables	27	**118,967**	112,710
Deferred tax assets	34	**4,504**	4,214
Total non-current assets		**478,974**	400,343
Current assets			
Inventories	25	**46,861**	40,536
Contract assets	29	**103,981**	–
Amounts due from contract customers	26	**–**	89,577
Trade and other receivables	27	**195,887**	181,745
Financial assets at fair value through profit or loss	21	**155**	2,878
Derivative financial instruments	28	**250**	488
Restricted bank deposits and time deposits with an initial term of over three months	30	**6,955**	5,124
Cash and cash equivalents	30	**127,413**	129,197
Total current assets		**481,502**	449,545
Current liabilities			
Trade and other payables	32	**314,496**	332,703
Contract liabilities	31	**81,953**	–
Amounts due to contract customers	26	**–**	27,175
Tax payable		**4,034**	3,994
Derivative financial instruments	28	**2**	10
Interest-bearing bank and other borrowings	33	**79,243**	82,680
Retirement benefit obligations	35	**141**	149
Total current liabilities		**479,869**	446,711
Net current assets		**1,633**	2,834
Total assets less current liabilities		**480,607**	403,177

Continued/...

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	**2018** *RMB million*	2017 *RMB million*
Total assets less current liabilities		**480,607**	403,177
Non-current liabilities			
Trade and other payables	32	**17,185**	10,545
Interest-bearing bank and other borrowings	33	**215,384**	178,522
Deferred income		**827**	669
Deferred tax liabilities	34	**5,162**	5,969
Retirement benefit obligations	35	**1,152**	1,198
Provisions	36	**1,215**	680
Total non-current liabilities		**240,925**	197,583
Net assets		**239,682**	205,594
Equity			
Equity attributable to owners of the parent			
Share capital	37	**16,175**	16,175
Share premium	37	**19,656**	19,656
Financial instruments classified as equity	38	**24,426**	19,431
Reserves	39	**136,921**	125,660
		197,178	180,922
Non-controlling interests		**42,504**	24,672
Total equity		**239,682**	205,594

Liu Qitao
Director

Song Hailiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Notes	Attributable to owners of the parent							
		Share capital *RMB million*	Share premium *RMB million*	Financial instruments classified as equity *RMB million*	Other reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
As at 31 December 2017		16,175	19,656	19,431	28,443*	97,217*	180,922	24,672	205,594
Adjustment on adoption of IFRS 9, net of tax *(Note 2.2)*		–	–	–	85	(718)	(633)	(9)	(642)
As at 1 January 2018		16,175	19,656	19,431	28,528	96,499	180,289	24,663	204,952
Profit for the year		–	–	–	–	19,819	19,819	619	20,438
Other comprehensive (loss)/income for the year:									
Changes in fair value of equity investments designated at fair value through other comprehensive income		–	–	–	(3,017)	–	(3,017)	–	(3,017)
Cash flow hedges, net of tax		–	–	–	(4)	–	(4)	–	(4)
Share of other comprehensive income of joint ventures and associates		–	–	–	(106)	–	(106)	–	(106)
Actuarial gains on retirement benefit obligations, net of tax		–	–	–	(49)	–	(49)	–	(49)
Exchange differences related to foreign operations		–	–	–	265	–	265	(16)	249
Total comprehensive income for the year		–	–	–	(2,911)	19,819	16,908	603	17,511
Final 2017 dividend declared	13	–	–	–	–	(3,913)	(3,913)	–	(3,913)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(116)	(116)
Capital contributions from non-controlling interests		–	–	–	–	–	–	3,402	3,402
Share of other reserves of joint ventures and associates		–	–	–	9	–	9	–	9
Financial instruments classified as equity		–	–	4,995	–	–	4,995	14,223	19,218
Distributions to holders of financial instruments classified as equity		–	–	–	–	(1,018)	(1,018)	(617)	(1,635)
Transaction with non-controlling interests		–	–	–	(92)	–	(92)	(36)	(128)
Acquisition of subsidiaries	43	–	–	–	–	–	–	805	805
Disposal of subsidiaries	44	–	–	–	–	–	–	(423)	(423)
Transfer to statutory surplus reserve	39(b)	–	–	–	526	(526)	–	–	–
Transfer to general reserve	39(c)	–	–	–	113	(113)	–	–	–
Transfer to safety production reserve	39(d)	–	–	–	139	(139)	–	–	–
As at 31 December 2018		16,175	19,656	24,426	26,312*	110,609*	197,178	42,504	239,682

Continued/...

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

		Attributable to owners of the parent							
	Notes	Share capital *RMB million*	Share premium *RMB million*	Financial instruments classified as equity *RMB million*	Other reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*	Non-controlling interests *RMB million*	Total equity *RMB million*
At 1 January 2017		16,175	19,656	19,431	22,544*	81,517*	159,323	27,247	186,570
Profit for the year		–	–	–	–	20,943	20,943	783	21,726
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net of tax		–	–	–	5,765	–	5,765	(6)	5,759
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax		–	–	–	(1,647)	–	(1,647)	–	(1,647)
Cash flow hedges, net of tax		–	–	–	2	–	2	–	2
Share of other comprehensive income of joint ventures and associates		–	–	–	(70)	–	(70)	(2)	(72)
Actuarial gains on retirement benefit obligations, net of tax		–	–	–	26	–	26	–	26
Exchange differences related to foreign operations		–	–	–	(727)	–	(727)	(58)	(785)
Total comprehensive income for the year		–	–	–	3,349	20,943	24,292	717	25,009
Final 2016 dividend declared		–	–	–	–	(3,145)	(3,145)	–	(3,145)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(451)	(451)
Capital reduction of non-controlling interests		–	–	–	–	–	–	(590)	(590)
Share of other reserves of joint ventures and associates		–	–	–	(10)	–	(10)	–	(10)
Financial instruments classified as equity		–	–	–	–	–	–	5,341	5,341
Distributions to holders of financial instruments classified as equity		–	–	–	–	(1,018)	(1,018)	(515)	(1,533)
Transaction with non-controlling interests	39(a)	–	–	–	1,480	–	1,480	(1,480)	–
Acquisition of subsidiaries		–	–	–	–	–	–	1,372	1,372
Disposal of subsidiaries	44	–	–	–	–	–	–	(6,969)	(6,969)
Transfer to statutory surplus reserve	39(b)	–	–	–	504	(504)	–	–	–
Transfer to general reserve	39(c)	–	–	–	209	(209)	–	–	–
Transfer to safety production reserve	39(d)	–	–	–	367	(367)	–	–	–
As at 31 December 2017		16,175	19,656	19,431	28,443*	97,217*	180,922	24,672	205,594

* These reserve accounts comprise the consolidated reserves of RMB136,921 million (2017: RMB125,660 million) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB million	2017 RMB million
Cash flows from operating activities			
Profit before tax			
– From continuing operations		**26,046**	23,651
– From a discontinued operation		**–**	3,585
Adjustments for:			
– Depreciation of property, plant and equipment and investment properties	15, 16	**8,395**	8,520
– Amortisation of intangible assets and prepaid land lease payments	17, 18	**1,737**	1,497
– Gains on disposal of property, plant and equipment		**(472)**	(79)
– Gains from business combinations achieved in stages		**(236)**	–
– Fair value losses on derivative financial instruments		**236**	142
– Fair value losses/(gains) on financial assets at fair value through profit or loss		**12**	(57)
– Gains on disposal of subsidiaries	5, 44	**(482)**	(4,002)
– Gains on disposal of available-for-sale financial investments and derivative financial instruments	5	**–**	(1,836)
– Gains on disposal of financial assets at fair value through profit or loss	5	**(109)**	(43)
– Losses/(gains) on disposal of joint ventures and associates	5	**1**	(435)
– Write-down of inventories		**5**	580
– Provision for impairment of trade and other receivables		**2,498**	3,817
– Provision for impairment of concession assets	6	**35**	101
– Provision for foreseeable (gains)/losses on construction services/ contracts		**(125)**	1,184
– Provision for impairment of contract assets	6	**254**	–
– Provision for impairment of available-for-sale financial investments	6	**–**	13
– Dividend income from available-for-sale financial investments		**–**	(654)
– Dividend income on financial assets at fair value through profit or loss		**(160)**	–
– Dividend income on equity investments designated at fair value through other comprehensive income		**(700)**	–
– Investment income from held-to-maturity financial assets		**–**	(16)
– Interest income		**(5,495)**	(3,365)
– Interest expenses		**10,024**	10,643
– Dividend income on derivative financial instruments		**(83)**	(98)
– Other income from investing activities		**(68)**	(18)
– Share of profits and losses of joint ventures and associates	19, 20	**(71)**	(27)
– Net foreign exchange losses/(gains) on borrowings		**249**	(149)
		41,491	42,954
Increase in inventories		**(5,513)**	(4,781)
Increase in trade and other receivables		**(67,480)**	(35,176)
Increase in contract assets/amounts due from contract customers		**(3,999)**	(15,211)
(Increase)/decrease in restricted bank deposits		**(1,753)**	1,063
Decrease in retirement benefit obligations		**(54)**	(111)
Increase in trade and other payables		**50,439**	55,779
(Decrease)/increase in provisions		**(293)**	599
Increase/(decrease) in deferred income		**158**	(97)
Cash generated from operations		**12,996**	45,019
Interest income		**1,562**	2,925
Income tax paid		**(5,460)**	(5,203)
Net cash flows from operating activities		**9,098**	42,741

Continued/...

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 RMB million	2017 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		**(14,005)**	(13,220)
Additions to prepaid land lease payments		**(2,256)**	(868)
Purchases of intangible assets		**(22,246)**	(26,624)
Purchases of investment properties		**(311)**	(22)
Proceeds from disposal of items of property, plant and equipment		**851**	416
Proceeds from disposal of prepaid land lease payments		**20**	41
Proceeds from disposal of intangible assets		**9**	5
Purchases of equity investments designated at fair value through other comprehensive income/available-for-sale investments		**(637)**	(808)
Purchases of financial assets at fair value through profit or loss		**(1,995)**	(6,185)
Purchases of derivative financial instruments		**–**	(120)
Acquisition of subsidiaries	43	**780**	(271)
Additional investments in associates		**(4,882)**	(2,124)
Additional investments in joint ventures		**(8,473)**	(5,740)
Proceeds from disposal of available-for-sale investments		**–**	2,414
Proceeds from disposal of associates		**28**	279
Proceeds from disposal of joint ventures		**3**	98
Disposal of subsidiaries	44	**(340)**	3,160
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		**5**	–
Proceeds from disposal of other debt instruments		**116**	–
Interest received		**1,562**	1,320
Proceeds from disposal of financial assets at fair value through profit or loss		**3,351**	68
Proceeds from withdrawal upon maturity of held-to-maturity investments		**–**	134
Changes in time deposits with an initial term of over three months		**(78)**	(270)
Cash consideration received of concession assets		**931**	3,290
Loans to joint ventures, associates and third parties		**(8,629)**	(6,945)
Repayment of loans from joint ventures, associates and third parties		**4,332**	5,369
Dividends received		**1,552**	984
Net cash flows used in investing activities		**(50,312)**	(45,619)
Cash flows from financing activities			
Proceeds from bank and other borrowings		**144,998**	165,773
Proceeds from financial instruments classified as equity		**19,218**	5,341
Repayments of loans from the parent company		**(450)**	–
Repayments of bank and other borrowings		**(109,871)**	(128,218)
Interest paid		**(13,206)**	(13,560)
Dividends paid to equity holders of the parent		**(3,913)**	(3,145)
Dividend paid to non-controlling interests of subsidiaries		**(733)**	(420)
Distributions paid to holders of financial instruments classified as equity		**(1,033)**	(1,322)
Loans from the parent company		**–**	450
Capital contribution from non-controlling interests		**3,402**	3,031
Transaction with non-controlling interests		**(115)**	–
Withdrawal of capital contribution by non-controlling interests		**–**	(3,621)
Other financings		**334**	–
Net cash flows from financing activities		**38,631**	24,309
Net (decrease)/increase in cash and cash equivalents		**(2,583)**	21,431
Cash and cash equivalents at beginning of year	30	**129,197**	108,720
Effect of foreign exchange rate changes, net		**799**	(954)
Cash and cash equivalents at end of year	30	**127,413**	129,197

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

China Communications Construction Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 8 October 2006 as a joint stock company with limited liability under the Company Law of the PRC as part of the group reorganisation of China Communications Construction Group Ltd. ("CCCG"), the parent company and a state-owned enterprise established in the PRC. The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 15 December 2006 and the A shares of the Company were listed on the Shanghai Stock Exchange on 9 March 2012. The address of the Company's registered office is 85 De Sheng Men Wai Street, Xicheng District, Beijing, the PRC.

The Company and its subsidiaries (together, the "Group") are principally engaged in infrastructure construction, infrastructure design, dredging and other businesses.

In the opinion of the directors, the immediate and ultimate holding company of the Company is CCCG, which is established in the PRC.

Information about subsidiaries

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

Name	Place of incorporation/ registration and business	Type of legal entity	Issued ordinary/ registered share capital *(in million)*	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Unlisted -						
China Harbour Engineering Co., Ltd. ("CHEC")	PRC and other regions	Limited liability company	RMB3,278	50%	50%	Infrastructure construction
China Road and Bridge Corporation	PRC and other regions	Limited liability company	RMB3,889	96.37%	3.63%	Infrastructure construction
CCCC First Harbour Engineering Co., Ltd. ("CFHCC")	PRC	Limited liability company	RMB6,010	100%	–	Infrastructure construction
CCCC Second Harbour Engineering Co., Ltd.	PRC	Limited liability company	RMB3,810	100%	–	Infrastructure construction
CCCC Third Harbour Engineering Co., Ltd.	PRC	Limited liability company	RMB5,377	100%	–	Infrastructure construction
CCCC Fourth Harbour Engineering Co., Ltd.	PRC	Limited liability company	RMB4,282	100%	–	Infrastructure construction
CCCC First Highway Engineering Co., Ltd. ("CFHEC")	PRC	Limited liability company	RMB4,367	100%	–	Infrastructure construction
CCCC Second Highway Engineering Co., Ltd.	PRC	Limited liability company	RMB2,569	100%	–	Infrastructure construction
Road & Bridge International Co., Ltd.	PRC	Limited liability company	RMB2,825	100%	–	Infrastructure construction
CCCC Third Highway Engineering Co., Ltd.	PRC	Limited liability company	RMB1,509	100%	–	Infrastructure construction
CCCC Fourth Highway Engineering Co., Ltd.	PRC	Limited liability company	RMB1,550	100%	–	Infrastructure construction
CCCC Tunnel Engineering Co., Ltd.	PRC	Limited liability company	RMB1,507	100%	–	Infrastructure construction
CCCC Water Transportation Consultants Co., Ltd.	PRC	Limited liability company	RMB818	100%	–	Infrastructure design
CCCC Highway Consultants Co., Ltd.	PRC	Limited liability company	RMB730	100%	–	Infrastructure design
CCCC First Harbour Consultants Co., Ltd.	PRC	Limited liability company	RMB723	100%	–	Infrastructure design
CCCC Second Harbour Consultants Co., Ltd.	PRC	Limited liability company	RMB428	100%	–	Infrastructure design
CCCC Third Harbour Consultants Co., Ltd.	PRC	Limited liability company	RMB731	100%	–	Infrastructure design
CCCC Fourth Harbour Consultants Co., Ltd.	PRC	Limited liability company	RMB630	100%	–	Infrastructure design
CCCC First Highway Consultants Co., Ltd.	PRC	Limited liability company	RMB856	100%	–	Infrastructure design

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NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Type of legal entity	Issued ordinary/ registered share capital *(in million)*	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
CCCC Second Highway Consultants Co., Ltd.	PRC	Limited liability company	RMB872	100%	–	Infrastructure design
China Highway Engineering Consultants Co., Ltd.	PRC	Limited liability company	RMB750	100%	–	Infrastructure design
China Infrastructure Maintenance Group Co., Ltd.	PRC	Limited liability company	RMB323	100%	–	Infrastructure design
CCCC Dredging (Group) Co., Ltd.	PRC	Limited liability company	RMB11,775	99.9%	0.1%	Dredging
CCCC Investment Co., Ltd. ("CCCC Investment")	PRC	Limited liability company	RMB10,551	100%	–	Investment holding
CCCC Xi'an Road Construction Machinery Co., Ltd.	PRC	Limited liability company	RMB433	54.31%	45.69%	Manufacture of road construction machinery
China Highway Vehicle & Machinery Co., Ltd.	PRC	Limited liability company	RMB168	100%	–	Trading of motor vehicle spare parts
Chuwa Bussan Co., Ltd.	Japan	Limited liability company	JPY12,021	75%	–	Trading of machinery
CCCC Shanghai Equipment Engineering Co., Ltd.	PRC	Limited liability company	RMB10	55%	–	Maintenance and repair of port machinery
CCCC Mechanical & Electrical Engineering Co., Ltd.	PRC	Limited liability company	RMB833	60%	40%	Trading of machinery
China Communications Materials & Equipment Co., Ltd.	PRC	Limited liability company	RMB234	100%	–	Trading of construction materials and equipment
CCCC Finance Company Limited ("CCCC Finance")	PRC	Limited liability company	RMB3,500	95%	–	Financial service
CCCC International Holding Limited ("CCCI")	Hong Kong	Limited liability company	HKD2,372	100%	–	Investment holding
CCCC Financial Leasing Co., Ltd. ("CCCC Financial Leasing")	PRC	Limited liability company	RMB5,000	45%	25%	Financial service
CCCC Fund Management Co., Ltd.	PRC	Limited liability company	RMB100	70%	–	Fund management
CCCC Asset Management Co., Ltd.	PRC	Limited liability company	RMB13,768	9.44%	90.56%	Asset management
CCCC Urban Investment Co., Ltd.	PRC	Limited liability company	RMB3,710	100%	–	Investment holding
CCCC Beijing-Tianjin-Hebei Investment Development Co., Ltd.	PRC	Limited liability company	RMB300	100%	–	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative instruments, certain equity investments and certain financial assets and financial liabilities which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014–2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and Annual Improvements 2014–2016 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 measurement		Re-			IFRS 9 measurement	
		Category	Amount	classification	ECL	Other	Amount	Category
	Notes	*RMB million*	*RMB Million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Financial assets								
Equity investments designated at fair value through other comprehensive income		N/A	–	24,479	–	142	24,621	FVOCI[1]
From: Available-for-sale investments	(i)		–	24,393	–	142	–	
From: Financial assets at fair value through profit or loss	(i)		–	86	–	–	–	
Available-for-sale investments		AFS[2]	25,908	(25,908)	–	–	–	N/A
To: Equity investments designated at fair value through other comprehensive income	(i)		–	(24,393)	–	–	–	
To: Financial assets at fair value through profit or loss	(ii)		–	(1,460)	–	–	–	
To: Debt investments at fair value through other comprehensive income	(iii)		–	(55)	–	–	–	
Debt investments at fair value though other comprehensive income		N/A	–	55	–	–	55	FVOCI
From: Available-for-sale investments	(iii)		–	55	–	–	–	
Trade receivables and other receivables, excluding prepayments	(v)	L&R[3]	231,068	–	(237)	–	230,831	AC[4]
Cash and cash equivalents, restricted bank deposits and time deposits		L&R	134,321	–	–	–	134,321	AC
Financial assets at fair value through profit or loss		FVPL[5]	6,329	1,374	–	137	7,840	FVPL
To: Equity investments designated at fair value through other comprehensive income	(i)		–	(86)	–	–	–	
From: Available-for-sale investments	(ii)		–	1,460	–	137	–	
Held-to-maturity investments		HTM	104	(104)	–	–	–	N/A
To: Debt investments at amortised cost	(iv)		–	(104)	–	–	–	
Debt investments at amortised cost		N/A	–	104	–	–	104	AC
From: Held-to-maturity investments	(iv)		–	104	–	–	–	
Derivative financial instruments		FVPL	488	–	–	–	488	FVPL

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

		IAS 39 measurement		Re-			IFRS 9 measurement	
		Category	Amount	classification	ECL	Other	Amount	Category
	Notes	*RMB million*	*RMB Million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Other assets								
Contract assets	(v)		116,937	–	(885)	–	116,052	
Deferred tax assets			4,214	–	261	–	4,475	
			121,151	–	(624)	–	120,527	
Total assets			519,369	–	(861)	279	518,787	
Financial liabilities								
Trade and other payables	(v)	AC	(281,955)	–	–	–	(281,955)	AC
Interest-bearing bank and other borrowings		AC	(261,202)	–	–	–	(261,202)	AC
Derivative financial instruments		FVPL	(10)	–	–	–	(10)	FVPL
			(543,167)	–	–	–	(543,167)	
Other liabilities								
Deferred tax liabilities			(5,969)	–	–	(60)	(6,029)	
			(5,969)	–	–	(60)	(6,029)	
Total liabilities			(549,136)	–	–	(60)	(549,196)	

1 FVOCI: Financial assets at fair value through other comprehensive income
2 AFS: Available-for-sale investments
3 L&R: Loans and receivables
4 AC: Financial assets or financial liabilities at amortised cost
5 FVPL: Financial assets at fair value through profit or loss

Notes:

(i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments and other equity investments as equity investments at fair value through other comprehensive income.

(ii) The Group has classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these equity investments did not pass the contractual cash flow characteristics test in IFRS 9.

(iii) As of 1 January 2018, the Group has assessed its liquidity portfolio of debt investments which had previously been classified as AFS debt investments. The objective of the Group in holding this liquidity portfolio is to earn interest income and, at the same time, manage everyday liquidity needs. The Group concluded that these debt investments are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified these investments as debt investments measured at fair value through other comprehensive income.

(iv) The Group has classified its debt instruments which had previously been classified as held-to-maturity investments to debt investments at amortised cost as these debt investments have passed the contractual cash flow characteristics test in IFRS 9.

(v) The gross carrying amounts of the trade receivables and other receivables, excluding prepayments, trade and other payables and the contract assets under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of IFRS 15 are included in note 2.2(c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9. Further details are disclosed in notes 27 and 29 to the financial statements.

	Impairment allowance under IAS 39 at 31 December 2017 *RMB million*	Re-measurement *RMB million*	**ECL allowance under IFRS 9 at 1 January 2018** ***RMB million***
Trade and other receivables, excluding prepayments	(13,185)	(237)	**(13,422)**
Contract assets	–	(885)	**(885)**
Total	(13,185)	(1,122)	**(14,307)**

The impact on reserves and retained earnings

The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

	Reserves and retained earnings
Fair value reserve under IFRS 9 (available-for-sale investments revaluation reserve under IAS 39)	
Balance as at 31 December 2017 under IAS 39	28,443
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	58
Reclassification of financial assets at fair value through profit or loss to equity investments designated at fair value through other comprehensive income	(95)
Re-measurement of equity investments designated at fair value through other comprehensive income previously measured at cost under IAS 39	148
Deferred tax in relation to the above	(26)
Balance as at 1 January 2018 under IFRS 9	28,528
Retained earnings	
Balance as at 31 December 2017 under IAS 39	97,217
Recognition of expected credit losses for contract assets under IFRS 9	(628)
Recognition of expected credit losses for trade and other receivables under IFRS 9	(490)
Re-measurement of financial assets at fair value through profit or loss	136
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	(58)
Reclassification of financial assets at fair value through profit or loss to equity investments designated at fair value through other comprehensive income	95
Deferred tax in relation to the above	227
Balance as at 1 January 2018 under IFRS 9	96,499

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The disclosures are included in notes 4 and 5 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The Group has evaluated and concluded that the cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

The Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 and 5 for the disclosure on disaggregated revenue.

Furthermore, reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 15. A reconciliation between the carrying amounts under IAS 18 and IAS 11 to the balances reported under IFRS 15 as of 1 January 2018 is as follows:

	As previously stated Under IAS 18 and IAS 11 *RMB million*	**Reclassification** *RMB million*	**Stated Under IFRS 15** *RMB million*
Trade receivables and other receivables, excluding prepayments	270,222	(39,154)	231,068
Amounts due from contract customers	89,577	(89,577)	–
Contract assets	–	116,937	116,937
Amounts due to contract customers	(27,175)	27,175	–
Trade and other payables	(343,248)	61,293	(281,955)
Contract liabilities	–	(75,846)	(75,846)
Provisions	(680)	(828)	(1,508)

The adoption of the IFRS 15 has had no significant impact on the financial performance of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(d) Amendments to IAS 40, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no significant impact on the financial position or performance of the Group.

(e) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015–2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those IFRSs that are expected to be applicable to the Group is described below:

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Lease Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt IFRS 16 from 1 January 2019.

The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group is currently assessing the impact of IFRS 16 upon adoption and the amendments are not expected to have significant impacts on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and the amendments are not expected to have any significant impact on the Group's financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

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

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

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

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

Business combinations and goodwill

Business combinations are accounted for using the acquisition method, except for those acquisitions which are considered as a business combination under common control in a manner similar to pooling-of-interest.

Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the ultimate controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the ultimate controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of the acquirer's interest in the net fair value of the acquiree identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the ultimate controlling party's interest.

The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the prior reporting period or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as expenses in the year in which they are incurred.

Acquisition method of accounting for non-common control combinations

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Acquisition method of accounting for non-common control combinations (continued)

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

– Freehold land	Not depreciated
– Leasehold land under finance leases	Shorter of useful life and remaining lease term
– Buildings	20–40 years
– Machinery	5–20 years
– Vessels	10–25 years
– Vehicles	5 years
– Other equipment	2–5 years

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for internal use purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the straight-line method to write off the cost less accumulated impairment loss of the asset over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Concession assets

The Group is engaged in certain service concession arrangements in which the Group carries out construction work (e.g., toll highways, bridges and ports) in exchange for a right for the Group to operate the asset concerned in accordance with pre-established conditions set by the granting authority. In accordance with IFRIC Interpretation 12 Service Concession Arrangements (IFRIC 12), the assets under the concession arrangements may be classified as intangible assets or financial assets. The assets are classified as intangibles if the operator receives a right (a license) to charge users of the public service or as financial assets if the operator has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The Group classifies the non-current assets linked to the long-term investment in these concession arrangements as "concession assets" within intangible assets on the statement of financial position if the intangible asset model is adopted. Such concession assets represent the consideration received for its construction service rendered. Once the underlying infrastructure of the concession arrangements is completed, the concession assets are amortised over the term of the concession using the traffic flow method or straight-line method under the intangible asset model.

Trademark, patent and proprietary technologies

Separately acquired trademark, patent and proprietary technologies are shown at historical cost. Trademark patent and proprietary technologies acquired in a business combination are recognised at fair value at the acquisition date. Trademark, patent and proprietary technologies have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 3 to 17 years.

Computer software

Acquired computer software license costs recognised as assets are amortised over their estimated useful lives of 1 to 10 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leases

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purposes of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as “other gains, net” in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "finance income" in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether 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 amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost (continued)

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

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

Available-for-sale financial investments

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

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

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

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, total return swaps and forward equity contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- 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.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Current versus non-current classification

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Financial instruments classified as equity

Financial instruments issued by the Group are classified as equity instruments when all the following conditions have been met:

i) The financial instruments have no contractual obligation to pay cash or other financial assets to others, nor to exchange financial assets or liabilities with others under potential unfavourable circumstances;

ii) The financial instruments will or may be settled in the Group's own equity instruments: if the financial instrument is non-derivative, it should not have the contractual obligation to be settled by the Group delivering a variable number of its own equity instruments; if the financial instrument is derivative, it should solely be settled by the Group delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or other financial assets.

Financial instruments classified as equity instruments are recognised initially at fair value, net of transaction costs incurred.

Inventories

Inventories comprise raw materials, work in progress, properties under development and held for sale, completed properties held for sale and finished goods. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, other direct costs and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Development cost of properties comprises cost of land use rights, construction costs and borrowing costs eligible for capitalisation incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion. Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

The Group provides for warranties in relation to the provision of construction services during the warranty period. Provision for these assurance-type warranties granted by the Group are recognised based on the best estimates of the Group, discounted to their present value as appropriate.

Income tax

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(a) Construction services

Revenue from the provision of infrastructure construction services is recognised over time, using an input method to measure progress toward satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the most likely amount or the expected value method to estimate the amounts of claims, whichever more appropriate, to best predict the amount of variable consideration to which the Group will be entitled.

(b) Provision of design and other services

Revenue from the provision of Infrastructure design and other services is recognised over time, using an input method to measure progress toward satisfaction of the service, because the Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

(c) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(d) Significant financing component

For contracts that include a significant financing component, the Group adjusts the promised amount of consideration for the effects of a significant financing component and recognise revenue as the "cash selling price" of the underlying goods or services at the time of transfer. The "cash selling price" is generated by discounting the promised amount of consideration using the effective interest rate. The Group selects to use the practical expedient that it will not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(e) Warranty

As required by law or agreed in the contract terms, the Group provides assurance-type warranties that promise the customer that the asset created in the construction services is as specified in the construction contract. The Group recognises such assurance-type warranties as provisions. For the warranties that provide a service to the customer in addition to assurance that the asset created is as specified in the contract, the Group identifies such service-type warranties as a separate performance obligation and allocates the transaction price between construction service and service-type warranties using the proportion of their stand-alone selling prices. The Group recognises the revenue of service-type warranties when the customer obtains control of the service. In assessing whether a warranty provides a customer with a service in addition to the assurance that the asset created in the construction services complies with the agreed specifications, the Group considers factors including whether the warranty is required by law, the length of the warranty coverage period, and the nature of the tasks that the entity promises to perform.

(f) Principal versus agent

The Group determines whether it is a principal or an agent in the transactions by evaluating whether it controls each specified good or service before that good or service is transferred to the customer. The Group is a principal and recognises revenue in the gross amount of consideration received or receivable if it controls the specified good or service before that good or service is transferred to a customer. Otherwise, the Group is an agent and recognises revenue in the amount of any fee or commission to which it expects to be entitled. The fee or commission is the net amount of consideration that the Group retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party, or is determined by certain agreed amounts or proportions.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(g) Contract modifications

If the construction contract between the Group and the customers is modified:

(i) if the creation of new construction service and contract price are separately identified, and the new contract price reflects the separate selling price of the new construction service, the Group will treat the contract modification as a separate contract for accounting;

(ii) if the contract modification does not belong to the above situation (i), and there is a clear distinction between transferred construction services and non-transferred construction services at the date of contract modification, the Group will regard it as the termination of the original contract. Meanwhile, the unperformed part of the original contract and the part of contract modification will be merged into a new contract for accounting;

(iii) if the contract does not belong to the above situation (i), and there is no clear distinction between transferred construction services and non-transferred construction services at the date of contract modification, the Group will treat the part of modification as the component of original contract for accounting. The effect that the contract modification has on the transaction price is recognised as an adjustment to revenue at the date of the contract modification.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" below;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Offsetting of contract assets and contract liabilities (applicable from 1 January 2018)

Contract assets and contract liabilities are offset and the net amount is reported in the statement of financial position if they belong to the same contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before 1 January 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (applicable before 1 January 2018) (continued)

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Past-service costs are recognised immediately in the consolidated statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

(a) Pension obligations (continued)

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

For defined contribution plans, the full-time employees of the Group in the PRC excluding Hong Kong and Macau ("Mainland China") are covered by the government-sponsored or privately administered pension plans under which the employees are entitled to a monthly pension based on certain formula. The Group pays contributions to these pension plans monthly, on a mandatory or contractual basis. The Group has no further payment obligations once the contributions have been made. The contributions are recognised as employee benefit expense as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or jurisdictions outside Mainland China. Employees' and employers' contributions are calculated based on various percentages of employees' gross salaries of fixed sums and length of service.

(b) Other post-employment obligations

The Group provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Housing funds

All full-time employees of the Group in Mainland China are entitled to participate in various government sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(e) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Measurement of progress toward complete satisfaction of construction services

The Group uses input method to measure the progress toward satisfaction of the performance obligations, and specifically, the proportion of actual construction costs incurred relative to the estimated total costs. Actual construction costs incurred include direct and indirect costs in the process of transferring goods from the Group to customers. The Group believes that contract price is based on construction costs. Therefore, the proportion of actual construction costs incurred relative to the total expected costs can reflect the progress toward satisfaction of construction service. Since the duration of construction is relatively long that it may cover more than one accounting period, the Group will review contract, revise budget and adjust revenue accordingly as the contract carries forward.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Determination of control over structured entities

The Group invested in several structured entities which were mainly engaged in infrastructure investment activities. Based on the assessment following the basis of consolidation and accounting policies set out in note 2.1 and 2.4 respectively, the Group has consolidated certain structured entities that it has control. For the investment that the Group has joint control on the structured entitles, they are accounted for as joint ventures in accordance with IAS 28 *Investments in Associates and Joint Ventures*. For the equities held indirectly through venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds are accounted for as financial assets at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. Judgement is involved when performing the assessment. Should those joint ventures and financial assets through profit or loss be consolidated, net assets, revenue and profit of the Group could be affected.

Management applies its judgement to determine whether the control indicators set out in note 2.1 indicate that the Group controls a structured entity.

The Group acts as manager to a number of structured entities and also carries interests in these entities. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity.

Further disclosure in respect of unconsolidated structured entities in which the Group has an interest has been set out in note 24.

Financial instruments classified as equity

Certain financial instruments of the Group, such as preference shares, are classified as equity, as the following conditions have been met:

(i) The financial instruments have no contractual obligation to pay cash or other financial assets to others, nor to exchange financial assets or liabilities with others under potential unfavourable circumstances;

(ii) The financial instruments will or may be settled in the Group's own equity instruments: if the financial instrument is non-derivative, it should not have the contractual obligation to be settled by the Group delivering a variable number of its own equity instruments; if the financial instrument is derivative, it should solely be settled by the Group delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or other financial assets.

Further details are disclosed in note 38 and 40.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Impairment assessment on concession assets

The Group operates certain concession assets and their impairment is reviewed whenever events or changes in circumstances indicate that the carrying amounts of the concession assets may not be recoverable in accordance with the accounting policy stated in note 2.4.

The recoverable amounts of the concession assets have been determined based on a value-in-use method. The value-in-use calculations require the use of estimates on the projections of cash flows from the traffic volume and other income, deducting the necessary maintenance and operating costs incurred for the concession assets, and discount rates.

Based on management's best estimates, the Group recognised an accumulated impairment of RMB334 million (2017: RMB299 million) to profit or loss for concession assets. Further details are disclosed in note 18.

Impairment of available-for-sale financial assets (applicable before 1 January 2018)

Before 1 January 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there is was an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, impairment losses of RMB192 million had been recognised for available-for-sale assets. The carrying amount of available-for-sale assets as at 31 December 2017 was RMB25,908 million.

Fair value of financial instruments

The fair values of listed financial instruments are based on quoted market prices, while the fair values of unlisted financial instruments have been estimated by the most appropriate market-based valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Further details are included in note 50 to the financial statements.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise.

Based on management's best estimates, the Group recognised an accumulated impairment of RMB50 million (2017: RMB50 million) to profit or loss for goodwill. Details of the impairment test for goodwill are disclosed in note 18.

Provision for ECLs of contract assets, trade receivables and long-term receivables

The Group uses a provision matrix to calculate ECLs of the Croup's contract assets, trade receivables and long-term receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product or service type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's contract assets, trade receivables and long-term receivables is disclosed in note 27 and note 29 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Infrastructure construction and design services

The recognition of revenue and cost of infrastructure construction and design services requires the management of the Group to make judgements and estimations. For onerous contracts, the present obligation under the contract must be recognised in the current period and measured as provisions, based on the estimated budgets and losses of the construction services. Because of the nature of the activity undertaken in construction, design and dredging businesses, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in each contract budget as the contract progresses and regularly reviews the progress of the contracts.

The Group also monitors the payment progress from customers against the contract terms, and periodically evaluates the creditworthiness of the customers. If circumstances arise that a customer would default on all or part of its payments or otherwise fail to fulfil its performance obligations under the contract terms, the Group will reassess the outcome of the relevant contract and may revise the relevant estimates. The revision will be reflected in the consolidated statement of profit or loss in the period in which the circumstances that give rise to the revision become known by the Group.

Income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed. Further details are disclosed in note 34.

Pension benefits

The present value of the defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. The key assumptions for pension obligations and sensitivity analysis of the discount rate are disclosed in note 35.

Depreciation of property, plant and equipment

Depreciation on the Group's property, plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. Management reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. The accounting estimate of the useful lives of property, plant and equipment is based on historical experience, taking into account anticipated technological changes. When the useful lives differ from the original estimated useful lives, management will adjust the estimated useful lives accordingly. It is possible that actual outcomes in the next financial period are different from estimates made based on historical experience. Then it could cause a material adjustment to the depreciation and carrying amount of the Group's property, plant and equipment. Further details are disclosed in note 15.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the President Office that are used to allocate resources to the operating segments and assess their performance.

The President Office considers the business from the service and product perspectives. Management assesses the performance of the following four operating segments:

(a) infrastructure construction of ports, roads, bridges and railways (the "Construction Segment");

(b) infrastructure design of ports, roads and bridges (the "Design Segment");

(c) dredging (the "Dredging Segment"); and

(d) others (the "Others Segment").

The President Office assesses the performance of the operating segments based on operating profit excluding unallocated income or costs. Other information provided to the President Office is measured in a manner consistent with that in the consolidated financial statements.

Sales between operating segments are carried out on terms with reference to the selling prices used for sales made to third parties. The revenue from external parties reported to the President Office is measured in a manner consistent with that in the consolidated statement of profit or loss.

Operating expenses of a functional unit are allocated to the relevant operating segment which is the predominant user of the services provided by the unit. Operating expenses of shared services which cannot be allocated to a specific operating segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, prepaid land lease payments, investment properties, intangible assets, inventories, receivables, contract assets, amounts due from contract customers, and cash and cash equivalents. They exclude deferred tax assets, investments in joint ventures and associates, equity investments designated at fair value through other comprehensive income, available-for-sale investments, held-to-maturity investments, debt investments at amortised cost, financial assets at fair value through profit or loss, derivative financial instruments and the assets of headquarter of the Company and the Company's subsidiary, CCCC Finance.

Segment liabilities comprise primarily payables, contract liabilities and amounts due to contract customers. They exclude deferred tax liabilities, tax payable, borrowings and derivative financial instruments and the liabilities of headquarter of the Company and CCCC Finance.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 15), prepaid land lease payments (Note 17), investment properties (Note 16) and intangible assets (Note 18).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2018 and other segment information included in the consolidated financial statements are as follows:

	Year ended 31 December 2018					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Total gross segment revenue	431,817	31,557	32,796	12,402	(19,906)	488,666
Intersegment revenue	(7,070)	(3,964)	(310)	(8,562)	19,906	–
Revenue *(note 5)*	424,747	27,593	32,486	3,840	–	488,666
Segment results	27,726	3,510	1,769	604	(364)	33,245
Unallocated income						76
Operating profit						33,321
Finance income						5,314
Finance costs, net						(12,660)
Share of profits and losses of joint ventures and associates						71
Profit before tax from continuing operations						26,046
Income tax expense						(5,608)
Profit for the year from continuing operations						20,438
Other segment information						
Depreciation	6,577	224	1,109	485	–	8,395
Amortisation	1,622	50	31	34	–	1,737
Write-down of inventories	(7)	–	–	12	–	5
Provision for impairment of concession assets	35	–	–	–	–	35
Provision for impairment of trade and other receivables	1,768	343	314	73	–	2,498
Provision for impairment of contract assets	288	–	(33)	(1)	–	254
Capital expenditure	37,835	524	1,503	926	–	40,788

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2017 and other segment information included in the consolidated financial statements are as follows:

	Year ended 31 December 2017					
	Construction	Design	Dredging	Others	Eliminations	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
Total gross segment revenue	410,014	26,965	34,108	9,546	(20,566)	460,067
Intersegment revenue	(13,540)	(3,940)	(1,739)	(1,347)	20,566	–
Revenue	396,474	23,025	32,369	8,199	–	460,067
Segment results	25,846	3,207	2,766	(50)	83	31,852
Unallocated income						(84)
Operating profit						31,768
Finance income						3,071
Finance costs, net						(11,176)
Share of profits and losses of joint ventures and associates						(12)
Profit before tax from continuing operations						23,651
Income tax expense						(5,109)
Profit for the year from continuing operations						18,542
Other segment information						
Depreciation	5,944	210	1,026	118	–	7,298
Amortisation	1,234	43	47	52	–	1,376
Write-down of inventories	109	–	–	55	–	164
Provision for foreseeable losses on construction contracts	915	2	193	–	–	1,110
Provision for impairment of trade and other receivables	2,254	259	416	551	–	3,480
Provision for impairment of concession assets	101	–	–	–	–	101
Provision for impairment of available-for-sale investments	13	–	–	–	–	13
Capital expenditure	42,545	481	1,654	1,107	–	45,787

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The amounts provided to the President Office with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are presented based on the operating segments they are associated with.

The segment assets and liabilities at 31 December 2018 are as follows:

	As at 31 December 2018					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Segment assets	698,988	35,470	78,640	47,113	(46,553)	813,658
Investments in joint ventures						18,646
Investments in associates						23,019
Unallocated assets						105,153
Total assets						960,476
Segment liabilities	381,494	24,439	36,833	5,464	(40,264)	407,966
Unallocated liabilities						312,828
Total liabilities						720,794

Segment assets and liabilities at 31 December 2018 are reconciled to entity assets and liabilities as follows:

	Assets *RMB million*	Liabilities *RMB million*
Segment assets/liabilities	813,658	407,966
Investments in joint ventures	18,646	–
Investments in associates	23,019	–
Unallocated:	–	–
Deferred tax assets/liabilities	4,504	5,162
Tax payable	–	4,034
Current borrowings	–	79,243
Non-current borrowings	–	215,384
Equity investments designated at fair value through other comprehensive income	21,257	–
Debt investments at amortised cost	109	–
Financial assets at fair value through profit or loss	6,048	–
Derivative financial instruments	250	2
Cash and other corporate assets/corporate liabilities	72,985	9,003
Total	960,476	720,794

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities at 31 December 2017 are as follows:

	As at 31 December 2017					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Segment assets	587,900	31,103	70,956	41,688	(38,134)	693,513
Investments in joint ventures						11,133
Investments in associates						19,409
Unallocated assets						125,833
Total assets						849,888
Segment liabilities	338,461	21,335	33,081	5,084	(37,827)	360,134
Unallocated liabilities						284,160
Total liabilities						644,294

Segment assets and liabilities at 31 December 2017 are reconciled to entity assets and liabilities as follows:

	Assets *RMB million*	Liabilities *RMB million*
Segment assets/liabilities	693,513	360,134
Investments in joint ventures	11,133	–
Investments in associates	19,409	–
Unallocated:		
Deferred tax assets/liabilities	4,214	5,969
Tax payable	–	3,994
Current borrowings	–	82,680
Non-current borrowings	–	178,522
Available-for-sale investments	25,908	–
Held-to-maturity investments	104	–
Financial assets at fair value through profit or loss	6,329	–
Derivative financial instruments	488	10
Cash and other corporate assets/corporate liabilities	88,790	12,985
Total	849,888	644,294

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2018 *RMB million*	2017 *RMB million*
Mainland China	**393,489**	354,095
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**95,177**	105,972
	488,666	460,067

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

The proportion of revenue from the individual countries or regions other than Mainland China was not material during 2018 and 2017.

(b) Non-current assets

	2018 *RMB million*	2017 *RMB million*
Mainland China	**241,291**	205,176
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**20,751**	18,238
	262,042	223,414

The non-current asset information above is based on the locations of the assets and excludes financial instruments, investments in joint ventures and associates and deferred tax assets.

The proportion of non-current assets in the individual countries or regions other than Mainland China was not material as at 31 December 2018 and 2017.

Information about a major customer

No revenue derived from services or sales to a single customer accounted for 10% or more of the Group's revenue, including services or sales to a group of entities which are known to be under common control with that customer during 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE, OTHER INCOME AND OTHER GAINS, NET

An analysis of revenue is as follows:

	2018 RMB million	2017 RMB million
Revenue from contracts with customers		
Construction	431,817	410,014
Design	31,557	26,965
Dredging	32,796	34,108
Others	12,402	9,546
Intersegment eliminations	(19,906)	(20,566)
	488,666	460,067

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Construction RMB million	Design RMB million	Dredging RMB million	Others RMB million	Total RMB million
Type of goods or services					
Infrastructure construction	405,134	12,787	26,158	395	444,474
Infrastructure design	931	14,336	717	20	16,004
Others	18,682	470	5,611	3,425	28,188
Total revenue from contracts with customers	424,747	27,593	32,486	3,840	488,666
Geographical markets					
Mainland China	334,769	26,580	28,300	3,840	393,489
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	89,978	1,013	4,186	–	95,177
Total revenue from contracts with customers	424,747	27,593	32,486	3,840	488,666
Timing of revenue recognition					
Services transferred over time	406,303	27,134	27,483	1,116	462,036
Merchandise transferred at a point in time	18,444	459	5,003	2,724	26,630
Total revenue from contracts with customers	424,747	27,593	32,486	3,840	488,666

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE, OTHER INCOME AND OTHER GAINS, NET (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

For the year ended 31 December 2018

Segments	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Total *RMB million*
Revenue from contracts with customers					
External customers	424,747	27,593	32,486	3,840	488,666
Intersegment sales	7,070	3,964	310	8,562	19,906
Intersegment adjustments and eliminations	(7,070)	(3,964)	(310)	(8,562)	(19,906)
Total revenue from contracts with customers	424,747	27,593	32,486	3,840	488,666

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period.

	2018 *RMB million*
Balance of contract liabilities at the beginning of the reporting period:	
Construction	24,341
Design	1,552
Dredging	1,247
Others	5,366
	32,506

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Construction, design and dredging services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 180 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over the certain period as stipulated in the contracts.

Other services

Other services mainly include sale of products. The performance obligation is satisfied upon delivery of the products and payments is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

The remaining performance obligations expected to be recognised relate to construction, design, dredging and other services that are to be satisfied within one to five years.

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5. REVENUE, OTHER INCOME AND OTHER GAINS, NET (CONTINUED)

Other income

	2018 RMB million	2017 RMB million
Rental income	**747**	859
Dividend income from equity investments designated at fair value through other comprehensive income		
– Listed equity instruments	**632**	–
– Unlisted equity instruments	**68**	–
Dividend income on available-for-sale investments		
– Listed equity securities	**–**	612
– Unlisted equity investments	**–**	18
Government grants	**471**	581
Income from the sale of waste and materials	**79**	20
Income on derivative financial instruments	**83**	98
Dividend income from financial assets at fair value through profit or loss	**160**	–
Income from held-to-maturity financial assets	**–**	16
Income from debt investments at amortised cost	**8**	–
Others (mainly consist of consultation service income, property management service income and transportation income)	**1,803**	1,689
	4,051	3,893

Other gains, net

	2018 RMB million	2017 RMB million
Gains on disposal of available-for-sale investments	**–**	1,836
Gains on disposal of items of property, plant and equipment	**472**	68
Gains on disposal of subsidiaries	**482**	775
(Losses)/gains on disposal of joint ventures and associates	**(1)**	435
Fair value (losses)/gains on financial assets at fair value through profit or loss	**(12)**	57
Losses on derivative financial instruments:		
– Foreign exchange forward contracts	**(236)**	(137)
Foreign exchange difference, net	**842**	(708)
Gains on disposal of financial assets at fair value through profit or loss	**109**	43
Gains from business combinations achieved in stages	**236**	–
	1,892	2,369

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. PROFIT BEFORE TAX

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	2018	2017
	RMB million	*RMB million*
Raw materials and consumables used	**135,420**	118,443
Cost of goods sold	**13,405**	9,246
Subcontracting costs	**164,427**	164,558
Employee benefit expenses:		
– Salaries, wages and bonuses	**24,987**	24,293
– Pension costs – defined contribution plans	**3,587**	3,232
– Pension costs – defined benefit plans	**133**	149
– Housing benefits	**1,709**	1,611
– Welfare, medical and other expenses	**13,933**	13,651
	44,349	42,936
Minimum lease payments under operating leases	**12,957**	13,189
Business tax and other transaction tax	**1,506**	1,650
Fuel	**4,131**	3,808
Depreciation of property, plant and equipment and investment properties	**8,395**	7,298
Amortisation of intangible assets	**1,612**	1,094
Amortisation of land lease payments	**125**	282
Research and development costs	**9,663**	7,885
Repair and maintenance expenses	**2,733**	2,446
Transportation costs	**605**	282
Utilities	**1,833**	1,401
Insurance	**1,310**	1,335
Auditors' remuneration	**24**	25
Write-down of inventories	**5**	164
Provision for foreseeable losses on contract assets	**(125)**	–
Provision for foreseeable losses on construction services/contracts	**–**	1,110
Impairment of financial and contract assets, net:		
– Impairment of trade and other receivables	**2,498**	3,480
– Impairment of contract assets	**254**	–
Provision for impairment of concession assets	**35**	101
Provision for impairment of available-for-sale investments	**–**	13

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7. FINANCE INCOME

	2018 **RMB million**	2017 RMB million
Interest income		
– Bank deposits	**1,112**	1,070
– Interest of build and transfer project	**1,418**	1,201
– Imputed finance income under effective interest rate method	**1,676**	–
– Others	**1,108**	800
	5,314	3,071

8. FINANCE COSTS, NET

An analysis of finance costs from continuing operations is as follows:

	2018 **RMB million**	2017 RMB million
Interest expense incurred	**13,235**	12,166
Less: Interest capitalised	**(2,556)**	(2,680)
Net interest expense	**10,679**	9,486
Representing:		
– Bank borrowings	**8,199**	7,314
– Other borrowings	**152**	116
– Corporate bonds	**1,266**	1,175
– Debentures	**190**	121
– Non-public debt instruments	**571**	505
– Finance lease liabilities	**212**	61
– Others	**89**	194
	10,679	9,486
Foreign exchange difference, net	**249**	(149)
Loss on derecognition of financial assets measured at amortised cost	**697**	–
Others	**1,035**	1,839
	12,660	11,176

Borrowing costs directly attributable to the construction and acquisition of qualifying assets were capitalised as part of the costs of those assets. A weighted average capitalisation rate of 5.64% (2017: 4.62%) per annum was used, representing the costs of the borrowings used to finance the qualifying assets. Interest capitalised during the year was as follows:

	2018 **RMB million**	2017 RMB million
Inventories and contract assets/gross amounts due from contract customers	**(1,251)**	(1,308)
Concession assets	**(1,217)**	(1,273)
Construction-in-progress	**(88)**	(99)
	(2,556)	(2,680)

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9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Fees	**248**	275
Other emoluments:		
Salaries, allowances and benefits in kind	**2,775**	2,888
Performance related bonuses	**4,055**	3,139
Pension scheme contributions	**393**	406
	7,223	6,433
	7,471	6,708

(a) Independent non-executive directors

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

	2018 *RMB'000*	2017 *RMB'000*
Mr. Liu Zhangmin (i)	–	55
Mr. Leung Chong Shun (i)	–	147
Mr. Huang Long	**60**	60
Mr. Zheng Changhong (i)	**60**	5
Mr. Ngai Wai fung (i)	**128**	8
	248	275

(i) Mr. Liu Zhangmin and Mr. Leung Chong Shun retired as the independent non-executive directors on 22 November 2017. Instead, Mr. Zheng Changhong and Mr. Ngai Wai fung were elected as the independent non-executive directors on the same day.

There were no other emoluments payable to the independent non-executive directors during the year (2017: nil).

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9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and supervisors

	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
2018				
Executive directors				
Mr. Liu Qitao	**242**	**727**	**55**	**1,024**
Mr. Song Hailiang (i)	**227**	**674**	**55**	**956**
Mr. Chen Fenjian (i)	**114**	**680**	**27**	**821**
Mr. Fu Junyuan (i)	**140**	**640**	**36**	**816**
Mr. Chen Yun	**221**	**702**	**55**	**978**
	944	**3,423**	**228**	**4,595**
Non-executive directors				
Mr. Liu Maoxun	**–**	**–**	**–**	**–**
Mr. Qi Xiaofei	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
Supervisors				
Mr. Zhen Shaohua (ii)	**–**	**–**	**–**	**–**
Mr. Li Sen	**558**	**200**	**55**	**813**
Mr. Wang Yongbin	**636**	**216**	**55**	**907**
Mr. Yao Yanmin	**637**	**216**	**55**	**908**
	1,831	**632**	**165**	**2,628**
	2,775	**4,055**	**393**	**7,223**
2017				
Executive directors				
Mr. Liu Qitao	227	550	50	827
Mr. Chen Fenjian	227	550	50	827
Mr. Fu Junyuan	207	481	51	739
Mr. Chen Yun	207	495	51	753
	868	2,076	202	3,146
Non-executive directors				
Mr. Liu Maoxun	–	–	–	–
Mr. Qi Xiaofei	–	–	–	–
	–	–	–	–
Supervisors				
Mr. Zhen Shaohua	207	481	51	739
Mr. Li Sen	573	182	51	806
Mr. Wang Yongbin	620	200	51	871
Mr. Yao Yanmin	620	200	51	871
	2,020	1,063	204	3,287
	2,888	3,139	406	6,433

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9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and supervisors (continued)

(i) Mr. Chen Fenjiang retired as executive director of the board on 16 July 2018 and Mr. Fu Junyuan retired as executive director of the board on 27 September 2018. Mr. Song Hailiang was elected as executive director of the board on 20 November 2018.

(ii) Mr. Zhen Shaohua retired from the supervisory committee on 22 November 2017.

During the year, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

None of the Directors' emoluments as disclosed in note 9 above was included in the emoluments paid to the five highest paid individuals. The emoluments of the five individuals whose emoluments were the highest in the Group during the year are as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**3,161**	2,979
Performance related bonuses	**5,932**	4,969
Pension scheme contributions	**393**	428
	9,486	8,376

The number of the above highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
HKD1,500,001 to HKD2,000,000 (equivalent to approximately RMB1,314,000 to RMB1,752,000)	**2**	3
HKD2,000,001 to HKD2,500,000 (equivalent to approximately RMB1,752,001 to RMB2,191,000)	**3**	2
	5	5

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX

Most of the companies of the Group are subject to PRC enterprise income tax, which has been provided based on the statutory income tax rate of 25% (2017: 25%) of the assessable income of each of these companies during the year as determined in accordance with the relevant PRC income tax rules and regulations, except for certain subsidiaries of the Company, which were exempted from tax or taxed at a preferential rate of 15% (2017: 15%).

Certain of the companies of the Group are subject to Hong Kong profits tax, which has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

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

	2018	2017
	RMB million	*RMB million*
Current		
– PRC enterprise income tax	**5,150**	4,269
– Others	**350**	993
	5,500	5,262
Deferred	**108**	248
Total tax charge for the year from continuing operations	**5,608**	5,109
Total tax charge for the year from a discontinued operation	**–**	401
	5,608	5,510

NOTES TO FINANCIAL STATEMENTS

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11. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2018		2017	
	RMB million	*%*	*RMB million*	*%*
Profit before tax from continuing operations	**26,046**		23,651	
Profit before tax from a discontinued operation	**–**		3,585	
	26,046		27,236	
Tax at PRC statutory tax rate of 25% (2017: 25%)	**6,512**	**25.0**	6,809	25.0
Tax for the appreciation of land in the PRC	**340**	**1.3**	209	0.8
Profits and losses attributable to joint ventures and associates	**(18)**	**(0.1)**	(7)	0.0
Income not subject to tax	**(368)**	**(1.4)**	(659)	(2.4)
Additional tax concession on research and development costs	**(484)**	**(1.9)**	(449)	(1.7)
Expenses not deductible for tax	**135**	**0.5**	288	1.0
Tax losses utilised from previous periods	**(130)**	**(0.5)**	(444)	(1.6)
Temporary differences utilised from previous periods	**(175)**	**(0.7)**	(15)	(0.1)
Temporary differences not recognised	**48**	**0.2**	356	1.3
Tax losses not recognised	**1,330**	**5.1**	1,191	4.4
Effect of differences in tax rates applicable to certain domestic and foreign subsidiaries	**(1,582)**	**(6.1)**	(1,769)	(6.5)
Tax charge at the Group's effective rate	**5,608**	**21.4**	5,510	20.2
Tax charge from continuing operations at the effective rate	**5,608**	**21.4**	5,109	21.6
Tax charge from a discontinued operation at the effective rate	**–**	**–**	401	11.2

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12. DISCONTINUED OPERATION

On 18 July 2017, the Group entered into an equity transfer agreement with CCCG, pursuant to which the Company and CHEC agreed to transfer 1,316,649,346 ordinary shares of Shanghai Zhenhua Heavy Industries Co., Ltd. ("ZPMC") which represented 29.99% of the total issued share capital of ZPMC to CCCG and CCCG HK. The transfer of ZPMC equity was completed on 27 December 2017. The rest of the business in the former manufacture of heavy machinery business segment was covered in other segments of the Group, and ZPMC was classified as a discontinued operation.

The results of ZPMC for 2017 prior to the disposal are presented below:

	2017 *RMB million*
Revenue	21,728
Eliminations of intersegment revenue	(1,219)
	20,509
Cost of sales	(18,476)
Eliminations of intersegment costs	1,219
	(17,257)
Other income	265
Other gains, net	177
Selling and marketing expenses	(121)
Administrative expenses	(2,173)
Other expenses	(142)
Finance income	293
Finance costs, net	(1,232)
Share of profits and losses of joint ventures and associates	39
Profit from a discontinued operation	358
Gains on disposal of a subsidiary	3,227
Profit before tax from a discontinued operation	3,585
Income tax:	
– Related to pre-tax profit	(92)
– Related to gains on disposal of a subsidiary	(309)
	(401)
Profit for the year from a discontinued operation	3,184
Attributable to:	
– Owners of the parent	3,030
– Non-controlling interests	154
	3,184

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12. DISCONTINUED OPERATION (CONTINUED)

The net cash flows incurred by ZPMC for 2017 prior to the disposal are as follows:

	2017 *RMB million*
Net cash generated from operating activities	1,332
Net cash used in investing activities	(1,682)
Net cash generated from financing activities	2,577
Effect of foreign exchange rate changes, net	(50)
Net increase in cash and cash equivalents	2,177

Earnings per share:	
– Basic, from a discontinued operation	RMB0.19
– Diluted, from a discontinued operation	RMB0.19

The calculations of basic and diluted earnings per share from a discontinued operation are based on:

	2017
Profit attributable to ordinary equity holders of the parent from a discontinued operation *(RMB million)*	3,030
Weighted average number of ordinary shares in issue *(million)*	16,175

13. DIVIDENDS

	2018 ***RMB million***	2017 *RMB million*
Proposed final dividend of RMB0.23077 per ordinary share (2017: RMB0.24190)	**3,733**	3,913

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting ("AGM").

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14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 16,174,735,425 (2017: 16,174,735,425) in issue during the year.

The calculation of basic earnings per share is based on:

	2018	2017
Profit attributable to ordinary equity holders of the parent *(RMB million)*		
– From continuing operations	**19,819**	17,913
– From a discontinued operation	**–**	3,030
	19,819	20,943
Less: Interest on perpetual medium-term notes *(RMB million)* (i)	**(300)**	(300)
Dividend relating to preference shares *(RMB million)* (ii)	**(718)**	(718)
	18,801	19,925
Attributable to:		
– From continuing operations *(RMB million)*	**18,801**	16,895
– From a discontinued operation *(RMB million)*	**–**	3,030
	18,801	19,925
Weighted average number of ordinary shares in issue *(million)*	**16,175**	16,175
Basic earnings per share		
– From continuing operations *(RMB per share)*	**1.16**	1.04
– From a discontinued operation *(RMB per share)*	**–**	0.19
	1.16	1.23

(i) The perpetual medium-term notes (the “MTN”) issued by the Company in 2014 were classified as equity instruments with deferrable accumulative interest distribution and payment. Interest of RMB300 million on the MTN which has been generated during the year was deducted from earnings when calculating the earnings per share amount for the year ended 31 December 2018.

(ii) The preference shares issued by the Company in 2015 were classified as equity instruments with deferrable and non-cumulative dividend distribution and payment. As the conditions of mandatory distribution were triggered, a dividend amounting to RMB718 million on the preference shares was deducted from earnings when calculating the earnings per share amount for the year ended 31 December 2018.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

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15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB million*	Machinery *RMB million*	Vessels and vehicles *RMB million*	Other equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	12,761	26,634	41,248	12,146	7,849	100,638
Accumulated depreciation and impairment	(3,293)	(14,538)	(21,180)	(8,876)	–	(47,887)
Net carrying amount	9,468	12,096	20,068	3,270	7,849	52,751
At 1 January 2018, net of accumulated depreciation and impairment	9,468	12,096	20,068	3,270	7,849	52,751
Additions	421	5,084	884	3,500	4,527	14,416
Disposals	(362)	(663)	(240)	(438)	(359)	(2,062)
Acquisition of subsidiaries	–	–	5	3	32	40
Disposal of subsidiaries	(28)	–	(3)	(5)	–	(36)
Transfer to/(from) construction in progress	2,982	376	665	179	(4,202)	–
Transfer from investment properties	106	–	–	–	–	106
Transfer to investment properties	(255)	–	–	–	–	(255)
Transfer to/(from) inventories	243	–	–	–	(820)	(577)
Depreciation provided during the year	(488)	(3,070)	(1,884)	(2,771)	–	(8,213)
Exchange realignment	37	85	68	5	–	195
At 31 December 2018, net of accumulated depreciation and impairment	12,124	13,908	19,563	3,743	7,027	56,365
At 31 December 2018:						
Cost	15,901	30,381	41,731	13,521	7,027	108,561
Accumulated depreciation and impairment	(3,777)	(16,473)	(22,168)	(9,778)	–	(52,196)
Net carrying amount	12,124	13,908	19,563	3,743	7,027	56,365

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings *RMB million*	Machinery *RMB million*	Vessels and vehicles *RMB million*	Other equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	22,380	30,378	48,916	10,903	10,160	122,737
Accumulated depreciation and impairment	(5,983)	(17,682)	(24,125)	(8,172)	–	(55,962)
Net carrying amount	16,397	12,696	24,791	2,731	10,160	66,775
At 1 January 2017, net of accumulated depreciation and impairment	16,397	12,696	24,791	2,731	10,160	66,775
Additions	90	3,972	1,804	2,681	3,652	12,199
Disposals	(93)	(24)	(183)	(52)	(130)	(482)
Acquisition of subsidiaries	44	51	15	66	247	423
Disposal of subsidiaries	(8,200)	(1,908)	(7,175)	(71)	(2,001)	(19,355)
Transfer to/(from) construction in progress	1,920	556	3,085	39	(5,600)	–
Transfer to investment properties	–	–	–	–	(130)	(130)
Transfer from investment properties	89	–	–	–	–	89
Transfer from inventories	23	–	–	–	1,651	1,674
Depreciation provided during the year	(801)	(3,233)	(2,252)	(2,140)	–	(8,426)
Exchange realignment	(1)	(14)	(17)	16	–	(16)
At 31 December 2017, net of accumulated depreciation and impairment	9,468	12,096	20,068	3,270	7,849	52,751
At 31 December 2017:						
Cost	12,761	26,634	41,248	12,146	7,849	100,638
Accumulated depreciation and impairment	(3,293)	(14,538)	(21,180)	(8,876)	–	(47,887)
Net carrying amount	9,468	12,096	20,068	3,270	7,849	52,751

The net carrying amount of the Group's fixed assets held under finance leases in the carrying amount of vessels and machinery at 31 December 2018 was RMB1,737 million (2017: RMB1,974 million).

At 31 December 2018, none of the Group's property, plant and equipment was pledged to secure general banking facilities granted to the Group (2017: nil) (note 33(d), 45(b)).

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16. INVESTMENT PROPERTIES

	2018 RMB million	2017 RMB million
Carrying amount at 1 January	**2,275**	2,346
Additions	**–**	22
Transfer from property, plant and equipment	**255**	130
Transfer from inventory	**1,319**	267
Transfer to property, plant and equipment	**(106)**	(89)
Transferred to inventory	**(98)**	–
Disposal of subsidiaries	**–**	(301)
Depreciation provided during the year	**(182)**	(94)
Others	**–**	(6)
Carrying amount at 31 December	**3,463**	2,275

As at 31 December 2018, the fair value of the Group's investment properties was mainly based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent and professionally qualified valuers.

The investment properties located in Mainland China were valued by the income approach by taking into account the net rental income of the properties derived mainly from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. The fair value of these properties for commercial purpose was RMB9,465 million (2017: RMB8,001 million), which falls into the category of fair value measurements using significant unobservable inputs (Level 3) including future rental inflows, discount rates and capitalisation rates, etc.

The rest of the investment properties for residential purpose located in Mainland were valued by the comparison approach by making reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. The fair value of these properties was RMB966 million (2017: RMB806 million), which falls into the category of fair value measurements using significant observable inputs (Level 2) including comparable price in the market.

The investment properties located outside Mainland China were mainly valued by the comparison approach with reference to comparable market transactions. The fair value of these properties was RMB251 million (2017: RMB230 million), which falls into the category of fair value measurements using significant observable inputs (Level 2) including comparable price in the market.

The investment properties are leased to third parties under operating leases, further details of which are included in note 46(a)to the financial statements.

17. PREPAID LAND LEASE PAYMENTS

	2018 RMB million	2017 RMB million
Carrying amount at 1 January	**7,230**	10,676
Additions	**2,566**	769
Disposals	**(20)**	(10)
Disposal of subsidiaries	**–**	(3,891)
Amortisation during the year	**(125)**	(283)
Transferred to inventories	**–**	–
Transferred to property, plant and equipment	**–**	–
Exchange realignment	**32**	(31)
Carrying amount at 31 December	**9,683**	7,230

At 31 December 2018, certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB5,028 million (2017: RMB1,628 million) were pledged to secure general banking facilities granted to the Group (note 33(d), 45(b)).

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18. INTANGIBLE ASSETS

	Concession assets RMB million	Goodwill RMB million	Trademark, patent and proprietary technologies RMB million	Computer software RMB million	Others RMB million	Total RMB million
31 December 2018						
Cost at 1 January 2018, net of accumulated amortisation and impairment	**153,957**	**5,426**	**1,286**	**417**	**72**	**161,158**
Additions	**23,829**	**5**	**14**	**107**	**129**	**24,084**
Acquisition of subsidiaries	**7,225**	**–**	**–**	**1**	**–**	**7,226**
Disposal of subsidiaries	**(2,170)**	**–**	**–**	**(1)**	**–**	**(2,171)**
Disposal	**–**	**–**	**(1)**	**(9)**	**–**	**(10)**
Amortisation provided during the year	**(1,346)**	**–**	**(65)**	**(166)**	**(35)**	**(1,612)**
Impairment during the year	**(35)**	**–**	**–**	**–**	**–**	**(35)**
Exchange realignment	**–**	**(270)**	**–**	**–**	**–**	**(270)**
At 31 December 2018	**181,460**	**5,161**	**1,234**	**349**	**166**	**188,370**
At 31 December 2018:						
Cost	**185,437**	**5,211**	**1,513**	**895**	**402**	**193,458**
Accumulated amortisation and impairment	**(3,977)**	**(50)**	**(279)**	**(546)**	**(236)**	**(5,088)**
Net carrying amount	**181,460**	**5,161**	**1,234**	**349**	**166**	**188,370**

	Concession assets RMB million	Goodwill RMB million	Trademark, patent and proprietary technologies RMB million	Computer software RMB million	Others RMB million	Total RMB million
31 December 2017						
Cost at 1 January 2017, net of accumulated amortisation and impairment	136,805	5,210	945	321	99	143,380
Additions	34,173	–	4	194	13	34,384
Acquisition of subsidiaries	13	406	416	13	6	854
Disposal of subsidiaries	(15,682)	(266)	(16)	(13)	–	(15,977)
Disposal	–	–	(3)	(1)	(2)	(6)
Amortisation provided during the year	(1,013)	–	(60)	(97)	(44)	(1,214)
Impairment during the year	(101)	–	–	–	–	(101)
Exchange realignment	(238)	76	–	–	–	(162)
At 31 December 2017	153,957	5,426	1,286	417	72	161,158
At 31 December 2017:						
Cost	156,553	5,476	1,501	806	287	164,623
Accumulated amortisation and impairment	(2,596)	(50)	(215)	(389)	(215)	(3,465)
Net carrying amount	153,957	5,426	1,286	417	72	161,158

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18. INTANGIBLE ASSETS (CONTINUED)

As at 31 December 2018, concession assets represent assets under "Build-Operate-Transfer" service concession arrangements and mainly consist of toll roads in Mainland China. Certain concession projects have been put into operations, the cost of related concession assets amounted to RMB139,080 million (2017: RMB125,715 million). The cost of concession assets where the related projects were under construction amounted to RMB42,380 million (2017: RMB28,242 million).

As at 31 December 2018, the accumulated impairment of concession assets was RMB334 million (2017: RMB299 million). The Group recognised an impairment of RMB35 million (2017: RMB101 million) during the year, based on an impairment test for a concession asset (a toll road) with a carrying amount before impairment of RMB383 million as at 31 December 2018, as the concession asset had experienced losses and the actual traffic volume was lower than expected traffic volume. The recoverable amount of the concession asset of RMB348 million was determined based on value in use method using cash flow projections based on its financial budget. The post-tax discount rate applied to the cash flow projection was 7.49%.

As at 31 December 2018, certain of the Group's concession assets with a net carrying amount of approximately RMB141,261 million (2017: RMB119,600 million) were pledged to secure general banking facilities granted to the Group (note 33(d), 45(b)).

Impairment testing of goodwill

Goodwill is allocated to the Group's cash generating units identified in accordance with individual acquisition groups within respective operating segments. The goodwill of the Group mainly relates to the following acquisition groups:

(a) the goodwill included in the Construction Segment that arose in connection with the Group's acquisition of the 100% equity interest in John Holland Group Pty Limited ("John Holland") in April 2015;

(b) the goodwill included in the Other Segment that arose in connection with the Group's acquisition of the 100% equity interest in Friede Goldman United, Ltd. ("F&G") in August 2010, and

(c) The goodwill included in the Design Segment that arose in connection with the Group's acquisition of the 80% equity interest in Concremat Engenharia e Tecnologia S.A. in January 2017.

The following is a summary of goodwill allocation for each acquisition group:

	2018 ***RMB million***	2017 *RMB million*
John Holland (i)	**4,608**	4,878
F&G	**245**	245
Concremat Engenharia e Tecnologia S.A.	**252**	252
Others	**56**	51
	5,161	5,426

(i) For goodwill arose in connection with John Holland, the recoverable amount was determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 2%. The growth rate does not exceed the long-term average growth rate for the industry in which John Holland operates.
Summary of the key assumptions are set out below:

	2018	2017
Revenue (% annual growth rate) (a)	**2%**	2.5%
Post-tax discount rate (b)	**12.5%**	13.5%

(a) The revenue growth rate is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

(b) The discount rate used is post-tax and reflects specific risks relating to the acquisition group.

No impairment was recognised based on the assessment in relation of goodwill allocated to John Holland as at 31 December 2018 and 2017.

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19. INVESTMENTS IN JOINT VENTURES

	2018	2017
	RMB million	*RMB million*
At 1 January	**11,133**	6,201
Additions	**8,490**	5,740
Disposals	**(3)**	(96)
Share of profits or losses, net	**168**	(272)
Dividend distribution	**(459)**	(42)
Residual interest in joint ventures arising from disposal of subsidiaries	**178**	124
Arising from disposal of subsidiaries	**–**	(239)
Conversion into subsidiaries arising from increase in equity interest in joint ventures	**(862)**	(256)
Share of other comprehensive income of joint ventures	**1**	(24)
Others	**–**	(3)
At 31 December	**18,646**	11,133

In the opinion of the directors, none of the joint ventures is individually material to the Group. All of the joint ventures of the Group are accounted for using the equity method.

The Group's trade receivable and payable balances with and guarantees provided to the joint ventures are disclosed in note 48(b) and (c) to the financial statements.

20. INVESTMENTS IN ASSOCIATES

	2018	2017
	RMB million	*RMB million*
At 1 January	**19,409**	12,550
Additions	**4,882**	2,124
Disposals	**(29)**	(249)
Share of profits or losses, net	**(97)**	299
Dividend distribution	**(238)**	(205)
Residual interest in associates arising from disposal of subsidiaries	**324**	5,884
Arising from disposal of subsidiaries	**–**	(194)
Conversion into subsidiaries arising from increase in equity interest in associates	**(1,083)**	(753)
Share of other comprehensive income of associates	**(149)**	(46)
Others	**–**	(1)
At 31 December	**23,019**	19,409

On 27 December 2017, the Group completed the transfer of 29.99% equity interest in ZPMC to CCCG and CCCG HK. Upon completion of this transfer, the Group still holds 16.24% equity interests in ZPMC, and such residual interests in ZPMC are stated as investments in associates under the equity method of accounting.

In the opinion of the directors, except for ZPMC, none of the associates is individually material to the Group.

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20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information in respect of ZPMC reconciled to the carrying amount in the consolidated financial statements:

	2018 *RMB million*	2017 *RMB million*
Non-current assets	**35,891**	32,294
Current assets	**34,707**	35,226
Total assets	**70,598**	67,520
Current liabilities	**(34,591)**	(40,861)
Non-current liabilities	**(18,394)**	(9,830)
Total liabilities	**(52,985)**	(50,691)
Non-controlling interests	**(2,427)**	(1,817)
Equity attributable to owners of the parent	**15,186**	15,012
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership *(%)*	**16.24%**	16.24%
Group's share of net assets of the associate, excluding goodwill	**2,466**	2,438
Goodwill on acquisition (less cumulative impairment)	**1,911**	1,911
Carrying amount of the investment	**4,377**	4,349

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 *RMB million*	2017 *RMB million*
Share of the associates' profit for the year	**(169)**	299
Share of the associates' other comprehensive income	**(140)**	(46)
Share of the associates' total comprehensive income	**(309)**	253
Aggregate carrying amount of the Group's investments in the associates	**18,642**	15,060

All of the associates of the Group are accounted for using the equity method.

The Group's trade receivable and payable balances with and the guarantees provided to the associates are disclosed in note 48(b) and (c) to the financial statements.

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21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 *RMB million*	2017 *RMB million*
Listed equity investments, at fair value *(Note a)*	**135**	119
Other unlisted investments, at fair value *(Note b)*	**5,913**	6,210
	6,048	6,329
Less: non-current portion		
Other unlisted investments, at fair value *(Note b)*	**5,893**	3,451
Current portion	**155**	2,878

(a) The listed equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading. The fair value of these investments was based on the quoted market prices at the end of the reporting period.

(b) The unlisted investments at 31 December 2018 mainly include unlisted equity investments and wealth management products issued by financial institutions in Mainland China. The above equity investments were classified at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income. The wealth management products were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *RMB million*
Non-current	
Listed equity instruments	
– China Merchants Bank	**14,411**
– China Merchants Securities Co., Ltd.	**2,833**
– Zhengzhou Yutong Bus Co., Ltd.	**484**
– Hong Kong International Construction Investment Management Group Co., Limited	**361**
– China Development Bank Financial Leasing Co., Ltd.	**270**
– China Everbright Bank	**276**
– CECEP Environmental Protection Equipment Co., Ltd.	**184**
– Bank of Communications	**175**
– Others	**289**
	19,283
Unlisted equity instruments	
– Lunan High Speed Railway Co., Ltd.	**967**
– Beijing CEDC Ltd.	**298**
– China-ASEAN Investment Cooperation Fund	**149**
– Dalian Taipingwan Investment Holding Co., Ltd.	**135**
– Hubei Jiaotou Shiwu Expressway Co., Ltd.	**129**
– Others	**296**
	1,974
	21,257

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group had no material disposal of equity investments designated at fair value through other comprehensive income. During the year ended 31 December 2018, the Group received dividends in total amounts of RMB700 million, mainly including RMB480 million, RMB73 million and RMB34 million from China Merchants Bank, China Merchants Securities Co., Ltd. and Beijing CEDC Ltd., respectively.

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23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 *RMB million*
Listed and unlisted equity investments, at fair value *(note a)*	
– Mainland China	22,499
– Hong Kong	705
Unlisted equity investments, at cost	2,648
Other unlisted investments, at fair value	56
	25,908

During the year ended 31 December 2017, the gain in respect of the Group's available-for-sale investments recognised in other comprehensive income (net of tax) amounted to RMB5,759 million, and a gain (net of tax) of RMB1,647 million was reclassified from other comprehensive income to the statement of profit or loss upon disposal.

(a) These securities primarily represent promoters' shares listed and traded in stock markets, of which no securities were subject to trading restrictions at the end of the reporting period. The fair values of these securities were based on the quoted market prices at the end of the reporting period.

24. UNCONSOLIDATED STRUCTURED ENTITIES MANAGED BY THE GROUP

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The unconsolidated structured entities include private equity funds, unit trust funds, trust products and asset management plans, etc. The nature and purpose of these structured entities are to engage in infrastructure investment activities. These structured entities were financed through the issue of units to investors.

As at 31 December 2018, the maximum exposure to loss and the book value of relevant investments of the Group arising from the interests held in invested structured entities that are sponsored by the Group or the third party financial institutions are set out as below:

	2018		2017	
	Carrying amount	**Maximum exposure to loss**	Carrying amount	Maximum exposure to loss
Financial assets at fair value through profit or loss	**4,049**	**4,049**	3,451	3,451
Interests in associates and joint ventures	**7**	**7**	8	8
Available-for-sale investments	**–**	**–**	27	27
	4,056	**4,056**	3,486	3,486

In 2018, the Group received management fees, commission and performance fees amounting to RMB58 million (2017: RMB80 million) from unconsolidated structured entities sponsored by the Group.

As at 31 December 2018, there are no contractual liquidity arrangements, guarantees or other commitments between the Group and the unconsolidated structured entities (2017: nil).

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25. INVENTORIES

	2018 *RMB million*	2017 *RMB million*
Raw materials	**16,719**	12,520
Work in progress	**699**	1,004
Properties under development and held for sale *(note b)*	**24,092**	22,957
Completed properties held for sale *(note c)*	**4,136**	2,975
Finished goods	**1,215**	1,080
	46,861	40,536

(a) At 31 December 2018, certain of the Group's properties under development and held for sale and completed properties held for sale with an aggregate carrying amount of RMB3,597 million (2017: RMB4,013 million) were pledged to secure the Group's bank loans (note 33(d), 45(b)).

(b) Properties under development and held for sale comprise:

	2018 *RMB million*	2017 *RMB million*
Land use rights	**12,443**	11,682
Construction cost	**9,889**	9,982
Finance costs capitalised	**1,760**	1,293
	24,092	22,957

All of the properties under development are expected to be completed within the Group's normal operating cycle and are included under current assets.

(c) The amount of completed properties held for sale expected to be recovered beyond one year is RMB1,712 million (2017: RMB1,253 million). The remaining amount is expected to be recovered within one year.

26. CONTRACTS WORK-IN-PROGRESS

	2017 *RMB million*
Gross amount due from contract customers	89,577
Gross amount due to contract customers	(27,175)
	62,402
Contract costs incurred plus recognised profits less recognised losses to date	1,314,536
Less: progress billings	(1,252,134)
	62,402

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27. TRADE AND OTHER RECEIVABLES

	2018 *RMB million*	2017 *RMB million*
Trade and bills receivables *(note a)*	**100,176**	80,187
Impairment	**(12,380)**	(10,881)
Trade and bills receivables, net	**87,796**	69,306
Retentions	**–**	64,392
Long-term receivables	**150,910**	92,943
Prepayments	**18,431**	16,290
Deposits	**19,054**	20,753
Other receivables	**38,663**	30,771
	314,854	294,455
Less: non-current portion		
Retentions	**–**	(33,927)
Long-term receivables	**(113,090)**	(74,598)
Prepayments	**(4,161)**	(3,108)
Deposits	**(1,716)**	(1,077)
	(118,967)	(112,710)
Current portion	**195,887**	181,745

(a) The majority of the Group's revenues are generated through construction, design and dredging contracts and settlements are made in accordance with the terms specified in the contracts governing the relevant transactions. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An ageing analysis of trade and bills receivables as at the end of the reporting period, net of loss allowance, is as follows:

	2018 *RMB million*	2017 *RMB million*
Within 6 months	**61,140**	47,570
6 months to 1 year	**9,417**	8,907
1 year to 2 years	**9,218**	7,838
2 years to 3 years	**3,950**	3,222
Over 3 years	**4,071**	1,769
	87,796	69,306

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27. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) (continued)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018	2017
	RMB million	*RMB million*
At the end of prior year	**10,881**	9,882
Effect of adoption of IFRS 9	**(723)**	–
At beginning of year (restated)	**10,158**	9,882
Impairment losses, net	**2,221**	2,422
Acquisition of subsidiaries	**11**	65
Disposal of subsidiaries	**(10)**	(1,488)
At end of year	**12,380**	10,881

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Past due						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Expected credit loss rate	**0.91%**	**13.69%**	**24.71%**	**39.15%**	**55.08%**	**80.01%**	**8.75%**
Gross carrying amount *(RMB million)*	**69,288**	**10,599**	**4,819**	**3,052**	**2,264**	**3,037**	**93,059**
Expected credit losses *(RMB million)*	**632**	**1,451**	**1,191**	**1,195**	**1,247**	**2,430**	**8,146**

In addition to the above provision matrix, for certain customers with credit risk increased significantly, the Group has made individual loss allowance. As at 31 December 2018, the accumulated individual loss allowance was RMB4,234 million with a carrying amount before loss allowance of RMB7,117 million.

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired trade and bills receivables of RMB3,138 million with a carrying amount before provision of RMB4,268 million. The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

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27. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) (continued)

Impairment under IAS 39 for the year ended 31 December 2017 (continued)

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 *RMB million*
Neither past due nor impaired	38,610
Less than 3 months past due	7,583
	46,193

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 is necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(b) As part of its normal business, the Group has entered into certain recourse and non-recourse factoring agreements with certain banks so as to obtain bank advances. As at 31 December 2018, the relevant outstanding trade receivables and long-term receivables with recourse factoring clauses in the agreements, amounted to RMB820 million (2017: RMB5,643 million). In the opinion of the directors, such transactions did not qualify for derecognition of the relevant receivables and were accounted for as secured borrowings. In addition, as at 31 December 2018, outstanding trade receivables of RMB15,666 million (2017: RMB19,002 million) had been transferred to the banks in accordance with the relevant non-recourse factoring agreements, among which outstanding trade receivables of RMB13,894 million (2017: RMB18,802 million) were derecognised as the directors are of the opinion that the substantial risks and rewards associated with the trade receivables have been transferred and therefore qualified for derecognition of the relevant receivables, whilst substantial risks and rewards of the other outstanding trade receivables of RMB1,772 million (2017: RMB200 million) have not been transferred and hence were not qualified for derecognition and the relevant transactions were accounted for as secured borrowings.

As at 31 December 2018, certain of the Group's outstanding trade and other receivables with a net carrying amount of approximately RMB27,261 million (2017: RMB14,859 million) were pledged to secure general banking facilities granted to the Group (note 33(d), 45(b)).

(c) As part of its normal business, the Group has entered into certain agreements with certain financial institution so as to establish asset-backed securities (ABS) and asset-backed notes (ABN). The ABS and ABN are bonds or notes backed by trade receivables and long-term receivables. The Group sell pools of trade receivables and long-term receivables to a special-purpose vehicle (SPV), whose sole function is to buy such assets in order to securitize them. The SPV, which is usually a corporation, then sells them to a trust. The trust repackages the loans as interest-bearing securities and actually issues them. As at 31 December 2018, the relevant outstanding trade receivables and long-term receivables under the ABS and ABN, amounted to RMB7,230 million (2017: RMB1,230 million). Such trade receivables and long-term receivables were derecognised as the directors are of the opinion that the substantial risks and rewards associated with the trade receivables and long-term receivables have been transferred and therefore qualified for derecognition.

(d) As at 31 December 2018, outstanding bills receivable of RMB217 million (31 December 2017: RMB4 million) were endorsed to suppliers, and RMB81 million (31 December 2017: RMB3 million) were discounted with banks. In the opinion of directors, the Group has retained the substantial risks and rewards, which include default risks relating to such bills receivable, and accordingly, it continued to recognise the full carrying amounts of the bills receivable. In addition, as at 31 December 2018, outstanding bills receivable of RMB296 million (31 December 2017: RMB908 million) were endorsed to suppliers, and RMB574 million (31 December 2017: RMB443 million) were discounted with banks. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to such bills receivable which were fully derecognised.

(e) The prior year retentions receivable represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts from one to three years. Upon adoption of IFRS 15 as at 1 January 2018, retentions in respect of quality assurance warranties were reclassified as contract assets, the remaining retentions were reclassified as long-term receivables.

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27. TRADE AND OTHER RECEIVABLES (CONTINUED)

(f) Deposits represented tender and performance bonds due from customers. Long-term receivables represented amounts due from customers for "Build-Transfer" projects and certain construction works with payment periods over one year. The impairment losses of deposits and long-term receivables of the Group were RMB1,914 million (2017: RMB1,033 million).

(g) The impairment losses of other receivables were RMB1,574 million (2017: RMB1,271 million), while the amounts before impairment were RMB40,237 million (2017: RMB32,042 million).

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets	**Liabilities**	Assets	Liabilities
	RMB million	***RMB million***	*RMB million*	*RMB million*
Forward currency contracts *(note a)*				
– Held for trading	**–**	**–**	–	(3)
– Cash flow hedges	**2**	**(2)**	8	(7)
Total return swap *(note b)*	**21**	**–**	81	–
Forward equity contracts *(note c)*	**227**	**–**	399	–
	250	**(2)**	488	(10)

(a) In order to protect against exchange rate movements, John Holland (a subsidiary of CCCI) has entered into forward exchange contracts to purchase United States Dollars ("USD"), Euros ("EUR"), Great British Pound ("GBP"), Japanese Yen ("JPY") and New Zealand Dollars ("NZD") by Australian Dollars ("AUD"), and also purchase AUD by NZD. These contracts are hedging recognised assets and liabilities, firm commitments and highly probable forecast transactions, and the contracts are timed to mature when items of plant and equipment or construction materials are to be shipped or when trade and other payables are due. In 2018, the fair value gain included in the hedging reserve was RMB6 million, net of tax (2017: gain of RMB2 million).

(b) In 2016 and 2018, CCCI entered into several agreements with banks, and paid USD100 million and USD125 million, respectively to secure the subscriptions of USD400 million and USD500 million, respectively, by the banks in senior perpetual securities. Both of the senior perpetual securities were issued by a subsidiary of Greentown China Holding Limited ("Greentown"). According to the agreements, CCCI could earn any distribution by reference to the banks' subscription, and also have to pay a fixed amount of rewards and any loss on the subscription to the banks. As Greentown is a subsidiary of CCCG, the total return swap constitutes a related party transaction of the Company.

(c) In 2016 the Group disposed of 85% equity interests in certain subsidiaries with concession assets (toll roads) to a joint venture (a fund engaged in infrastructure investment activities) of the Company, whilst entered into certain forward equity contracts to obtain the options to repurchase these equity interests in future with discounts under some conditions. The fair value of these forward equity contracts was RMB104 million (31 December 2017: RMB143 million) as at 31 December 2018.

In 2017, the Group disposed of 99% equity interests in certain subsidiaries with concession assets (toll roads) to a joint venture (a fund engaged in infrastructure investment activities) of the Company, whilst entered into certain forward equity contracts to obtain the options to repurchase these equity interests in future with discounts under some conditions. The fair value of these forward equity contracts was RMB123 million (31 December 2017: RMB256 million) as at 31 December 2018.

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29. CONTRACT ASSETS

	31 December 2018 RMB million	1 January 2018 RMB million	31 December 2017 RMB million
Contract assets arising from:			
Infrastructure construction	117,416	99,606	–
Infrastructure design	4,105	2,864	–
Dredging	10,346	12,777	–
Others	1,952	1,690	–
	133,819	116,937	–
Impairment	(1,140)	(885)	–
	132,679	116,052	–
Current portion	103,981	96,234	–
Non-current portion	28,698	19,818	–

Contract assets are initially recognised for revenue earned from contracts with customers for the infrastructure construction, infrastructure design and others. Upon settlement with the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the ongoing provision of contract construction and services at the end of the year.

During the year ended 31 December 2018, RMB255 million was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 27 to the financial statements.

As at 31 December 2018, the expected timing of recovery or settlement for contract assets is subjected to the specific contracts terms and the progress of the performance obligations.

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB million
At beginning of year	–
Effect of adoption of IFRS 9	885
At beginning of year (restated)	885
Impairment losses, net *(note 6)*	255
At end of year	1,140

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at December 2018

Expected credit loss rate	0.85%
	RMB million
Gross carrying amount	133,819
Expected credit losses	1,140

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30. CASH AND BANK BALANCES

	2018 **RMB million**	2017 *RMB million*
Restricted bank deposits	**4,633**	2,880
Time deposits with an initial term of over three months	**2,322**	2,244
	6,955	5,124
Cash and cash equivalents	**127,413**	129,197
	134,368	134,321

(a) As at 31 December 2018, restricted bank deposits mainly included deposits for issuance of bank acceptance notes, performance bonds, letters of credit to customers, and mandatory reserve deposits placed with the People's Bank of China by CCCC Finance.

(b) Time deposits with an initial term of over three months are excluded from cash and cash equivalents, as management is of the opinion that these time deposits are not readily convertible to known amounts of cash without significant risk of changes in value.

(c) At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB89,296 million (2017: RMB90,958 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2018, less than 3% (2017: less than 3%) of the cash and bank balances denominated in currencies other than RMB were deposited in banks in certain countries which are subject to foreign exchange control and the currencies are not freely convertible into other currencies or remitted out of those countries.

(d) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

31. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 **RMB million**	1 January 2018 *RMB million*
Short-term advances received from customers		
Infrastructure construction	**65,445**	60,276
Infrastructure design	**5,489**	5,730
Dredging	**2,910**	2,319
Others	**8,109**	7,521
Total contract liabilities	**81,953**	75,846

Contract liabilities include short-term advances received from customers and gross amount settled due to customers. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers and gross amount settled due to customers in relation to the provision of infrastructure construction, infrastructure design and others at the end of the year.

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32. TRADE AND OTHER PAYABLES

	2018 *RMB million*	2017 *RMB million*
Trade and bills payables *(note a)*	**242,167**	212,740
Advances from customers	**–**	61,293
Deposits from suppliers	**25,020**	20,468
Retentions	**19,110**	14,967
CCCC Finance deposits *(note b)*	**9,283**	8,340
Other taxes	**17,256**	11,718
Payroll and social security	**2,247**	2,056
Accrued expenses and others	**16,598**	11,666
	331,681	343,248
Less: non-current portion		
– Retentions	**(13,192)**	(10,261)
– Other taxes	**(144)**	(91)
– Others	**(3,849)**	(193)
	(17,185)	(10,545)
Current portion	**314,496**	332,703

(a) An ageing analysis of trade and bills payables as at the end of the reporting period is as follows:

	2018 *RMB million*	2017 *RMB million*
Within 1 year	**214,046**	191,288
1 year to 2 years	**19,779**	15,710
2 years to 3 years	**4,943**	2,816
Over 3 years	**3,399**	2,926
	242,167	212,740

(b) CCCC Finance, a subsidiary of the Company, accepted deposits from CCCG and fellow subsidiaries. These deposits were due within one year with an average annual interest rate of 0.9% (2017: 0.8%).

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	**2018** *RMB million*	2017 *RMB million*
Non-current			
Long-term bank borrowings			
– secured	(d)	**132,721**	100,988
– unsecured	(e)	**59,985**	51,957
		192,706	152,945
Other borrowings			
– secured	(d)	**–**	430
– unsecured	(e)	**1,120**	1,057
		1,120	1,487
Corporate bonds	(f)	**15,974**	19,866
Non-public debt instruments	(h)	**5,140**	3,500
Financial lease liabilities	(i)	**444**	724
		21,558	24,090
Total non-current borrowings		**215,384**	178,522
Current			
Current portion of long-term bank borrowings			
– secured	(d)	**4,185**	2,296
– unsecured	(e)	**14,393**	14,345
		18,578	16,641
Short-term bank borrowings			
– secured	(d)	**3,901**	2,667
– unsecured	(e)	**41,400**	59,001
		45,301	61,668
Other borrowings			
– secured	(d)	**–**	570
– unsecured	(e)	**69**	79
Corporate bonds	(f)	**8,406**	378
Debentures	(g)	**5,003**	–
Non-public debt instruments	(h)	**1,600**	2,959
Finance lease liabilities	(i)	**286**	385
		15,364	4,371
Total current borrowings		**79,243**	82,680
Total borrowings		**294,627**	261,202

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(a) The Group's borrowings were repayable as follows:

	2018 **RMB million**	2017 RMB million
Bank borrowings		
– Within one year or on demand	**63,879**	78,309
– In the second year	**29,775**	21,426
– In the third to fifth years, inclusive	**39,251**	26,764
– Beyond five years	**123,680**	104,755
	256,585	231,254
Others, excluding finance lease liabilities		
– Within one year or on demand	**15,078**	3,986
– In the second year	**6,734**	14,672
– In the third to fifth years, inclusive	**11,115**	5,727
– Beyond five years	**4,385**	4,454
	37,312	28,839
	293,897	260,093

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	2018 **RMB million**	2017 RMB million
RMB	**272,367**	239,569
USD	**14,925**	14,144
JPY	**3,992**	3,786
HKD	**1,404**	1,692
EUR	**1,386**	1,488
Others	**553**	523
	294,627	261,202

(c) Borrowings of the Group, excluding corporate bonds, medium-term notes, debentures, non-public debt instruments and finance lease liabilities, bear interest at effective rates ranging from 0.30% to 8.39% (2017: 0.30% to 8.39%) per annum at the end of the reporting period, excluding certain borrowings bearing an interest rate at 20.14% (2017: nil) for a Brazilian subsidiary of the Group.

(d) As at 31 December 2018 and 2017, these borrowings were secured by the Group's prepaid land lease payments (note 17, 45(b)), concession assets (note 18, 45(b)), trade and other receivables (note 27(b), 45(b)), properties under development and held for sale and completed properties held for sale (note 25(a), 45(b)).

(e) Unsecured borrowings include those guaranteed by certain subsidiaries of the Group, the Company and certain third parties.

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(f) As approved by China Securities Regulatory Commission ("CSRC") document [2009] No. 761, the Company issued domestic corporate bonds with an aggregate principal amount of RMB7.9 billion in August 2009. These corporate bonds bear interest at a rate of 5.2% per annum with maturity through 2019. These corporate bonds are guaranteed by CCCG.

As approved by CSRC document [2012] No. 998, the Company issued domestic corporate bonds with an aggregate principal amount of RMB12 billion in August 2012. RMB6 billion of such bonds bears interest at a rate of 4.4% per annum with maturity through 2017 and has been fully repaid, RMB2 billion bears interest at a rate of 5.0% per annum with maturity through 2022 and RMB4 billion bears interest at a rate of 5.15% per annum with maturity through 2027. These corporate bonds are guaranteed by CCCG.

As approved by CSRC document [2016] No. 162, the Group issued domestic corporate bonds in February, July and July 2016 with principal amounts of RMB2 billion, RMB3 billion and RMB1 billion, respectively, totalling RMB6 billion, and the maturity of these corporate bonds are five years from the issue date, bearing interest at rates of 2.99%, 3.01% and 3.35% per annum, respectively. The Group has the right to raise the nominal interest rates and the investors also could sell back at the end of the third year from the issue date.

As approved by CSRC document [2018] No. 159, the Group issued domestic corporate bonds in October 2018 with principal amounts of RMB4 billion, and the maturity of these corporate bonds are five years from the issue date, bearing interest at rates of 4.25% per annum. The Group has the right to raise the nominal interest rates and the investors also could sell back at the end of the third year from the issue date.

The corporate bonds are stated at amortised cost with effective rates ranging from 3.00% to 5.23%. Interest is payable once a year. Accrued interest is included in the current borrowings.

(g) The Group issued the following debentures as approved by National Association of Financial Market Institutional Investors ("NAFMII"):

- Three tranches of debentures were issued in August, November and November 2018, respectively, at nominal values of RMB3 billion, RMB0.5 billion, RMB1.5 billion, respectively, with maturity of 270 days, 270 days and 270 days from the issue date respectively. The interest rates are 3.75%, 3.87%, 3.85% and per annum, respectively.
- Six tranches of debentures were issued in April, May, August and October 2016 and in February and April 2017, respectively, at nominal values of RMB2 billion, RMB3 billion, RMB3 billion, RMB2 billion, RMB3 billion and RMB1 billion, respectively, with maturity of 365 days, 270 days, 270 days, 270 days, 270 days and 240 days from the issue date respectively. The interest rates are 3.70%, 2.99%, 2.61%, 3.2 %, 3.75% and 4.75% per annum, respectively. These debentures have been fully repaid during 2017.

(h) The Group issued the following non-public debt instruments:

- A tranche of non-public debt instrument with a nominal value of RMB1,500 million was issued in October 2012, with maturity of five years from the issue date, bearing interest at a rate of 5.80% per annum. This non-public debt instrument has been fully repaid during 2017.
- Two tranches of non-public debt instruments were issued in April 2013 and one tranche of non-public debt instrument was issued in October 2013, respectively, at nominal values of RMB1,500 million, RMB800 million and RMB500 million, respectively, totalling RMB2,800 million, with maturity of five years, five years and five years from the issue date, respectively. The interest rates are 5.10%, 6.00% and 6.30% per annum, respectively. These non-public debt instruments have been fully repaid during 2018.
- Two tranches of non-public debt instruments were issued in August and September 2014, respectively, at nominal values of RMB500 million and RMB1,000 million, respectively, totalling RMB1,500 million, with maturity of five years and five years, respectively. The interest rates are 7.00% and 6.00% per annum, respectively.
- Eight tranches of non-public debt instruments were issued in March, May, June, June, August, August, September and December 2014, respectively, at nominal values of RMB500 million, RMB800 million, RMB800 million, RMB700 million, RMB500 million, RMB500 million, RMB500 million and RMB100 million, respectively, totalling RMB4,400 million, with maturity of three years from the issue date. The interest rates are 7.10%, 6.35%, 7.00%, 6.50%, 6.60%, 6.65%, 6.15% and 5.60% per annum, respectively. These non-public debt instruments have been fully repaid during 2017.

NOTES TO FINANCIAL STATEMENTS

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33. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(h) The Group issued the following non-public debt instruments: (Continued)

– A tranche of non-public debt instrument with a nominal value of RMB2,000 million was issued in August 2015, with maturity of five years from the issue date, bearing interest at a rate of 4.80% per annum. RMB860 million of these non-public debt instruments have been repaid during 2018.

– Two tranches of non-public debt instruments were issued in July and November 2018, respectively, at nominal values of RMB2,000 million and RMB2,000 million, with maturity of three years from the issue date. The interest rates are 7.00% and 5.40% per annum, respectively. These non-public debt instruments will be fully repaid during 2021.

The non-public debt instruments are stated at amortised cost with effective rates ranging from 4.80% to 7.00%. Interest is payable once a year. The accrued interest is included in current borrowings.

(i) The Group leases certain of its plant and machinery and these leases are classified as finance leases. At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	2018 *RMB million*	2017 *RMB million*
Minimum lease payments		
– Within one year	**286**	409
– In the second to fifth years, inclusive	**511**	688
– Beyond five years	**–**	125
Total minimum lease payments	**797**	1,222
Future finance charges	**(67)**	(113)
Present value of minimum lease payments	**730**	1,109
Representing:		
– Within one year	**286**	385
– In the second to fifth years, inclusive	**444**	622
– Beyond five years	**–**	102
	730	1,109

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34. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax liabilities:

	2018					
	Fair value adjustments of equity investments at fair value through other comprehensive income *RMB million*	Available-for-sale investments *RMB million*	Undistributed profits in subsidiaries *RMB million*	Property, plant and equipment *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2018	–	4,607	1,074	52	1,942	7,675
Effect of adoption of IFRS 9	4,667	(4,607)	7	–	–	67
At 1 January 2018 (restated)	4,667	–	1,081	52	1,942	7,742
Deferred tax charged to profit or loss during the year *(note 11)*	–	–	218	5	52	275
Charged/(credited) to other comprehensive income	(944)	–	–	–	(1)	(945)
Acquisition of a subsidiary	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	(25)	(25)
Exchange difference	1	–	–	5	(27)	(21)
At 31 December 2018	3,724	–	1,299	62	1,941	7,026

Deferred tax assets:

	2018								
	Impairment of financial and contract assets *RMB million*	Provision for impairment of assets *RMB million*	Depreciation and amortisation *RMB million*	Provision for foreseeable contract losses *RMB million*	Provision for employee benefits *RMB million*	Tax losses *RMB million*	Discount on long-term receivables *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2018	–	2,157	94	145	242	1,312	889	1,081	5,920
Effect of adoption of IFRS 9	2,416	(2,157)	–	–	–	–	–	9	268
At 1 January 2018 (restated)	2,416	–	94	145	242	1,312	889	1,090	6,188
(Charged)/credited to profit or loss during the year *(note 11)*	390	–	(15)	(26)	(19)	385	(402)	(146)	167
(Charged)/credited to other comprehensive income	–	–	–	–	11	–	–	83	94
Acquisition of a subsidiary	–	–	–	–	–	–	–	43	43
Disposal of subsidiaries	–	–	–	–	–	(4)	–	(27)	(31)
Exchange difference	(42)	–	(4)	23	1	(32)	(11)	(28)	(93)
At 31 December 2018	2,764	–	75	142	235	1,661	476	1,015	6,368

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34. DEFERRED TAX (CONTINUED)

Deferred tax liabilities:

	2017				
	Available-for-sale investments *RMB million*	Undistributed profits in subsidiaries *RMB million*	Property, plant and equipment *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2017	3,500	666	151	1,523	5,840
Deferred tax charged to profit or loss during the year *(note 11)*	–	408	34	265	707
Charged/(credited) to other comprehensive income	1,158	–	–	–	1,158
Acquisition of a subsidiary	–	–	–	164	164
Disposal of subsidiaries	(51)	–	(134)	(23)	(208)
Exchange difference	–	–	1	13	14
Gross deferred tax liabilities at 31 December 2017	4,607	1,074	52	1,942	7,675

Deferred tax assets:

	2017							
	Provision for impairment of assets *RMB million*	Depreciation and amortisation *RMB million*	Provision for foreseeable contract losses *RMB million*	Provision for employee benefits *RMB million*	Tax losses *RMB million*	Discount on long-term receivables *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2017	2,262	107	127	284	1,303	656	1,294	6,033
(Charged)/credited to profit or loss during the year *(note 11)*	382	(13)	60	(33)	(47)	233	(123)	459
(Charged)/credited to other comprehensive income	–	–	–	(9)	–	–	10	1
Acquisition of a subsidiary	–	–	–	–	47	–	–	47
Disposal of subsidiaries	(487)	–	(42)	–	–	–	(114)	(643)
Exchange difference	–	–	–	–	9	–	14	23
Gross deferred tax assets at 31 December 2017	2,157	94	145	242	1,312	889	1,081	5,920

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34. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018		2017	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
	RMB million	***RMB million***	*RMB million*	*RMB million*
The gross balance	**6,368**	**(7,026)**	5,920	(7,675)
Offsetting	**(1,864)**	**1,864**	(1,706)	1,706
	4,504	**(5,162)**	4,214	(5,969)

Deferred tax assets of RMB4,126 million (2017: RMB3,063 million) have not been recognised in respect of these losses amounting to RMB16,834 million (2017: RMB12,582 million) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Most of these tax losses will expire in one to five years for offsetting against future taxable profits.

As at 31 December 2018, the Group did not recognise deferred tax assets of RMB684 million (2017: RMB811 million) in respect of deductible temporary differences amounting to RMB2,789 million (2017: RMB3,296 million) as the directors believe it is not probable that such deductible temporary differences would be recognised.

35. RETIREMENT BENEFIT OBLIGATIONS

The Group provided supplementary pension subsidies and medical benefits to its normal retired or early retired employees in Mainland China who retired prior to 1 January 2006, which are considered to be defined benefit plans, and recognised a liability for the unfunded employee benefit obligations in the consolidated statement of financial position as follows:

	2018	2017
	RMB million	*RMB million*
Present value of defined benefit obligations	**1,293**	1,347
Less: current portion	**(141)**	(149)
Non-current portion	**1,152**	1,198

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35. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The movements in the present value of the defined benefit obligations are as follows:

	2018 ***RMB million***	2017 *RMB million*
At 1 January	**1,347**	1,499
Past service cost	**6**	25
Interest cost	**51**	46
Effect of settlements	**–**	–
	1,404	1,570
Remeasurements		
– Gains from changes in financial assumptions	**65**	(73)
– Losses from changes in the demographic hypothesis	**–**	24
– Experience (gains)/losses	**(5)**	14
	1,464	1,535
Payments	**(171)**	(188)
At 31 December	**1,293**	1,347

The above obligations were determined based on actuarial valuation performed by an independent actuary, Towers Watson Management Consulting (Shenzhen) Co., Ltd. Beijing Branch, using the projected unit credit method. The significant actuarial assumptions are as follows:

	2018	2017
Discount rate	**3.25%**	4.00%
Medical cost growth rate	**4.00%–8.00%**	4.00%–8.00%

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Impact on defined benefit obligations	
	2018 ***RMB million***	2017 *RMB million*
Discount rate:		
– 0.25% increase	**(22)**	(23)
– 0.25% decrease	**23**	24
Medical cost growth rate:		
– 1.00% increase	**21**	22
– 1.00% decrease	**(19)**	(20)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the retirement benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

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35. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The following undiscounted payments are expected contributions to the defined benefit plan in future years:

	2018 RMB million	2017 RMB million
Within 1 year	141	149
1 year to 2 years	133	142
2 years to 5 years	358	384
Over 5 years	1,032	1,167
	1,664	1,842

The average duration of the defined benefit plan obligation at the end of the reporting period was 7 years (2017: 6.9 years).

36. PROVISIONS

	Pending lawsuits RMB million	Provision for foreseeable losses on contract assets RMB million	Others RMB million	Total RMB million
At 1 January 2018	442	–	238	680
Effect of Adoption of IFRS 15	–	828	–	828
At 1 January 2018 (restated)	442	828	238	1,508
Additional provisions	16	448	149	613
Utilised/reversed during the year	(333)	(573)	–	(906)
At 31 December 2018	125	703	387	1,215
Non-current portion	125	703	387	1,215

	Pending lawsuits RMB million	Others RMB million	Total RMB million
At 1 January 2017	22	147	169
Additional provisions	490	104	594
Acquisition of subsidiaries	22	–	22
Utilised/reversed during the year	(7)	(10)	(17)
Disposal of subsidiaries	(85)	(3)	(88)
At 31 December 2017	442	238	680
Non-current portion	442	238	680

NOTES TO FINANCIAL STATEMENTS

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37. SHARE CAPITAL AND PREMIUM

	2018	2017
	RMB million	*RMB million*
Issued and fully paid:		
11,747,235,425 (2017: 11,747,235,425)		
A shares of RMB1.00 each	**11,747**	11,747
4,427,500,000 (2017: 4,427,500,000)		
H shares of RMB1.00 each	**4,428**	4,428
	16,175	16,175

The Company was incorporated on 8 October 2006, with an initial registered share capital of RMB10,800 million, divided into 10,800,000,000 domestic shares with a nominal value of RMB1.00 each which were issued to CCCG, the parent company.

In December 2006, the Company completed its H share listing on the Hong Kong Stock Exchange and 4,025,000,000 H shares with a nominal value of RMB1.00 each were issued at HKD4.6 (equivalent to approximately RMB4.63) each. The Company raised net proceeds of approximately RMB17,878 million (equivalent to HKD17,772 million) from the issuance of H shares, of which paid-up share capital was RMB4,025 million and share premium was approximately RMB13,853 million. Upon the issuance of H shares, 402,500,000 domestic shares (10% of the number of H shares issued) were converted into H shares and transferred to the National Social Security Fund.

In March 2012, the Company completed an initial public offering of A shares on the Shanghai Stock exchange. In this connection, the Company issued 1,349,735,425 A shares, of which 925,925,925 A shares were issued to domestic investors by way of public offering, and 423,809,500 A shares were issued for the purpose of implementing the merger agreement through share exchange with the non-controlling shareholders of Road & Bridge International Co., Ltd. ("Road & Bridge International"), a former A share listed company and a subsidiary of the Company. The Company raised net proceeds of approximately RMB7,153 million, of which paid-up share capital was RMB1,350 million and share premium was approximately RMB5,803 million. Upon the completion of this A share issuance and listing, 92,592,593 A shares (10% of the number of new A shares issued by public offering) were transferred to the National Social Security Fund.

As at 31 December 2018, the Company's share capital was RMB16,174,735,425 (2017: RMB16,174,735,425), comprising 11,747,235,425 A shares and 4,427,500,000 H shares, representing approximately 72.6% and 27.4% of the registered capital, respectively.

38. FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY

	2018	2017
	RMB million	*RMB million*
Medium-term notes *(note a)*	**9,958**	4,963
Preference shares *(note b)*	**14,468**	14,468
	24,426	19,431

(a) As approved by NAFMII, a tranche of MTN was issued by the Company in 2014, with a nominal value of RMB5,000 million. There is no maturity date for the MTN and the holders have no right to receive a return of principal. The initial interest rate of the MTN was 6% per annum, which will be reset once in every five years since the issuance date. Pursuant to the terms of the MTN, the Company may elect to defer the distribution of interest, and is not subject to any restriction as to the number of times the distribution can be deferred. The MTN is subject to redemption in whole, at the option of the Company, five years after the issue date, at its principal amount together with accrued interest.

As approved by NAFMII, three tranches of MTNs were issued by the Company in 2018, with nominal values of RMB2,000 million, RMB2,000 million, RMB1,000 million, respectively. There is no maturity date for these MTNs and the holders have no right to receive a return of principal. The initial interest rates of these MTNs were 4.58%, 4.55% and 4.55% per annum respectively, which will be reset once in every three years since the issuance date. Pursuant to the terms of these MTNs, the Company may elect to defer the distribution of interest, and is not subject to any restriction as to the number of times the distribution can be deferred. These MTNs are subject to redemption in whole, at the option of the Company, three years after the issue date, at its principal amount together with accrued interest.

The directors of the Company are of the opinion that the Group has no contractual obligations to repay the principal or to pay any distribution for these MTNs, and these MTNs should be classified as equity.

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38. FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY (CONTINUED)

(b) As approved by the CSRC, two tranches of preference shares were issued in 2015, with a total number of shares of 145 million. The initial dividend rates of these tranches of preference shares were 5.1% and 4.7% respectively, which will be reset once in every five years since the issuance dates. The declaration of dividend is optional for the issuer and the undeclared dividend is non-cumulative. The subscription price of these preference shares was RMB100 per share and the total net proceeds were RMB14,468 million.

The directors of the Company are of the opinion that the Group has no contractual obligations to repay the principal or to pay any dividend for the preference shares, and the preference shares should be classified as equity.

39. RESERVES

	Capital reserve *RMB million*	Statutory surplus reserve *RMB million*	General reserve *RMB million*	Remeasurement reserve *RMB million*	Investment revaluation reserve *RMB million*	Hedging reserve *RMB million*	Safety reserve *RMB million*	Exchange reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*
At 31 December 2017	4,933	4,716	975	(48)	15,143	3	2,216	505	97,217	125,660
Adjustment on adoption of IFRS 9, net of tax	–	–	–	–	85	–	–	–	(718)	(633)
At 1 January 2018	4,933	4,716	975	(48)	15,228	3	2,216	505	96,499	125,027
Profit for the year	–	–	–	–	–	–	–	–	19,819	19,819
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax	–	–	–	–	(3,017)	–	–	–	–	(3,017)
Cash flow hedges, net of tax	–	–	–	–	–	(4)	–	–	–	(4)
Share of other comprehensive income of joint ventures and associates	9	–	–	–	(106)	–	–	–	–	(97)
Actuarial gains on retirement benefit obligations, net of tax	–	–	–	(49)	–	–	–	–	–	(49)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	265	–	265
Final 2017 dividend declared	–	–	–	–	–	–	–	–	(3,913)	(3,913)
Transaction with non-controlling interests	(92)	–	–	–	–	–	–	–	–	(92)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	–	–	(1,018)	(1,018)
Transfer to statutory surplus reserve (b)	–	526	–	–	–	–	–	–	(526)	–
Transfer to general reserve (c)	–	–	113	–	–	–	–	–	(113)	–
Transfer to safety reserve (d)	–	–	–	–	–	–	139	–	(139)	–
At 31 December 2018	4,850	5,242	1,088	(97)	12,105	(1)	2,355	770	110,609	136,921

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39. RESERVES (CONTINUED)

	Capital reserve *RMB million*	Statutory surplus reserve *RMB million*	General reserve *RMB million*	Remeasurement reserve *RMB million*	Investment revaluation reserve *RMB million*	Hedging reserve *RMB million*	Safety reserve *RMB million*	Exchange reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*
At 1 January 2017	3,463	4,212	766	(74)	11,095	1	1,849	1,232	81,517	104,061
Profit for the year	–	–	–	–	–	–	–	–	20,943	20,943
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	5,765	–	–	–	–	5,765
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax	–	–	–	–	(1,647)	–	–	–	–	(1,647)
Cash flow hedges, net of tax	–	–	–	–	–	2	–	–	–	2
Share of other comprehensive income of joint ventures and associates	–	–	–	–	(70)	–	–	–	–	(70)
Actuarial gains on retirement benefit obligations, net of tax	–	–	–	26	–	–	–	–	–	26
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(727)	–	(727)
Final 2016 dividend declared	–	–	–	–	–	–	–	–	(3,145)	(3,145)
Transaction with non-controlling interests (a)	1,480	–	–	–	–	–	–	–	–	1,480
Share of other reserves of joint ventures and associates	(10)	–	–	–	–	–	–	–	–	(10)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	–	–	(1,018)	(1,018)
Transfer to statutory surplus reserve	–	504	–	–	–	–	–	–	(504)	–
Transfer to general reserve	–	–	209	–	–	–	–	–	(209)	–
Transfer to safety reserve	–	–	–	–	–	–	367	–	(367)	–
At 31 December 2017	4,933	4,716	975	(48)	15,143	3	2,216	505	97,217	125,660

(a) Capital reserve

Capital reserve primarily arose upon incorporation of the Company on 8 October 2006 when the Company took over the assets and liabilities relating to the principal operations and businesses (the "Core Operations") of CCCG. The net value of the Core Operations transferred to the Company from CCCG was converted into the Company's share capital of RMB10,800,000,000 of RMB1.00 each with the then existing reserves eliminated and the resulting difference dealt with in the capital reserve of the Group.

Including in the contributions of 2017 were concessions made by non-controlling interests of two subsidiaries amounting to RMB1,480 million. The amount was originated from the government's capital contribution to two state-owned enterprises operating BOT projects. Based on negotiation, the non-controlling interests agreed to concede such government contribution to the Group. Such amounts were treated as transactions between the equity owners and are recorded in equity. Such amounts cannot be converted into shares of the Company.

(b) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to owners. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

For the year ended 31 December 2018, the board of directors proposed an appropriation of 10% (2017: 10%) of the Company's profit after tax, as determined under PRC GAAP, of RMB526 million (2017: RMB504 million) to the statutory surplus reserve.

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39. RESERVES (CONTINUED)

(c) General reserve

CCCC Finance, one of the subsidiaries of the Company, is required by the Ministry of Finance to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year-end balance of its risk assets.

The general reserve balance of CCCC Finance as at 31 December 2018 amounted to RMB1,088 million (2017: RMB975 million).

(d) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside from profit after tax an amount to a safety reserve at different rates ranging from 1.5% to 2% of the total construction contract revenue recognised for the year. The reserve can be utilised for improvements of safety on the construction work, and the amounts are generally expenses in nature and charged to the consolidated statement of profit or loss as incurred, and at the same time the corresponding amounts of safety reserve fund were utilised and transferred back to retained profits until such special reserve was fully utilised.

40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Percentage of equity interest held by non-controlling interests:

	2018 ***(%)***	2017 *(%)*
CCCC (Beijing) One-term Equity Investment Fund LLP	**39.98**	–
CCCC Financial Leasing*	**30.00**	30.0
ZPMC	**–**	–
CCCC (Beijing) Equity Investment Fund LLP	**–**	–

Profit/(loss) for the year allocated to non-controlling interests:

	2018 ***RMB million***	2017 *RMB million*
CCCC (Beijing) One-term Equity Investment Fund LLP	**(1)**	–
CCCC Financial Leasing	**87**	–
ZPMC	**–**	154
CCCC (Beijing) Equity Investment Fund LLP	**–**	134

Dividends paid to non-controlling interests:

	2018 ***RMB million***	2017 *RMB million*
CCCC (Beijing) One-term Equity Investment Fund LLP	**–**	–
CCCC Financial Leasing	**47**	–
ZPMC	**–**	236
CCCC (Beijing) Equity Investment Fund LLP	**–**	134

Accumulated balances of non-controlling interests at the reporting date:

	2018 ***RMB million***	2017 *RMB million*
CCCC (Beijing) One-term Equity Investment Fund LLP	**1,761**	–
CCCC Financial Leasing	**1,719**	1,678
ZPMC	**–**	–
CCCC (Beijing) Equity Investment Fund LLP	**–**	–

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40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2018	**CCCC Financial Leasing** *RMB million*	**CCCC (Beijing) One-term Equity Investment Fund LLP** *RMB million*
Revenue	**1,693**	**–**
Profit before tax	**466**	**(3)**
Profit for the year	**352**	**(3)**
Total comprehensive income	**354**	**(3)**
Current assets	**16,768**	**2**
Non-current assets	**14,387**	**4,406**
Current liabilities	**14,391**	**–**
Non-current liabilities	**9,283**	**6**
Net cash flows used in operating activities	**(1,108)**	**–**
Net cash flows used in investing activities	**(505)**	**(4,406)**
Net cash flows from financing activities	**2,668**	**4,406**
Exchange gains on cash and cash equivalents	**4**	**–**
Net increase in cash and cash equivalents	**1,059**	**–**

* ZPMC was deconsolidated from the Group on 27 December 2017 such that the 30% equity interests of CCCC Financial Leasing as held by ZPMC became non-controlling interests in CCCC Financial Leasing,

2017	CCCC Financial Leasing *RMB million*
Revenue	1,173
Profit before tax	362
Profit for the year	272
Total comprehensive income	271
Current assets	17,074
Non-current assets	8,988
Current liabilities	(9,405)
Non-current liabilities	(9,560)
Net cash flows used in operating activities	(82)
Net cash flows used in investing activities	(2)
Net cash flows from financing activities	980
Exchange gains on cash and cash equivalents	(3)
Net increase in cash and cash equivalents	893

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40. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

In addition, the other information of partly-owned subsidiaries with material non-controlling interests are as below:

(a) A tranche of USD denominated perpetual securities of USD1,100 million (with a nominal value equivalent to RMB6,706 million) was issued in April 2015 by CCCI. There is no maturity date for the debt instrument and the holders have no right to receive a return of principal, so this financial instrument was classified as equity of the issuer, and consequently, as non-controlling interests of the Group. The initial interest rate of the debt instrument was 3.50% per annum, which will be reset once in every three years since the issuance date.

(b) In 2018, fourteen tranches of debt instruments were issued by subsidiaries of the Group, with nominal value in total amounts of RMB14,250 million. There is no maturity date for these debt instruments and the holders have no right to receive returns of principal, so these financial instruments were classified as equity of the issuer, and consequently, as non-controlling interests of the Group. The initial interest rates of these debt instruments were in the range from 4.68% to 7.00%, which will be reset once in every three or five years since the issuance date.

41. CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group has below significant non-cash transactions:

	2018 ***RMB million***	2017 *RMB million*
Bank acceptance bills received for sale of goods and services had been endorsed to engineering contractor or equipment supplier	**10**	751

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41. CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

2018	Bank and other loans	Finance lease payables	Corporate bonds	Debentures	Non-public debt instruments	Dividend	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2018	233,390	1,109	20,244	–	6,459	304	261,506
Changes from financing cash flows	15,461	(597)	2,790	4,817	(216)	(5,679)	16,576
New finance lease	–	6	–	–	–	–	6
Foreign exchange movement	249	–	–	–	–	–	249
Declared dividends	–	–	–	–	–	5,664	5,664
Interest expense	11,090	212	1,341	186	496	–	13,325
Discounted amounts	–	–	5	–	1	–	6
Increase arising from acquisition of subsidiaries	2,153	–	–	–	–	122	2,275
Decrease arising from disposal of subsidiaries	(4,569)	–	–	–	–	(94)	(4,663)
At 31 December 2018	257,774	730	24,380	5,003	6,740	317	294,944

2017	Bank and other loans	Finance lease payables	Corporate bonds	Debentures	Non-public debt instruments	Dividend	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2017	223,044	1,516	26,220	10,144	12,556	85	273,565
Changes from financing cash flows	48,656	(560)	(7,170)	(10,325)	(6,606)	(4,887)	19,108
New finance lease	–	4	–	–	–	–	4
Foreign exchange movement	138	–	–	–	–	–	138
Declared dividends	–	–	–	–	–	5,129	5,129
Interest expense	11,123	149	1,175	181	506	–	13,134
Discounted amounts	–	–	19	–	3	–	22
Increase arising from acquisition of subsidiaries	803	–	–	–	–	9	812
Decrease arising from disposal of subsidiaries	(50,374)	–	–	–	–	(32)	(50,406)
At 31 December 2017	233,390	1,109	20,244	–	6,459	304	261,506

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42. CONTINGENT LIABILITIES

	2018 *RMB million*	2017 *RMB million*
Pending lawsuits *(note a)*	**626**	689
Outstanding loan guarantees *(note b)*	**8,217**	7,912
	8,843	8,601

(a) The Group has been named defendants in a number of lawsuits arising in the ordinary course of business. Provision has been made for the probable losses to the Group on those claims when management can reasonably estimate the outcome of the lawsuits taking into account of the legal advice. No provision has been made for the above pending lawsuits of RMB626 million (31 December 2017: RMB689 million) when the outcome of the lawsuits cannot be reasonably estimated or management believes the outflow of resources is not probable. The Group does not include any pending lawsuits in the contingent liabilities disclosed if the probability of loss is remote or the claim amount is insignificant to the Group.

(b) The Group has acted as the guarantor for several external borrowings made by certain joint ventures and associates of the Group. The above amount represents the maximum exposure to default risk under the financial guarantee.

As at 31 December 2018, the above amount included the Group's guarantees for the borrowings of RMB6,430 million (2017: RMB6,325 million) in respect of Guizhou Zhong Jiao Gui Weng Expressway Limited Company ("Zhong Jiao Gui Weng"). Meanwhile Zhong Jiao Gui Weng has pledged its 100% highway toll rights and all relevant benefits to secure the borrowings.

After the assessment of the financial position of these joint ventures and associates, the Directors concluded there is no significant default risk and no provision for such guarantees are required.

(c) As disclosed in note 27(c), as part of the normal business, the Group has entered into certain agreements with certain financial institution so as to establish ABS and ABN. As at 31 December 2018, certain of the ABS and ABN in issue with an aggregate amount of RMB6,710 million (31 December 2017: RMB1,151 million) included the ABS and ABN issued to preferential investors of an aggregate amount of RMB6,322 million (31 December 2017: RMB1,040 million). Under the clauses of the agreements, the Group is subject to the obligations of liquidity supplementary payments to preferential investors when the cash available for distribution of the principal and fixed return at the due date is not sufficient. The directors of the Company evaluate the possibilities to assume the obligations of liquidity supplementary payments is low.

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43. BUSINESS COMBINATIONS INVOLVING ENTITIES NOT UNDER COMMON CONTROL

In 2018, certain subsidiaries of the Company obtained control over Shijiazhuang Real Estate Development Co., Ltd. ("Shijiazhuang"), Kunming Construction Investment Development Co., Ltd. ("Kunming Construction"), and certain other companies, at a total consideration of RMB3,352 million. Set below are the details of the major acquisitions:

Beijing United Real Estate Co., Ltd., a subsidiary of the Company, holds 51% of the equity shares of Shijiazhuang. During the year, Beijing United Real Estate Co., Ltd. entered into an agreement with another shareholder of Shijiazhuang, according to which this shareholder agreed to take concerted action with Beijing United Real Estate Co., Ltd. in the decision-making of major issues in Shijiazhuang. The Group thus obtained control over Shijiazhuang.

On 25 December 2018, CCCC Southwest Investment Development Co., Ltd., a subsidiary of the Company, acquired a 90% equity interest in Kunming Construction held by Beijing Zhongjiao Jian Xin Equity Investment Fund LLP, at a consideration of RMB288 million. Thus the Group obtained control over Kunming Construction.

The fair value and book value of assets and liabilities of these companies at the date of acquisition were as follows:

	31 January 2018 Fair value *RMB million*	31 January 2018 Book value *RMB million*
Non-current assets		
Property, plant and equipment	40	40
Intangible assets	7,226	7,226
Trade and other receivables	2,286	2,286
Deferred tax assets	43	43
Investments in joint ventures and associates	17	17
	9,612	9,612
Current assets		
Trade and other receivables	3,072	3,072
Inventories	1,779	1,342
Cash and cash equivalents	1,118	1,118
	5,969	5,532
Current liabilities		
Interest-bearing bank and other borrowings	(403)	(403)
Trade and other payables	(4,722)	(4,722)
Contract liabilities	(1,423)	(1,423)
	(6,548)	(6,548)
Non-current liabilities		
Interest-bearing bank and other borrowings	(1,750)	(1,750)
Trade and other payables	(2,895)	(2,895)
	(4,645)	(4,645)
Net assets	4,388	3,951
Non-controlling interests	(805)	
Gains from business combinations achieved in stages	(236)	
	3,347	
Goodwill on acquisition	5	
	3,352	
Consideration		
Satisfied by cash	337	

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43. BUSINESS COMBINATIONS INVOLVING ENTITIES NOT UNDER COMMON CONTROL (CONTINUED)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2018 *RMB million*
Cash consideration	**3,352**
Cash paid for acquisition of subsidiaries	**337**
Cash and bank balances of subsidiaries acquired	**(1,117)**
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(780)**

Since the acquisition, the acquirees contributed RMB78 million to the Group's revenue and caused a profit of RMB46 million to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB488,810 million and RMB26,097 million, respectively.

44. DISPOSAL OF SUBSIDIARIES

(a) On 27 December 2018, the Group entered into an equity transfer agreement with China Communications Real Estate Co., Ltd. ("CCCC Real Estate"), to transfer 100% equity interests in Beijing United Real Estate Co., Ltd. to CCCC Real Estate at a consideration of RMB866 million. Therefore, Beijing United Real Estate Co., Ltd. ceased to be subsidiary of the Company.

(b) On 27 December 2018, two third parties made capital contributions to Yulin Zhongjiao Construction Investment Co., Ltd. ("Yulin Zhongjiao") by RMB80 million through Zhongjiao Yulin Road Network Upgrade and Private Investment No. 1 Fund ("No. 1 Fund"), and by RMB200 million through Zhongjiao Yulin Road Network Upgrade and Private Investment No. 2 Fund ("No. 2 Fund"), respectively. Thereafter, CFHCC, No. 1 Fund and No. 2 Fund control Yulin Zhongjiao jointly, and the Group no longer has the control over Yulin Zhongjiao.

(c) On 24 December 2018, Zhongjiao Jianyin (Xiamen) Equity Investment Fund Management Co., Ltd. made a capital contribution to Guangdong Zhongjiao Yuzhan Expressway Development Co., Ltd. ("Guangdong Yuzhan") through Beijing Zhongjiao Luqiao Investment Phase III Fund LLP by RMB70 million. Thereafter, CFHCC and Beijing Zhongjiao Luqiao Investment Phase III Fund LLP jointly control Guangdong Yuzhan, and the Group no longer has the control over Guangdong Yuzhan.

(d) On 21 December 2018, China Communications Water Transportation Consultants Co., Ltd. ("Water Transportation Consultants") and CCCG entered into a capital increase agreement, pursuant to which CCCG agreed to make a capital contribution in cash of RMB318 million to China Communications Information Center, while Water Transportation Consultants agreed to make a capital contribution to China Communications Information Center with its 58% equity interests in Beijing Zhongjiao Ziguang Technology Co., Ltd.. Thereafter, the Group no longer has the control over China Communications Information Center.

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44. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(e) The aggregate financial information of the subsidiaries disposed of by the Group, at the date of disposal in 2018, is as follows:

	Total *RMB million*
Non-current assets	**3,555**
Current assets	**6,191**
Current liabilities	**(3,310)**
Non-current liabilities	**(4,910)**
Non-controlling interests	**(423)**
	1,103
Gain on disposal of subsidiaries	**482**
	1,585
Represented by:	
Residual interests in joint ventures	**178**
Residual interests in associates	**324**
Financial assets at fair value through profit or loss	**138**
Cash consideration	**945**
	1,585

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2018 *RMB million*	2017 *RMB million*
Cash received from disposal of subsidiaries in current year	**859**	9,573
Cash received from disposal of subsidiaries in prior year	**593**	–
Cash and bank balances of subsidiaries disposed of	**(1,792)**	(6,413)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(340)**	3,160

(f) The information of disposal of subsidiaries that occurred and has been completed in 2017 is as follow:

In 2017, the Group entered into an equity transfer agreement with CCCG, pursuant to which the Company and CHEC agreed to transfer 29.99% equity interests of ZPMC to CCCG and CCCG HK for a consideration of RMB5,661 million. Upon the completion of this transfer on 27 December 2017, the Group still holds 16.24% equity interest in ZPMC, and thus ZPMC ceased to be a subsidiary of the Group.

On 31 December 2017, the Group entered into certain agreements with a joint venture (a fund engaged in infrastructure investment), to dispose of the Group's 99% equity interests in three subsidiaries which held concession assets (toll roads), for an aggregate consideration of RMB2,847 million. Furthermore, the Group entered into certain forward equity contracts with the joint venture to repurchase these equity interests in future with discount to the consideration under some conditions. The cost of these forward equity contracts will be paid by instalments in five years, with a discounted net present value of RMB390 million. The fair value of these forward equity contracts was RMB256 million as at trade date and 31 December 2017.

In addition, during 2017, the Group disposed of certain other companies, the aggregate financial information of the subsidiaries disposed of by the Group, at the date of disposal in 2017, is as follows:

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44. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(f) (continued)

	2017 *RMB million*
Net assets disposed of:	
Non-current assets	
Property, plant and equipment	19,355
Intangible assets	15,977
Investment properties	301
Prepaid land lease payments	3,891
Investments in joint ventures	239
Investments in associates	194
Available-for-sale investments	1,304
Trade and other receivables	2,502
Deferred tax assets	618
Other non-current assets	10,500
	54,881
Current assets	
Inventories	19,428
Amounts due from contract customers	2,509
Trade and other receivables	9,180
Cash and bank balances	6,413
Other financial assets at fair value through profit or loss	8
	37,538
Current liabilities	
Interest-bearing bank and other borrowings	(27,601)
Trade and other payables	(17,831)
Provision	(88)
Tax payable	(206)
	(45,726)
Non-current liabilities	
Interest-bearing bank and other borrowings	(22,773)
Deferred income	(551)
Deferred tax liabilities	(183)
Trade and other payable	(2,688)
	(26,195)
Non-controlling interests	(6,969)
Other reserve	(157)
	13,372
Gain on disposal of subsidiaries	4,002
	17,374
Represented by:	
Residual interests in joint ventures	124
Residual interests in associates	5,882
Cash consideration	11,368
	17,374

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45. PLEDGE OF ASSETS

(a) At 31 December 2018, the restricted deposits were RMB4,633 million (31 December 2017: RMB2,880 million).

(b) Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in notes 16, 17, 18, 25(a) and 27(b), respectively, to the financial statements as follows:

	2018 ***RMB million***	2017 *RMB million*
Trade and other receivables	**27,261**	14,859
Inventories	**3,597**	4,013
Investment properties	**1,117**	–
Prepaid land lease payments	**5,028**	1,628
Intangible assets	**141,261**	119,600
	178,264	140,100

46. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group rents out various offices, machinery, vessels and vehicles and other equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 ***RMB million***	2017 *RMB million*
Within one year	**384**	331
In the second to fifth year, inclusive	**795**	658
Beyond five years	**384**	410
	1,563	1,399

(b) As lessee

The Group leases certain of its offices, warehouses, residential properties, machinery and vessels under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 ***RMB million***	2017 *RMB million*
Within one year	**1,439**	1,303
In the second to fifth year, inclusive	**1,249**	701
Beyond five years	**241**	137
	2,929	2,141

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47. COMMITMENTS

In addition to the operating lease commitments detailed in note 46(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 *RMB million*	2017 *RMB million*
Intangible assets – concession assets	**122,293**	115,133
Property, plant and equipment	**1,387**	139
	123,680	115,272

48. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2018 *RMB million*	2017 *RMB million*
Transactions with CCCG		
– Rental expenses	**108**	100
– Deposits placed with CCCC Finance	**20,252**	23,004
– Interest expense from deposits placed with CCCC Finance	**39**	30
– Other borrowing from CCCG	**2,000**	10,505
– Interest expense on loans	**128**	23
Transactions with fellow subsidiaries' joint venture		
– Interest income on finance lease loans	**1**	6
– Revenue from the provision of construction services	**46**	–
– Services charges	**1**	–
Transactions with fellow subsidiaries		
– Revenue from the provision of construction services	**845**	591
– Revenue from the other services	**12**	–
– Purchase of materials	**21**	–
– Subcontracting fee charges	**45**	–
– Services charges	**29**	16
– Revenue from rental income	**2**	–
– Deposits placed with CCCC Finance	**33,566**	59,614
– Interest expense from deposits placed with CCCC Finance	**39**	37
– Loans to fellow subsidiaries	**723**	–
– Interest income from loans	**43**	–
– Finance lease loan to fellow subsidiary	**459**	1,000
– Interest income on finance lease loans	**36**	49
Transactions with joint ventures and associates		
– Revenue from the provision of construction services	**53,345**	29,376
– Revenue from the other services	**16**	27
– Sales of goods	**2,442**	12
– Subcontracting fee charges	**842**	746
– Purchase of materials	**3,956**	745
– Services charges	**35**	172
– Rental expenses	**50**	–
– Revenue from rental income	**2**	169
– Deposits placed with CCCC Finance	**15,290**	8,669
– Interest expense from deposits placed with CCCC Finance	**14**	1
– Loans to joint ventures and associates	**3,284**	4,822
– Interest income from loans	**427**	243
– Commercial factoring provided to joint ventures and associates	**1,491**	235
– Interest income from commercial factoring	**45**	42
– Finance lease loan to joint ventures and associates	**425**	1,000
– Interest income on finance lease loans	**140**	57

These transactions were carried out on terms based on those terms in the ordinary course of business.

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48. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties:

	2018 *RMB million*	2017 *RMB million*
Trade and bills receivables due from		
– Fellow subsidiaries	**1,484**	935
– Joint ventures and associates	**7,555**	3,928
	9,039	4,863
Long-term trade receivables due from		
– CCCG	**–**	3
– Fellow subsidiaries	**633**	606
– Joint ventures and associates	**15,433**	13,586
– Fellow subsidiaries' joint ventures	**–**	50
	16,066	14,245
Prepayments to		
– Fellow subsidiaries	**63**	706
– Joint ventures and associates	**1,624**	754
	1,687	1,460
Other receivables due from		
– CCCG	**2**	3
– Fellow subsidiaries	**662**	333
– Joint ventures and associates	**3,839**	5,398
	4,503	5,734
Contract assets		
– Fellow subsidiaries	**115**	110
– Joint ventures and associates	**3,686**	4,015
– Fellow subsidiaries' joint ventures	**4**	–
	3,805	4,125
	35,100	30,427

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48. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties: (continued)

	2018 *RMB million*	2017 *RMB million*
Trade and other payables due to		
– Fellow subsidiaries	**201**	56
– Joint ventures and associates	**3,749**	2,745
– Fellow subsidiaries' joint ventures	**6**	–
	3,956	2,801
Long-term trade payables due to		
– Fellow subsidiaries	**3**	6
– Fellow subsidiaries' joint ventures	**–**	23
– Joint ventures and associates	**950**	986
	953	1,015
Advances from customers		
– CCCG	**–**	7
– Fellow subsidiaries	**71**	74
– Joint ventures and associates	**9,736**	7,869
– Fellow subsidiaries' joint ventures	**7**	–
	9,814	7,950
Deposits from:		
– CCCG	**3,900**	3,980
– Fellow subsidiaries	**4,877**	3,763
– Joint ventures and associates	**1,044**	1,301
	9,821	9,044
Other payables due to:		
– CCCG	**391**	767
– Fellow subsidiaries	**349**	10
– Joint ventures and associates	**1,450**	1,347
	2,190	2,124
Contract liabilities		
– Fellow subsidiaries	**54**	–
– Joint ventures and associates	**2,831**	1,438
	2,885	1,438
Other borrowings		
– CCCG	**2,500**	10,055
	32,119	34,427

NOTES TO FINANCIAL STATEMENTS

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48. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Guarantees with related parties

	2018 *RMB million*	2017 *RMB million*
Outstanding loan guarantees provided to		
– Joint ventures	**6,546**	6,442
– Associates	**1,671**	1,470
	8,217	7,912
Outstanding guarantees provided by CCCG	**14,158**	14,149

(d) Commitments with related parties:

	2018 *RMB million*	2017 *RMB million*
Provision of construction services		
– Fellow subsidiaries	**767**	418
– Joint ventures and associates	**161,285**	149,360
– Fellow subsidiaries' joint ventures	**191**	–
	162,243	149,778
Purchase of services		
– Joint ventures and associates	**574**	635
Operating lease as lessee		
– CCCG	**108**	100

(e) Key management compensation

	2018 *RMB million*	2017 *RMB million*
Short term employee benefits	**11,129**	14,753
Post-employment benefits	**690**	759
	11,819	15,512

NOTES TO FINANCIAL STATEMENTS

31 December 2018

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Other transactions with related parties

(i) During the year, the equity investments of the Group together with related parties are set below:

	2018 *RMB million*
Transactions with fellow subsidiaries	
– Establishment of a subsidiary of the Group	17
– Establishment of associates of the Group	600
	617
Transactions with joint ventures and associates	
– Establishment of a subsidiary of the Group	30
– Establishment of an associate of the Group	2
– Establishment of joint ventures of the Group	494
	526
	1,143

(ii) Details of the Group's other equity transactions with related parties are included in note 44(a) and (d) to the financial statements.

(iii) Details of the Group's arrangement of the total return swap with related parties are included in note 28(b).

The related party transactions with CCCG and fellow subsidiaries also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

49. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss		
	Debt investments *RMB million*	Equity investments *RMB million*	Held for trading *RMB million*	Financial assets at amortised cost *RMB million*	Total *RMB million*
Financial assets at fair value through profit or loss	–	–	6,048	–	6,048
Equity investments at fair value through other comprehensive income	–	21,257	–	–	21,257
Derivative financial instruments	–	–	250	–	250
Debt investments at amortised cost	–	–	–	109	109
Trade and other receivables excluding prepayments	4,341	–	–	272,341	276,682
Cash and bank balances	–	–	–	134,368	134,368
Total	4,341	21,257	6,298	406,818	438,714

NOTES TO FINANCIAL STATEMENTS

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49. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2018 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss *RMB million*	**Financial liabilities at amortised cost** *RMB million*	**Total** *RMB million*
Borrowings (excluding finance lease liabilities)	**–**	**293,897**	**293,897**
Finance lease liabilities	**–**	**730**	**730**
Derivative financial instruments	**2**	**–**	**2**
Trade and other payables excluding statutory and non-financial liabilities	**–**	**312,423**	**312,423**
Total	**2**	**607,050**	**607,052**

2017

Financial assets

	Financial assets at fair value through profit or loss *RMB million*	Loans and receivables *RMB million*	Held-to-maturity investment *RMB million*	Available-for-sale financial assets *RMB million*	Total *RMB million*
Available-for-sale investments	–	–	–	25,908	25,908
Held-to-maturity investment	–	–	104	–	104
Derivative financial instruments	488	–	–	–	488
Other financial assets at fair value through profit or loss	6,329	–	–	–	6,329
Trade and other receivables excluding prepayments	–	270,222	–	–	270,222
Cash and bank balances	–	134,321	–	–	134,321
Total	6,817	404,543	104	25,908	437,372

Financial liabilities

	Financial liabilities at fair value through profit or loss *RMB million*	Financial liabilities at amortised cost *RMB million*	Total *RMB million*
Borrowings (excluding finance lease liabilities)	–	260,093	260,093
Finance lease liabilities	–	1,109	1,109
Derivative financial instruments	10	–	10
Trade and other payables excluding statutory and non-financial liabilities	–	268,376	268,376
Total	10	529,578	529,588

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50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*
Financial liabilities				
Bank borrowings	**192,706**	152,945	**192,755**	152,698
Other borrowings	**1,120**	1,487	**1,120**	1,364
Corporate bonds	**15,974**	19,866	**15,974**	19,821
Non-public debt instruments	**5,140**	3,500	**5,140**	3,654
Total	**214,940**	177,798	**214,989**	177,537

Management has assessed that the fair values of cash and bank balances, financial assets included in trade and other receivables, financial liabilities included in trade and other payables approximate to their carrying amounts.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of finance lease payables, and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables, and interest-bearing bank and other borrowings as at 31 December 2018 and 2017 was assessed to be insignificant.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include future cash flow, PBR (price/book ratio) of companies in same category and unit price of comparable property.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts and total return swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and total return swaps are the same as their fair values.

As at 31 December 2018, the market to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value measurement categorised within level 3 adopts discounted cash flow method. The unobservable inputs are weighted average capital costs and long-term growth rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments, have been estimated by the most appropriate valuation techniques based on assumptions that are not supported by observable market prices or rates, including: (i) market approach by using initial cost of the investment itself or a multiple of earnings, or of revenue depending on the stage of development of an enterprise; (ii) income approach by using the discounted cash flows or earnings of underlying business based on reasonable assumptions and estimations of expected future cash flows (or expected future earnings), the terminal value, and the appropriate risk-adjusted rate that captures the risk inherent in the projections; (iii) replacement cost approach by using the perspective of a market participant to value its assets and liabilities (adjusting, if appropriate, for non-operating assets, excess liabilities and contingent assets and liabilities) to estimate the fair value of an investment.

The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income or profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by financial institutions in Mainland China. The Group has estimated the fair values of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	Significant observable inputs (Level 2) *RMB million*	Significant unobservable inputs (Level 3) *RMB million*	Total *RMB million*
Assets				
Bills receivables	–	4,341	–	4,341
Equity investments designated at fair value through other comprehensive income	19,283	–	1,974	21,257
Financial assets at fair value through profit or loss	155	–	5,893	6,048
Derivative financial instruments				
– Forward foreign exchange contracts	–	2	–	2
– Total revenue swap	–	–	21	21
– Forward equity contracts	–	–	227	227
	19,438	4,343	8,115	31,896
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	(2)	–	(2)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets and liabilities measured at fair value: (continued)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	Significant observable inputs (Level 2) *RMB million*	Significant unobservable inputs (Level 3) *RMB million*	Total *RMB million*
Assets				
Financial assets at fair value through profit or loss	2,878	–	3,451	6,329
Derivative financial instruments				
– Forward foreign exchange contracts	–	8	–	8
– Total revenue swap	–	–	81	81
– Forward equity contracts	–	–	399	399
Available-for-sale investments				
– Equity securities and other investments	23,045	–	159	23,204
– Other unlisted instruments	–	56	–	56
	25,923	64	4,090	30,077
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	(10)	–	(10)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 ***RMB million***	2017 *RMB million*
At 1 January	**4,090**	387
Effect of adoption of IFRS 9	**2,896**	–
At 1 January (restated)	**6,986**	387
Total losses recognised in the statement of profit or loss included in other gains	**(213)**	(131)
Total losses recognised in other comprehensive income	**(226)**	(4)
Purchases	**2,860**	3,838
Disposals	**(1,292)**	–
At 31 December	**8,115**	4,090

NOTES TO FINANCIAL STATEMENTS

31 December 2018

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	**Significant observable inputs (Level 2)** *RMB million*	**Significant unobservable inputs (Level 3)** *RMB million*	**Total** *RMB million*
Bank borrowings	–	**192,755**	–	**192,755**
Other borrowings	**–**	**1,120**	**–**	**1,120**
Corporate bonds	**5,993**	**9,981**	**–**	**15,974**
Non-public debt instruments	**–**	**5,140**	**–**	**5,140**
	5,993	**208,996**	**–**	**214,989**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	Significant observable inputs (Level 2) *RMB million*	Significant unobservable inputs (Level 3) *RMB million*	Total *RMB million*
Bank borrowings	–	152,698	–	152,698
Other borrowings	–	1,364	–	1,364
Corporate bonds	14,002	5,819	–	19,821
Non-public debt instruments	–	3,654	–	3,654
	14,002	163,535	–	177,537

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31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department under policies approved by the board of directors. The finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign currency risk

The functional currency of the majority of the entities within the Group is RMB. Most of the Group's transactions are based and settled in RMB. Foreign currencies are used to settle the Group's revenue from overseas operations, the Group's purchases of machinery and equipment from overseas suppliers, and certain expenses.

RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC Government.

As at 31 December 2018, the Group's aggregate net assets of RMB24,596 million, including trade and other receivables, cash and bank balances, trade and other payables and borrowings, were denominated in foreign currencies, mainly USD.

To manage the impact of currency exchange rate fluctuations, the Group continually assesses its exposure to currency risks, and a portion of those risks is hedged by using derivative financial instruments when management considers necessary.

As at 31 December 2018, if RMB had strengthened/weakened by 5% against USD with all other variables held constant, pre-tax profit for the year would had been decreased/increased by approximately RMB543 million, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade and other receivables, cash and cash equivalents.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified in the consolidated statement of financial position either as equity investments designated at fair value through other comprehensive income or financial assets or financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The table below summarises the impact of increases/decreases of quoted price in open markets on the Group's pre-tax profit for the year and on equity. The analysis is based on the assumption that the equity price had increased/decreased by 10% with all other variables held constant:

	2018	2017
Increases/decreases in quoted price in open markets	**10%**	10%

	2018 ***RMB million***	2017 *RMB million*
Impact on profit before tax for the year	**14**	12
Impact on equity (excluding retained profits)	**1,928**	1,798

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Interest rate risk

The Group's interest rate risk mainly arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. During 2018 and 2017, the Group's borrowings at variable rates were mainly denominated in RMB, USD, Euro and Hong Kong Dollars ("HKD").

Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

Increases in interest rates will increase the cost of new borrowings and the interest expense with respect to the Group's outstanding floating rate borrowings, and therefore could have an adverse effect on the Group's financial position. Management continuously monitors the interest rate position of the Group, and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the directors did not consider it was necessary to do so in 2018 and 2017.

As at 31 December 2018, the Group's borrowings of approximately RMB178,216 million (2017: RMB161,014 million) were at variable rates. As at 31 December 2018, if interest rates on borrowings had been 1.00 percentage-point higher/lower with all other variables held constant, profit before tax for the year would have been decreased/increased by RMB1,782 million (2017: RMB1,610 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The carrying amounts of cash and bank balances, trade and other receivables except for prepayments, derivative financial instruments and contract assets, represent the Group's maximum exposure to credit risk in relation to financial assets.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are net carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB million*	Stage 2 *RMB million*	Stage 3 *RMB million*	Simplified approach *RMB million*	*RMB million*
Contract assets*	–	–	–	132,679	132,679
Trade and other receivables*	166,690	21,700	–	87,796	276,186
Pledged deposits					
– Not yet past due	6,955	–	–	–	6,955
Cash and cash equivalents					
– Not yet past due	127,413	–	–	–	127,413
Guarantees given to banks in connection with facilities granted to associates and joint ventures					
– Not yet past due	8,217	–	–	–	8,217
	309,275	21,700	–	220,475	551,450

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 27 and 29 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018 (continued)

The credit quality of the financial assets included in other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

As at 31 December 2018, the financial assets classified to stage 3 for lifetime ECLs are other receivables with a gross carrying amount of approximately RMB585 million. As they are fully impaired, the net carrying amount is nil.

Maximum exposure as at 31 December 2017

The Group holds substantially all of the bank deposits in major financial institutions located in the PRC and certain overseas banks with proper credit ratings. Management believes these financial institutions are reputable and there is no significant credit risk of losses on such assets. The Group has policies that limit the amount of credit exposure to any financial institutions.

The Group's major customers are PRC Government agencies at the national, provincial and local levels, and other state-owned enterprises, which accounted for a substantial amount of the Group's total operating revenue during the year. The Group also has policies in place to ensure that services are rendered to customers with appropriate credit history and the Group performs periodic credit evaluation of its customers. With regard to overseas companies of inadequate creditworthiness, the Group usually demands letters of guarantee or letters of credit.

Moreover, impairment losses are recognised for the credit risk that is inherent in trade receivables from the domestic and overseas businesses. The maximum exposure to loss of trade receivables is equal to their total carrying amounts. The carrying amounts of trade receivables, showing separately those receivables that are past due or impaired, are disclosed in note 27(a).

Transactions involving derivative financial instruments that hedge foreign exchange exposures are with counterparties that have good credit ratings, and the Group does not use derivative financial instruments for purposes other than risk management. The maximum exposure to credit risk at the reporting date is equal to the carrying amount of those derivatives classified as financial assets. Given their good credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk encompasses the risk that the Group cannot meet its financial obligations in full.

The Group's maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in note 33.

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the capital intensive nature of the Group's business, the Group ensures that it maintains flexibility through keeping sufficient cash and cash equivalents and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and banks and other borrowings.

The table below analyses the Group's non-derivative financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity dates, and the amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

2018	**Less than 1 year** *RMB million*	**Between 1 and 2 years** *RMB million*	**Between 2 and 5 years** *RMB million*	**Over 5 years** *RMB million*	**Total** *RMB million*
Borrowings (excluding finance lease liabilities)	**90,504**	**44,924**	**71,994**	**179,862**	**387,284**
Finance lease liabilities	**287**	**191**	**320**	**–**	**798**
Trade and other payables (excluding statutory and non-financial liabilities)	**295,558**	**10,966**	**5,829**	**527**	**312,880**
Net-settled derivative financial instruments	**2**	**–**	**–**	**–**	**2**
	386,351	**56,081**	**78,143**	**180,389**	**700,964**

2017	Less than 1 year *RMB million*	Between 1 and 2 years *RMB million*	Between 2 and 5 years *RMB million*	Over 5 years *RMB million*	Total *RMB million*
Borrowings (excluding finance lease liabilities)	91,443	42,274	47,357	156,414	337,488
Finance lease liabilities	409	299	389	125	1,222
Trade and other payables (excluding statutory and non-financial liabilities)	258,096	7,547	3,408	103	269,154
Net-settled derivative financial instruments	3	–	–	–	3
Gross-settled derivative financial instruments outflows	17	–	–	–	17
Gross-settled derivative financial instruments inflows	(10)	–	–	–	(10)
	349,958	50,120	51,154	156,642	607,874

Derivative financial instruments comprise forward foreign exchange contracts used by the Group to hedge the exposure to foreign currency risk.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

	2018	2017
	RMB million	*RMB million*
Total borrowings *(note 33)*	**294,627**	261,202
Less: cash and cash equivalents *(note 30)*	**(127,413)**	(129,197)
Net debt	**167,214**	132,005
Total equity	**239,682**	205,594
Total capital	**406,896**	337,599
Gearing ratio	**41.1%**	39.1%

The gearing ratio as at 31 December 2018 increased by 2% compared with that in 2017.

52. EVENTS AFTER THE REPORTING PERIOD

On 29 March 2019, the board of directors of the Company resolved that a final dividend of RMB0.23077 per share, totalling approximately RMB3,733 million, is to be distributed to the shareholders, subject to approval of the shareholders at the forthcoming AGM. Such final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 *RMB million*	2017 *RMB million*
Non-current assets		
Property, plant and equipment	**143**	161
Intangible assets	**231**	103
Investments in subsidiaries	**113,690**	112,056
Investments in joint ventures	**2,668**	1,124
Investments in associates	**6,741**	7,491
Financial assets at fair value through profit or loss	**460**	210
Available-for-sale investments	**–**	17,257
Equity investments designated at fair value through other comprehensive income	**14,453**	–
Contract assets	**2,509**	–
Trade and other receivables	**5,444**	12,217
Loans to subsidiaries	**455**	455
Amounts due from subsidiaries	**544**	1,582
Total non-current assets	**147,338**	152,656
Current assets		
Inventories	**436**	421
Contract assets	**11,620**	–
Trade and other receivables	**11,486**	14,103
Loans to subsidiaries	**25,741**	17,904
Amounts due from subsidiaries	**21,322**	16,144
Amounts due from contract customers	**–**	4,915
Restricted bank deposits	**106**	111
Cash and cash equivalents	**58,558**	60,180
Total current assets	**129,269**	113,778
Current liabilities		
Trade and other payables	**3,139**	6,581
Contract liabilities	**5,290**	–
Amounts due to subsidiaries	**100,076**	90,904
Amounts due to contract customers	**–**	2,807
Tax payables	**20**	25
Interest-bearing bank and other borrowings	**32,980**	32,005
Total current liabilities	**141,505**	132,322
Net current (liabilities)/assets	**(12,236)**	(18,544)
Total assets less current liabilities	**135,102**	134,112

NOTES TO FINANCIAL STATEMENTS

31 December 2018

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

	2018 *RMB million*	2017 *RMB million*
Total assets less current liabilities	**135,102**	134,112
Non-current liabilities		
Trade and other payables	**398**	831
Amounts due to subsidiaries	**3,252**	3,146
Interest-bearing bank and other borrowings	**17,759**	18,925
Deferred tax liabilities	**2,862**	3,488
Retirement benefit obligations	**54**	55
Provisions	**81**	386
Total non-current liabilities	**24,406**	26,831
Net assets	**110,696**	107,281
Equity		
Equity attributable to owners of the parent		
Share capital	**16,175**	16,175
Share premium	**19,656**	19,656
Financial instruments classified as equity	**24,426**	19,431
Reserves *(note)*	**50,439**	52,019
Total equity	**110,696**	107,281

NOTES TO FINANCIAL STATEMENTS

31 December 2018

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve *RMB million*	Statutory surplus reserve *RMB million*	Remeasurement reserve *RMB million*	Investment revaluation reserve *RMB million*	Safety reserve *RMB million*	Exchange reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*
Balance at 1 January 2017	21,170	4,216	57	7,566	20	–	14,960	47,989
Profit for the year	–	–	–	–	–	–	3,354	3,354
Changes in fair value of available-for-sale investments, net of tax	–	–	–	4,006	–	–	–	4,006
Actuarial gains on retirement benefit obligations, net of tax	–	–	1	–	–	–	–	1
Share of other comprehensive income of joint ventures and associates	3	–	6	–	–	–	–	9
Exchange differences on translation of foreign operations	–	–	–	–	–	(8)	–	(8)
Share of other reserve of associates	3	–	–	44	–	–	784	831
Final 2016 dividend declared	–	–	–	–	–	–	(3,145)	(3,145)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	(1,018)	(1,018)
Transfer to statutory surplus reserve	–	504	–	–	–	–	(504)	–
Transfer to safety reserve	–	–	–	–	(20)	–	20	–
At 31 December 2017	21,176	4,720	64	11,616	–	(8)	14,451	52,019
Adjustment on adoption of IFRS 9, net of tax	–	–	–	–	–	–	(70)	(70)
At 1 January 2018	**21,176**	**4,720**	**64**	**11,616**	**–**	**(8)**	**14,381**	**51,949**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**5,262**	**5,262**
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**(1,828)**	**–**	**–**	**–**	**(1,828)**
Actuarial gains on retirement benefit obligations, net of tax	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**(3)**
Share of other comprehensive income of joint ventures and associates	**5**	**–**	**–**	**(8)**	**–**	**–**	**–**	**(3)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(7)**	**–**	**(7)**
Final 2017 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**(3,913)**	**(3,913)**
Distributions to holders of financial instruments classified as equity	**–**	**–**	**–**	**–**	**–**	**–**	**(1,018)**	**(1,018)**
Transfer to statutory surplus reserve	**–**	**(526)**	**–**	**–**	**–**	**–**	**526**	**–**
At 31 December 2018	**21,181**	**4,194**	**61**	**9,780**	**–**	**(15)**	**15,238**	**50,439**

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 29 March 2019.

TERMS & GLOSSARIES

DEFINITIONS

"AGM"	the annual general meeting of the Company for the year 2018 to be held in 2019
"A Shares"	domestic shares in the ordinary share capital of the Company with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange
"Articles of Association"	the articles of associations of the Company, approved on 8 October 2006, and as amended thereafter
"Board"	the board of directors of the Company
"BOT"	build, operate and transfer
"Company" or "CCCC"	China Communications Construction Company Limited, a joint stock limited company with limited liability incorporated under the laws of the PRC on 8 October 2006, and except where the context requires otherwise, all of its subsidiaries
"CCCC Dredging"	CCCC Dredging (Group) Co., Ltd., a subsidiary of the Company
"CCCC Finance"	CCCC Finance Company Limited (中交財務有限公司), a subsidiary of the Company
"CCCC Financial Leasing"	CCCC Financial Leasing Co., Ltd. a subsidiary of the Company
"CCCC Investment"	CCCC Investment Co., Ltd.* (中交投資有限公司), a wholly-owned subsidiary of the Company
"CCCC Southwest Investment"	CCCC Southwest Investment and Development Co., Ltd.* (中交西南投資發展有限公司), a wholly-owned subsidiary of the Company
"CCCG"	China Communications Construction Group (Limited), a wholly state-owned company incorporated on 8 December 2005 in the PRC which currently holds approximately 59.91% equity interest in the Company
"CCCG Group"	CCCG and its subsidiaries (excluding the Group)
"CCCG HK"	CCCG (HK) Holding Limited, a wholly-owned subsidiary of CCCG
"CCCI"	CCCC International Holding Limited (中交國際(香港)控股有限公司), a wholly-owned subsidiary of the Company
"CFHEC"	CCCC First Highway Engineering Co., Ltd. (中交第一公路工程局有限公司), a wholly-owned subsidiary of the Company
"CHEC"	China Harbour Engineering Company Ltd. (中國港灣工程有限責任公司), a subsidiary of the Company
"CTHEC"	CCCC Third Harbour Engineering Co., Ltd. (中交第三航務工程局有限公司), a wholly-owned subsidiary of the Company
"EPC"	Engineer-Procure-Construct, being the general contracting of design-procurement-construction
"Director(s)"	the director(s) of the Company

TERMS & GLOSSARIES

"experts in five areas"	the strategy of being "experts in five areas" proposed by CCCG, is the optimisation and re-building of CCCG based on its existing businesses, markets and resources. That is, to build CCCG to be a world-famous engineering contractor, an urban complex developer and operator, a distinctive real estate developer, an integrated infrastructure investor and a general contractor of offshore heavy equipment and port machinery manufacturing and system integration. As an important holding subsidiary of CCCG, CCCC is the significant implementor of such strategy
"equity transfer of ZPMC"	the transfer of an aggregate of 29.99% equity interests in ZPMC by the Company and its subsidiaries, Zhen Hua Engineering Company Limited (振華工程有限公司) and Zhen Hwa Harbour Construction Co. Ltd. (振華海灣工程有限公司) to CCCG and CCCG HK on 18 July 2017, of which the registration procedures was completed on 27 December 2017
"Group"	the Company itself and all of its subsidiaries
"H Shares"	overseas-listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars"	the lawful currency of Hong Kong
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Macau"	the Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers
"PPP"	Public-Private-Partnership, the cooperative model between governments and private sector, which refers to the mechanisms through which governments build profit sharing, risk pooling and long-term cooperating relationship with the private sector, such as granting exclusivity rights, services purchasing and co-investment, so as to enhance the availability of public products and services and improve supplying efficiency
"PRC" or "China" or "Mainland China"	the People's Republic of China excluding, for the purposes of this report, Hong Kong, Macau and Taiwan
"RMB" or "Renminbi"	the lawful currency of the PRC
"SASAC"	State-owned Assets Supervisor and Administration Commission of the State Council
"Shareholders"	the shareholders of the Company
"Supervisor(s)"	the supervisor(s) of the Company
"USD"	United States dollars, the lawful currency of the United States of America
"ZPMC"	Shanghai Zhenhua Heavy Industries Co., Ltd. (上海振華重工 (集團) 股份有限公司), a company incorporated on 14 February 1992 in the PRC and listed on the Shanghai Stock Exchange, and a non-wholly owned subsidiary of CCCG
"%"	percent

Note: Any discrepancies between the amounts herein and the amounts set out in the tables herein are due to rounding.

CORPORATE INFORMATION

I. CORPORATE INFORMATION

Legal name of the Company in Chinese: 中國交通建設股份有限公司
Legal Chinese abbreviation of the Company: 中國交建
Legal name of the Company in English: China Communications Construction Company Limited
Legal English abbreviation of the Company: CCCC
Legal representative of the Company: LIU Qitao

II. CONTACT PERSON AND CONTACT DETAILS

Secretary to the Board of the Company: ZHOU Changjiang
Address: 85 De Sheng Men Wai Street, Xicheng District, Beijing, China
Tel: 8610-82016562
Fax: 8610-82016524
E-mail: ir@cccltd.cn

III. BASIC INFORMATION

Registered address of the Company:
85 De Sheng Men Wai Street, Xicheng District, Beijing, China
Postal code: 100088

Office address of the Company:
85 De Sheng Men Wai Street, Xicheng District, Beijing, China
Postal code: 100088

Company website: http://www.ccccltd.cn
E-mail: ir@ccccltd.cn

IV. INFORMATION DISCLOSURE AND PLACE AVAILABLE FOR INSPECTION

Newspapers designated by the Company for disclosure of information (A Shares):
China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily
Website designated by China Securities Regulatory Commission for publishing annual reports of A Shares:
www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing annual reports of H Shares:
www.hkexnews.hk

Place available for inspection of the Company's annual reports of A Shares:
19th Floor, 85 De Sheng Men Wai Street, Xicheng District, Beijing, China
Place available for inspection of the Company's annual reports of H Shares:
Room 2805, 28th Floor, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong, China

CORPORATE INFORMATION

V. BASIC INFORMATION ON SHARES OF THE COMPANY

Listing place of A Shares: Shanghai Stock Exchange
Abbreviation of A Shares: 中國交建
Stock code of A Shares: 601800

Listing place of H Shares: The Stock Exchange of Hong Kong Limited
Abbreviation of H Shares: CHINA COMM CONS
Stock code of H Shares: 01800

VI. OTHER INFORMATION OF THE COMPANY

Domestic Auditors:
Ernst & Young Hua Ming LLP
Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dong Cheng District, Beijing, China
Signing auditors: ZHANG Yiqiang and ZHANG Ningning

International Auditors:
Ernst & Young
22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
Signing auditor: YIM Chi Hung, Henry

Sponsor performing continuous supervisory duty during the reporting period:
CITIC Securities Co., Ltd.
CITIC Securities Tower, No. 48 Liangmaqiao Road, Chaoyang District, Beijing, China
Signing representative of sponsor: LIU Yan and YE Jianzhong
Period of continuous supervision: 1 January 2018 to 31 December 2018

Hong Kong legal advisors:
Baker & Mckenzie
14/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

PRC legal advisors:
Deheng Law Offices
12/F, Tower B, Focus Place, No 19 Finance Street, Xicheng District, Beijing, China

Authorised representatives of H Shares:
SONG Hailiang, ZHOU Changjiang

H Share registrar:
Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

中國交通建設股份有限公司
CHINA COMMUNICATIONS CONSTRUCTION COMPANY LIMITED

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1 Harbour Road, Wanchai, Hong Kong

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