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 117 to 211, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 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)

Revenue recognition on construction contracts

The Group derives most of its revenues from construction contracts that are accounted for by applying the percentage-of-completion (POC) method. The POC method involves the use of management's significant judgement and estimates, including estimates of the progress towards completion, the scope of deliveries and services required, total contract costs, remaining costs to completion, total contract revenues and contract risks. 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 contracts are included in notes 2.4, 3 and 5 to the consolidated financial statements.

We evaluated and tested the Group's internal controls over the process to record contract costs, contract revenues and the calculation of the stage of completion. We obtained material revenue contracts to verify the total contract revenues and review key contract terms. We verified the contract costs incurred by selecting samples to reconcile with supporting documents. We performed cut-off testing procedures to check that costs had been recognised in the appropriate accounting period. We assessed the judgement and estimates by management in the determination of estimated total contract costs. We re-calculated the percentage of completion based on contract costs incurred to estimated total contract costs and the revenues recognised under the POC method under sampling basis. In addition, we performed analytical review procedures on the gross margins of major construction contracts of the Group.

Impairment of current and non-current trade receivables

The impairment allowance of current and non-current trade receivable was recognised based on the management's assessment of financial position of customers and guarantees obtained for the outstanding trade receivables, as well as the aging of trade receivable balances, customers' creditworthiness, and historical payment records. Recognising the impairment allowance involves the use of significant accounting estimates including the consideration of credit risks of the customers, historical payment records and existence of disputes.

The accounting policies and disclosures for the impairment of current and non-current trade receivables are included in notes 2.4, 3 and 25 to the consolidated financial statements.

We assessed the reasonableness of accounting estimates relevant to the impairment allowance, such as customers' financial position and creditworthiness, checking the aging of trade receivable balances and historical payment records, and assessing whether any debtors have financial problems that may have an impact on the collectability of any receivables. We tested the accuracy of the aging of trade receivable balances by tracing details of selected samples to supporting documents. We reviewed payments received subsequent to the end of the reporting period and reviewed the relevant supporting evidence for those amounts written-off as uncollectible.

Impairment assessment on concession assets

For those concession assets with indications of impairment, 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 and other income, 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 17 to the consolidated financial statements.

We evaluated 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 2016. In addition, we have evaluated the related disclosures of the basis and assumptions adopted in the determination of such recoverable amounts for impairment test purposes.

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 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.

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.

INDEPENDENT AUDITOR'S REPORT

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

- 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
28 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Revenue	5	**429,972**	403,616
Cost of sales	6	**(372,073)**	(353,862)
Gross profit		**57,899**	49,754
Other income	5	**3,800**	3,000
Other gains, net	5	**1,906**	744
Selling and marketing expenses	6	**(846)**	(696)
Administrative expenses	6	**(30,760)**	(26,129)
Other expenses		**(875)**	(875)
Operating profit		**31,124**	25,798
Finance income	7	**3,093**	3,701
Finance costs, net	8	**(11,485)**	(10,212)
Share of profits and losses of:			
– Joint ventures	18	**26**	95
– Associates	19	**164**	289
Profit before tax	6	**22,922**	19,671
Income tax expense	11	**(5,233)**	(3,758)
Profit for the year		**17,689**	15,913
Attributable to:			
– Owners of the parent		**17,210**	15,828
– Non-controlling interests		**479**	85
		17,689	15,913
Earnings per share attributable to ordinary equity holders of the parent			
– Basic	13	**RMB1.00**	RMB0.96
– Diluted	13	**RMB1.00**	RMB0.96

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Profit for the year		**17,689**	15,913
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):			
Actuarial gains/(losses) on retirement benefit obligations		**45**	(36)
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):			
Changes in fair value of available-for-sale investments			
– (Losses)/gains arising during the year		**(1,078)**	282
– Release of investment revaluation reserve upon disposal of available-for-sale investments	21	**(324)**	(674)
Cash flow hedges		**3**	(2)
Share of other comprehensive income of joint ventures and associates	18,19	**75**	(3)
Exchange differences on translation of foreign operations		**869**	483
Other comprehensive income for the year, net of tax		**(410)**	50
Total comprehensive income for the year		**17,279**	15,963
Attributable to:			
– Owners of the parent		**16,701**	15,925
– Non-controlling interests		**578**	38
		17,279	15,963

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB million	2015 RMB million
Non-current assets			
Property, plant and equipment	14	**66,775**	67,973
Investment properties	15	**2,346**	2,045
Prepaid land lease payments	16	**10,676**	10,036
Intangible assets	17	**143,380**	141,345
Investments in joint ventures	18	**6,201**	1,967
Investments in associates	19	**12,550**	10,622
Available-for-sale investments	21	**21,679**	22,322
Held-to-maturity investments		**131**	280
Trade and other receivables	25	**95,558**	77,816
Deferred tax assets	30	**4,640**	4,169
Total non-current assets		**363,936**	338,575
Current assets			
Inventories	23	**45,554**	51,904
Amounts due from contract customers	24	**85,973**	74,645
Trade and other receivables	25	**190,485**	167,914
Available-for-sale investments	21	**–**	46
Other financial assets at fair value through profit or loss		**116**	143
Derivative financial instruments	26	**381**	9
Restricted bank deposits and time deposits with an initial term of over three months	27	**5,917**	3,117
Cash and cash equivalents	27	**108,720**	94,960
Total current assets		**437,146**	392,738
Current liabilities			
Trade and other payables	28	**292,990**	257,379
Amounts due to contract customers	24	**27,198**	25,499
Tax payable		**3,942**	3,197
Derivative financial instruments	26	**16**	134
Interest-bearing bank and other borrowings	29	**99,484**	86,605
Retirement benefit obligations	31	**155**	113
Provisions	32	**169**	153
Total current liabilities		**423,954**	373,080
Net current assets		**13,192**	19,658
Total assets less current liabilities		**377,128**	358,233

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB million	2015 RMB million
Total assets less current liabilities		**377,128**	358,233
Non-current liabilities			
Trade and other payables	28	**9,454**	7,121
Interest-bearing bank and other borrowings	29	**173,996**	168,578
Deferred income		**1,317**	4,396
Deferred tax liabilities	30	**4,447**	7,543
Retirement benefit obligations	31	**1,344**	1,589
Total non-current liabilities		**190,558**	189,227
Net assets		**186,570**	169,006
Equity			
Equity attributable to owners of the parent			
Share capital	33	**16,175**	16,175
Share premium	33	**19,656**	19,656
Financial instruments classified as equity	34	**19,431**	19,431
Reserves	35	**104,061**	91,462
		159,323	146,724
Non-controlling interests		**27,247**	22,282
Total equity		**186,570**	169,006

Liu Qitao
Director

Fu Junyuan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	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
At 1 January 2015		16,175	19,656	4,986	18,200	57,514	116,531	15,081	131,612
Profit for the year		–	–	–	–	15,828	15,828	85	15,913
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net of tax		–	–	–	152	–	152	130	282
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax		–	–	–	(478)	–	(478)	(196)	(674)
Cash flow hedges, net of tax		–	–	–	(2)	–	(2)	–	(2)
Share of other comprehensive income of associates		–	–	–	(3)	–	(3)	–	(3)
Actuarial losses on retirement benefit obligations, net of tax		–	–	–	(36)	–	(36)	–	(36)
Exchange differences related to foreign operations		–	–	–	464	–	464	19	483
Total comprehensive income for the year		–	–	–	97	15,828	15,925	38	15,963
Final 2014 dividend declared		–	–	–	–	(2,778)	(2,778)	–	(2,778)
Distributions to holders of financial instruments classified as equity		–	–	–	–	(300)	(300)	–	(300)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(372)	(372)
Capital contribution from non-controlling interests		–	–	–	–	–	–	2,241	2,241
Financial instruments classified as equity	34(b),36(a)	–	–	14,445	–	–	14,445	6,706	21,151
Disposal of subsidiaries		–	–	–	–	–	–	(79)	(79)
Deemed disposal of a subsidiary		–	–	–	–	–	–	(1,340)	(1,340)
Cash contribution from the government	35(a)	–	–	–	2,971	–	2,971	–	2,971
Transaction with non-controlling interests resulting from acquisition of equity interests of certain subsidiaries		–	–	–	(23)	(50)	(73)	7	(66)
Share of other reserves of a joint venture		–	–	–	3	–	3	–	3
Transfer to statutory surplus reserve	35(b)	–	–	–	304	(304)	–	–	–
Transfer to general reserve	35(c)	–	–	–	281	(281)	–	–	–
Transfer to safety production reserve	35(d)	–	–	–	102	(102)	–	–	–
At 31 December 2015		16,175	19,656	19,431	21,935*	69,527*	146,724	22,282	169,006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

	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
At 1 January 2016		16,175	19,656	19,431	21,935	69,527	146,724	22,282	169,006
Profit for the year		–	–	–	–	17,210	17,210	479	17,689
Other comprehensive income for the year:									
Changes in fair value of available-for-sale investments, net of tax		–	–	–	(1,123)	–	(1,123)	45	(1,078)
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax		–	–	–	(324)	–	(324)	–	(324)
Cash flow hedges, net of tax		–	–	–	3	–	3	–	3
Share of other comprehensive income of associates		–	–	–	75	–	75	–	75
Actuarial losses on retirement benefit obligations, net of tax		–	–	–	45	–	45	–	45
Exchange differences related to foreign operations		–	–	–	815	–	815	54	869
Total comprehensive income for the year		–	–	–	(509)	17,210	16,701	578	17,279
Final 2015 dividend declared	12	–	–	–	–	(3,079)	(3,079)	–	(3,079)
Distributions to holders of financial instruments classified as equity		–	–	–	–	(1,018)	(1,018)	(255)	(1,273)
Other distributions		–	–	–	–	(5)	(5)	–	(5)
Dividends paid to non-controlling interests		–	–	–	–	–	–	(200)	(200)
Capital contribution from non-controlling interests		–	–	–	–	–	–	4,076	4,076
Financial instruments classified as equity	36(a)	–	–	–	–	–	–	1,500	1,500
Disposal of subsidiaries	38(c)	–	–	–	–	–	–	(734)	(734)
Transfer to statutory surplus reserve	35(b)	–	–	–	444	(444)	–	–	–
Transfer to general reserve	35(c)	–	–	–	377	(377)	–	–	–
Transfer to safety production reserve	35(d)	–	–	–	297	(297)	–	–	–
As at 31 December 2016		16,175	19,656	19,431	22,544*	81,517*	159,323	27,247	186,570

* These reserve accounts comprise the consolidated reserves of RMB104,061 million (2015: RMB91,462 million) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Cash flows from operating activities			
Profit before tax		22,922	19,671
Adjustments for:			
– Depreciation of property, plant and equipment and investment properties	14,15	8,455	7,732
– Amortisation of intangible assets and prepaid land lease payments	17,16	1,222	783
– Gains on disposal of property, plant and equipment	5	(1)	(105)
– Fair value (gains)/losses on derivative financial instruments		(184)	97
– Fair value losses/(gains) on other financial assets at fair value through profit or loss	5	22	(7)
– Gains on disposal of subsidiaries	5	(511)	(407)
– Losses on disposal of prepaid land lease payments		–	3
– Gains on disposal of available-for-sale investments and derivative financial instruments	5	(459)	(927)
– Gains on disposal of joint ventures and associates	5	(12)	(199)
– Write-down of inventories	6	845	59
– Provision for impairment of trade and other receivables	6	2,817	3,163
– Provision for impairment of other intangible assets	17	198	–
– Provision for foreseeable losses on construction contracts	6	586	1,010
– Provision for impairment of goodwill	17	–	50
– Dividend income from available-for-sale financial investments	5	(836)	(768)
– Investment income from held-to-maturity financial assets		(19)	(22)
– Interest income	7	(3,093)	(3,701)
– Interest expenses	8	9,628	9,343
– Share of profits and losses of joint ventures and associates	18,19	(190)	(384)
– Net foreign exchange losses on borrowings	8	1,000	317
		42,390	35,708
Increase in inventories		(5,639)	(4,600)
Increase in trade and other receivables		(38,686)	(19,440)
Increase in contract work-in-progress		(9,629)	(4,163)
(Increase)/decrease in restricted bank deposits		(1,505)	446
Decrease in retirement benefit obligations		(177)	(289)
Increase in trade and other payables		47,705	30,915
Increase/(decrease) in provisions		16	(233)
Decrease in deferred income		(9)	(1,806)
Cash generated from operations		34,466	36,538
Income tax paid		(4,747)	(4,625)
Net cash flows from operating activities		29,719	31,913

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 RMB million	2015 RMB million
Cash flows from investing activities			
Purchases of items of property, plant and equipment		(9,749)	(13,342)
Additions to prepaid land lease payments		(962)	(674)
Purchases of intangible assets		(26,442)	(37,999)
Purchase of investment properties		(95)	–
Proceeds from disposal of items of property, plant and equipment		70	683
Proceeds from disposal of prepaid land lease payments		319	59
Proceeds from disposal of intangible assets		5	6
Purchases of available-for-sale investments		(1,423)	(4,346)
Purchases of senior perpetual securities		(663)	–
Purchases of other financial assets at fair value through profit or loss		(47)	(4)
Acquisition of subsidiaries		(77)	(3,735)
Additional investments in associates		(1,788)	(895)
Additional investments in joint ventures		(3,045)	(189)
Proceeds from disposal of available-for-sale investments		673	10,235
Advance receipt from non-controlling interests for transfer out shares in a subsidiary		1,150	–
Proceeds from disposal of associates		17	221
Proceeds from disposal of joint ventures		21	17
Disposal of subsidiaries	38	1,962	(150)
Interest received		2,446	1,014
Proceeds from disposal of other financial assets at fair value through profit or loss		17	39
Proceeds from withdrawal upon maturity of held-to-maturity investments		159	22
Changes in time deposits with an initial term of over three months		(1,295)	1,432
Receipt of government grants		943	1,181
Loans to joint ventures, associates and third parties		(1,982)	–
Dividends received		1,081	952
Net cash flows used in investing activities		(38,705)	(45,473)
Cash flows from financing activities			
Proceeds from borrowings		155,326	190,529
Proceeds from financial instruments classified as equity		1,500	21,151
Repayments of borrowings		(121,473)	(163,667)
Interest paid		(12,763)	(14,462)
Changes in restricted bank deposits		–	1,222
Dividends paid to equity holders of the parent		(3,079)	(2,778)
Dividend paid to non-controlling interests of subsidiaries		(212)	(417)
Distributions paid to holders of financial instruments classified as equity		(1,273)	(300)
Transaction with non-controlling interests resulting from acquisition of equity interests of certain subsidiaries		–	(66)
Capital contribution from non-controlling interests		4,076	2,241
Cash contribution from the government		–	2,971
Net cash flows from financing activities		22,102	36,424
Net increase in cash and cash equivalents		13,116	22,864
Cash and cash equivalents at beginning of year	27	94,960	71,823
Effect of foreign exchange rate changes, net		644	273
Cash and cash equivalents at end of year	27	108,720	94,960

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, the manufacture of heavy machinery 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	Percentage of equity attributable to the Company Indirect	Principal activities
Listed –						
Shanghai Zhenhua Heavy Industry Co., Ltd. ("ZMPC")	the PRC	Joint stock limited company	RMB4,390	28.83%	17.40%	Manufacture of heavy machinery
Unlisted –						
China Harbour Engineering Co., Ltd.	the PRC and other regions	Limited liability company	RMB3,278	50%	50%	Infrastructure construction
China Road and Bridge Corporation	the PRC and other regions	Limited liability company	RMB3,889	96.37%	3.63%	Infrastructure construction
CCCC First Harbour Engineering Co., Ltd.	the PRC	Limited liability company	RMB6,010	100%	–	Infrastructure construction
CCCC Second Harbour Engineering Co., Ltd.	the PRC	Limited liability company	RMB3,810	100%	–	Infrastructure construction
CCCC Third Harbour Engineering Co., Ltd.	the PRC	Limited liability company	RMB5,377	100%	–	Infrastructure construction
CCCC Fourth Harbour Engineering Co., Ltd.	the PRC	Limited liability company	RMB4,282	100%	–	Infrastructure construction
CCCC First Highway Engineering Co., Ltd. ("CFHEC")	the PRC	Limited liability company	RMB4,367	100%	–	Infrastructure construction
CCCC Second Highway Engineering Co., Ltd.	the PRC	Limited liability company	RMB2,569	100%	–	Infrastructure construction
Road & Bridge International Co., Ltd. ("Road & Bridge International")	the PRC	Limited liability company	RMB2,825	100%	–	Infrastructure construction
CCCC Investment Co., Ltd.	the PRC	Limited liability company	RMB10,551	100%	–	Investment holding
CCCC Dredging (Group) Co., Ltd.	the PRC	Limited liability company	RMB11,775	99.9%	0.1%	Dredging
CCCC Third Highway Engineering Co., Ltd.	the PRC	Limited liability company	RMB1,509	100%	–	Infrastructure construction
CCCC Fourth Highway Engineering Co., Ltd.	the PRC	Limited liability company	RMB1,255	100%	–	Infrastructure construction
CCCC Tunnel Engineering Co., Ltd.	the PRC	Limited liability company	RMB1,507	100%	–	Infrastructure construction

NOTES TO FINANCIAL STATEMENTS

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (Continued)

Particulars of the Company's principal subsidiaries are as follows: (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
Unlisted–						
CCCC Water Transportation Consultants Co., Ltd.	the PRC	Limited liability company	RMB818	100%	–	Infrastructure design
CCCC Highway Consultants Co., Ltd.	the PRC	Limited liability company	RMB730	100%	–	Infrastructure design
CCCC First Harbour Consultants Co., Ltd.	the PRC	Limited liability company	RMB723	100%	–	Infrastructure design
CCCC Second Harbour Consultants Co., Ltd.	the PRC	Limited liability company	RMB428	100%	–	Infrastructure design
CCCC Third Harbour Consultants Co., Ltd.	the PRC	Limited liability company	RMB731	100%	–	Infrastructure design
CCCC Fourth Harbour Consultants Co., Ltd.	the PRC	Limited liability company	RMB630	100%	–	Infrastructure design
CCCC First Highway Consultants Co., Ltd.	the PRC	Limited liability company	RMB856	100%	–	Infrastructure design
CCCC Second Highway Consultants Co., Ltd.	the PRC	Limited liability company	RMB872	100%	–	Infrastructure design
China Highway Engineering Consultants Co., Ltd	the PRC	Limited liability company	RMB750	100%	–	Infrastructure design
CCCC Highway & Bridge Technology Consultants Co., Ltd.	the PRC	Limited liability company	RMB123	100%	–	Infrastructure design
CCCC Xi'an Road Construction Machinery Co., Ltd.	the PRC	Limited liability company	RMB433	54.31%	45.69%	Manufacture of road construction machinery
China Highway Vehicle & Machinery Co., Ltd.	the PRC	Limited liability company	RMB168	100%	–	Trading of motor vehicle spare parts
Chuwa Bussan Co., Ltd.	Japan	Limited liability company	JPY 12,021	75%	–	Trading of machinery
CCCC Shanghai Equipment Engineering Co., Ltd.	the PRC	Limited liability company	RMB10	55%	–	Maintenance and repair of port machinery
CCCC Mechanical & Electrical Engineering Co., Ltd.	the PRC	Limited liability company	RMB833	60%	40%	Trading of machinery
China Communications Materials & Equipment Co., Ltd.	the PRC	Limited liability company	RMB234	100%	–	Trading of construction materials and equipment
CCCC Finance Company Limited ("CCCC Finance")	the 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	the PRC	Limited liability company	RMB5,000	45%	55%	Financial service
CCCC Fund Management Co., Ltd	the PRC	Limited liability company	RMB100	70%	–	Fund management
CCCC Asset Management Co., Ltd	the PRC	Limited liability company	RMB13,431	7.46%	92.54%	Asset management
CCCC Urban Investment Co., Ltd.	the PRC	Limited liability company	RMB3,150	100%	–	Investment holding

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain available-for-sale investments, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss 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 2016. 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 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
IFRS 14	*Regulatory Deferral Accounts*
Amendments to IAS 1	*Disclosure Initiative*
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*
Amendments to IAS 27	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs

The adoption of the above new and revised standards has no significant financial effect on these financial statements.

2.3 Issued but not yet effective International Financial Reporting Standards

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[2]
IFRS 9	*Financial Instruments*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*[2]
IFRS 16	*Leases*[3]
Amendments to IAS 7	*Disclosure Initiative*[1]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
Amendments to IFRS 40	*Transfers of Investment Property*[2]
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*[2]
Amendments to IFRS 12 included in Annual Improvements 2014-2016 Cycle	*Disclosure of Interests in Other Entities*[1]
Amendments to IFRS 1 include in Annual Improvements 2014-2016 Cycle	*First-time Adoption of International Financial Reporting Standards*[2]
Amendments to IAS 28 include in Annual Improvements 2014-2016 Cycle	*Investments in associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 as follows:

The final version of IFRS 9 brings together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

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. However, the amendments are available for application now.

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 judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Amendments to IFRS 15 were issued to address the implement action issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – 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 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. 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. The Group expects to adopt IFRS 16 on 1 January 2019 and is currently assessing the impact of IFRS 16 upon adoption.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Issued but not yet effective International Financial Reporting Standards (Continued)

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to IAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

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. 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*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is recognised as an expense in the year in which it is incurred.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Business combinations and goodwill (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Fair value measurement

The Group measures certain of its derivative financial instruments and equity and other 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Impairment of non-financial assets (Continued)

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

–	Leasehold land under finance leases	Shorter of useful life or 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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 purpose 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" 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 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (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" 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

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.

Derecognition of financial assets

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

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Investments and other financial assets (Continued)

Financial assets carried at amortised cost (Continued)

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).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or 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, 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

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

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another 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

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.

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.

Derivative financial instruments and hedge accounting

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Derivative financial instruments and hedge accounting (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. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict 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 hedging reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

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

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Income tax (Continued)

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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Revenue recognition

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

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" 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.

Construction contracts

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.

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Contracts for services (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Employee benefits (Continued)

(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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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).

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:

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 accounting policies set out in note 2.1, the Group has consolidated certain structured entities that it has control and accounted for as joint ventures when it has joint control over the structured entities. For those that the Group has neither control nor joint control, the Group accounts for as available-for-sale investments. Judgement is involved when performing the assessment. Should those joint ventures and available-for-sale investments 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 22.

Consolidation of entities in which the Company holds less than 50%

Management considers that the Company has de facto control of ZPMC even though it has less than 50% of the voting rights. The Company is the majority shareholder of ZPMC with a 46.23% equity interest, while all other shareholders individually own less than 2% of its equity interests. There is no history of other shareholders forming a group to exercise their votes collectively.

Financial instruments classified as equity

Certain financial instruments of the Group, such as preference shares etc., 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 notes 34 and 36(a).

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.

Construction contracts

Revenue from individual contracts is recognised under the percentage of completion method which requires estimation made by management. Because of the nature of the activity undertaken in construction, dredging and heavy machinery manufacturing 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 progress payments from customers against the contract terms, and periodically evaluates the creditworthiness of the customers. If circumstances arise which make it likely 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.

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, an impairment of RMB198 million was charged to profit or loss for concession assets during the year. If the expectation is different from the original estimate, such differences will impact the impairment assessment in the periods in which such estimate is changed. Further details are disclosed in note 17.

Impairment of trade and other receivables

The impairment of trade and other receivables is primarily assessed based on current market conditions and prior experience by taking into account past due status, financial position of debtors and guarantees obtained for the outstanding debts, if any. The Group reviews the adequacy of impairment on a regular basis. Should there be any change in the assumptions and estimates, revisions to the provision for impairment of trade and other receivables would be required. Further details are disclosed in note 25.

Impairment of available-for-sale equity investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost. For those unlisted investments without quoted price in active market, the Group evaluates the financial health of and business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

If the declines in fair value below cost were considered significant or prolonged, the Group would transfer the accumulated fair value adjustments recognised in equity on the impaired available-for-sale investments to the consolidated statement of profit or loss. Further details are disclosed in note 21.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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.

As at 31 December 2016, the carrying amount of goodwill was RMB5,210 million (2015: RMB6,016 million). Details of the impairment test for goodwill are disclosed in note 17.

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 30.

Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using 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. However, if the range of reasonable fair value estimate is so significant that management is of the opinion that their fair value cannot be measured reliably, such financial instruments are carried out at cost less accumulated impairment losses. Further details are disclosed in note 44.

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 31.

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 14.

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 five 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");

(d) manufacture of heavy machinery (the "Heavy Machinery Segment"); and

(e) 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, amounts due from contract customers, and cash and cash equivalents. They exclude deferred taxation, investments in joint ventures and associates, available-for-sale investments, held-to-maturity investments, other financial assets at fair value through profit or loss and derivative financial instruments.

Segment liabilities comprise primarily payables and amounts due to contract customers. They exclude taxation, borrowings and derivative financial instruments.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2016 and other segment information included in the consolidated financial statements are as follows:

	Year ended 31 December 2016						
	Construction RMB million	Design RMB million	Dredging RMB million	Heavy Machinery RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Total gross segment revenue	357,158	26,328	30,282	26,006	5,897	(15,699)	429,972
Inter-segment revenue	(8,108)	(4,414)	(1,486)	(708)	(983)	15,699	–
Revenue	349,050	21,914	28,796	25,298	4,914	–	429,972
Segment results	23,604	3,203	2,740	1,773	485	(729)	31,076
Unallocated income							48
Operating profit							31,124
Finance income							3,093
Finance costs, net							(11,485)
Share of profits and losses of joint ventures and associates							190
Profit before tax							22,922
Income tax expense							(5,233)
Profit for the year							17,689
Other segment information							
Depreciation	5,992	182	969	1,233	79	–	8,455
Amortisation	1,014	34	38	113	23	–	1,222
Write-down of inventories	44	–	–	801	–	–	845
Provision for foreseeable losses on construction contracts	383	–	–	203	–	–	586
Provision for impairment of trade and other receivables	1,360	240	605	208	404	–	2,817
Provision for impairment of concession assets	198	–	–	–	–	–	198
Capital expenditure *	41,636	440	1,674	1,352	157	–	45,259

* Capital expenditure consists of additions to property, plant and equipment (note 14), investment properties (note 15), prepaid land lease payments (note 16) and intangible assets (note 17).

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2015 and other segment information included in the consolidated financial statements are as follows:

	Year ended 31 December 2015						
	Construction RMB million	Design RMB million	Dredging RMB million	Heavy Machinery RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Total gross segment revenue	345,475	24,483	33,515	24,104	4,323	(28,284)	403,616
Inter-segment revenue	(6,351)	(1,876)	(18,807)	(965)	(285)	28,284	–
Revenue	339,124	22,607	14,708	23,139	4,038	–	403,616
Segment results	18,259	2,923	3,752	1,491	(69)	(447)	25,909
Unallocated expenses							(111)
Operating profit							25,798
Finance income							3,701
Finance costs, net							(10,212)
Share of profits and losses of joint ventures and associates							384
Profit before tax							19,671
Income tax expense							(3,758)
Profit for the year							15,913
Other segment information							
Depreciation	5,359	186	888	1,260	39	–	7,732
Amortisation	582	31	26	110	34	–	783
Write-down of inventories	4	–	–	55	–	–	59
Provision for foreseeable losses on construction contracts	616	–	–	305	89	–	1,010
Provision for impairment of trade and other receivables	911	242	1,234	294	482	–	3,163
Capital expenditure	56,913	441	2,306	2,565	45	–	62,270

NOTES TO FINANCIAL STATEMENTS

31 December 2016

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 2016 are as follows:

	As at 31 December 2016						
	Construction RMB million	Design RMB million	Dredging RMB million	Heavy Machinery RMB million	Others RMB million	Eliminations RMB million	Total RMB million
Segment assets	533,411	25,606	65,878	58,884	33,327	(32,673)	684,433
Investments in joint ventures							6,201
Investments in associates							12,550
Unallocated assets							97,898
Total assets							801,082
Segment liabilities	291,024	18,284	28,919	15,049	1,303	(31,964)	322,615
Unallocated liabilities							291,897
Total liabilities							614,512

Segment assets and liabilities at 31 December 2016 are reconciled to entity assets and liabilities as follows:

	Assets RMB million	Liabilities RMB million
Segment assets/liabilities	684,433	322,615
Investments in joint ventures	6,201	–
Investments in associates	12,550	–
Unallocated:		
Deferred tax assets/liabilities	4,640	4,447
Tax payable	–	3,942
Current borrowings	–	99,484
Non-current borrowings	–	173,996
Available-for-sale investments	21,679	–
Held-to-maturity investments	131	–
Other financial assets at fair value through profit or loss	116	–
Derivative financial instruments	381	16
Cash and other corporate assets/corporate liabilities	70,951	10,012
Total	801,082	614,512

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities at 31 December 2015 are as follows:

	As at 31 December 2015						
	Construction	Design	Dredging	Heavy Machinery	Others	Eliminations	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Segment assets	502,171	22,931	61,320	58,323	20,747	(24,419)	641,073
Investments in joint ventures							1,967
Investments in associates							10,622
Unallocated assets							77,651
Total assets							731,313
Segment liabilities	255,770	15,219	24,061	14,826	1,338	(23,969)	287,245
Unallocated liabilities							275,062
Total liabilities							562,307

Segment assets and liabilities at 31 December 2015 are reconciled to entity assets and liabilities as follows:

	Assets	Liabilities
	RMB million	RMB million
Segment assets/liabilities	641,073	287,245
Investments in joint ventures	1,967	–
Investments in associates	10,622	–
Unallocated:		
Deferred tax assets/liabilities	4,169	7,543
Tax payable	–	3,197
Current borrowings	–	86,605
Non-current borrowings	–	168,578
Available-for-sale investments	22,368	–
Other financial assets at fair value through profit or loss	143	–
Derivative financial instruments	9	134
Cash and other corporate assets/corporate liabilities	50,962	9,005
Total	731,313	562,307

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2016 RMB million	2015 RMB million
Mainland China	**343,209**	328,655
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**86,763**	74,961
	429,972	403,616

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

Proportion of revenue from the individual countries or regions other than Mainland China was not material during 2016 and 2015.

(b) Non-current assets

	2016 RMB million	2015 RMB million
Mainland China	**206,746**	207,392
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**16,431**	14,007
	223,177	221,399

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.

Proportion of non-current assets in the individual countries or regions other than Mainland China are not material as at 31 December 2016 and 2015.

Information about a major customer

No revenue was 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 2016 and 2015.

5. REVENUE, OTHER INCOME AND OTHER GAINS, NET

Revenue represents an appropriate proportion of contract revenue of construction contracts; the value of services rendered; the net invoiced value of goods sold, after allowances for returns and trade discounts and excludes intra-group transactions.

An analysis of revenue, other income and other gains, net, is as follows:

	2016 RMB million	2015 RMB million
Revenue		
Construction	357,158	345,475
Design	26,328	24,483
Dredging	30,282	33,515
Heavy Machinery	26,006	24,104
Others	5,897	4,323
Inter-segment eliminations	(15,699)	(28,284)
	429,972	403,616
Other income		
Rental income	790	426
Dividend income on available-for-sale investments		
– Listed equity securities	683	686
– Unlisted equity investments	153	82
Government grants	458	520
Income from the sale of waste and materials	19	36
Others (mainly consist of consultation service income, property management service income and transportation income)	1,697	1,250
	3,800	3,000
Other gains, net		
Gains on disposal of available-for-sale investments and derivative financial instruments	459	927
Gains on disposal of items of property, plant and equipment	1	105
Losses on disposal of prepaid land lease payments	–	(3)
Gains on disposal of subsidiaries	511	407
Gains on disposal of joint ventures and associates	12	199
Fair value (losses)/gains from other financial assets at fair value through profit or loss	(22)	7
Gains/(losses) on derivative financial instruments:		
– Foreign exchange forward contracts	184	(65)
Foreign exchange difference, net	761	(833)
	1,906	744

NOTES TO FINANCIAL STATEMENTS

31 December 2016

6. PROFIT BEFORE TAX

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

	Notes	2016 RMB million	2015 RMB million
Raw materials and consumables used		**115,587**	117,259
Cost of goods sold		**11,059**	9,000
Subcontracting costs		**144,108**	121,025
Employee benefit expenses:			
– Salaries, wages and bonuses		**23,287**	25,916
– Pension costs – defined contribution plans		**3,117**	2,954
– Pension costs/(gains) – defined benefit plans		**30**	(91)
– Housing benefits		**1,561**	1,490
– Welfare, medical and other expenses		**11,289**	8,091
		39,284	38,360
Minimum lease payments under operating leases		**13,814**	16,815
Business tax and other transaction tax		**4,564**	10,168
Fuel		**3,771**	5,978
Depreciation of property, plant and equipment and investment properties	14,15	**8,455**	7,732
Amortisation of intangible assets	17	**983**	561
Amortisation of land lease payments	16	**239**	222
Research and development costs		**7,898**	7,265
Repair and maintenance expenses		**2,000**	3,886
Transportation costs		**369**	1,029
Utilities		**1,329**	1,328
Insurance		**1,149**	1,055
Auditors' remuneration		**26**	40
Impairment of trade and other receivables		**2,817**	3,163
Provision for foreseeable losses on construction contracts		**586**	1,010
Write-down of inventories		**845**	59

7. FINANCE INCOME

	2016 RMB million	2015 RMB million
Interest income		
– Bank deposits	**626**	694
– Unwinding of discount of long-term receivables	**1,862**	2,765
Others	**605**	242
	3,093	3,701

8. FINANCE COSTS, NET

An analysis of finance costs is as follows:

	2016 RMB million	2015 RMB million
Interest expense incurred	**12,545**	14,063
Less: Interest capitalised	**(2,917)**	(4,720)
Net interest expense	**9,628**	9,343
Representing:		
– Bank borrowings	**7,374**	6,737
– Other borrowings	**130**	171
– Corporate bonds	**1,091**	991
– Medium-term notes	**123**	223
– Debentures	**251**	364
– Non-public debt instruments	**541**	724
– Finance lease liabilities	**118**	133
	9,628	9,343
Foreign exchange difference, net	**1,000**	317
Others	**857**	552
	11,485	10,212

Borrowing costs directly attributable to the construction and acquisition of qualifying assets were capitalised as part of the costs of those assets. Borrowing costs of RMB2,917 million (2015: RMB4,720 million) were capitalised in 2016, of which approximately RMB971 million (2015: RMB1,030 million) was charged to contract work-in-progress, approximately RMB317 million (2015: RMB765 million) was included in cost of properties under development, approximately RMB1,560 million (2015: RMB2,745 million) was included in cost of concession assets, approximately RMB69 million (2015: RMB180 million) was included in cost of construction-in-progress. A weighted average capitalisation rate of 4.15% (2015: 4.75%) per annum was used, representing the costs of the borrowings used to finance the qualifying assets.

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:

	2016 RMB'000	2015 RMB'000
Fees	**318**	452
Other emoluments:		
Salaries, allowances and benefits in kind	**1,992**	1,889
Performance related bonuses	**2,939**	2,929
Pension scheme contributions	**282**	268
	5,213	5,086
	5,531	5,538

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9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. Liu Zhangmin	109	150
Mr. Leung Chong Shun	106	126
Mr. Huang Long	103	143
Mr. Wu Zhenfang (i)	–	33
	318	452

(i) Mr. Wu Zhenfang retired from his position as an independent non-executive director of the Company on 2 April 2015.

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(b) Executive directors, a non-executive director and supervisors

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2016				
Executive directors				
Mr. Liu Qitao	215	678	47	940
Mr. Chen Fenjian	215	678	47	940
Mr. Fu Junyuan	196	598	47	841
	626	1,954	141	2,721
Non-executive director				
Mr. Liu Maoxun	–	–	–	–
Supervisors				
Mr. Zhen Shaohua	196	585	47	828
Mr. Wang Yongbin	585	200	47	832
Mr. Yao Yanmin	585	200	47	832
	1,366	985	141	2,492
	1,992	2,939	282	5,213
2015				
Executive directors				
Mr. Liu Qitao	187	656	44	887
Mr. Chen Fenjian	186	667	44	897
Mr. Fu Junyuan	171	599	44	814
	544	1,922	132	2,598
Non-executive director				
Mr. Liu Maoxun	–	–	–	–
Supervisors				
Mr. Zhen Shaohua (i)	170	617	44	831
Mr. Wang Yongbin	580	195	44	819
Mr. Yao Yanmin	581	195	44	820
Mr. Liu Xiangdong (i)	14	–	4	18
	1,345	1,007	136	2,488
	1,889	2,929	268	5,086

(i) Mr. Liu Xiangdong retired from his position as the Chairman of the Supervisory Committee and Mr. Zhen Shaohua was elected as the Chairman of the Supervisory Committee on 15 January 2015.

During the year, except for Mr. Liu Maoxun, 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 five individuals whose emoluments were the highest in the Group during the year are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	1,738	2,704
Performance related bonuses	6,560	5,372
Pension scheme contributions	172	229
	8,470	8,305

The number of the above highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2016	2015
HKD1,500,001 to HKD2,000,000 (equivalent to approximately RMB1,341,750 to RMB1,789,000)	4	3
HKD2,000,001 to HKD2,500,000 (equivalent to approximately RMB1,789,001 to RMB2,236,250)	1	2
	5	5

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% (2015: 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% (2015: 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% (2015: 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.

	2016 RMB million	2015 RMB million
Current		
– PRC enterprise income tax	4,591	3,936
– Others	865	391
	5,456	4,327
Deferred	(223)	(569)
Total tax charge for the year	5,233	3,758

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:

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11. INCOME TAX (CONTINUED)

	2016 RMB million	%	2015 RMB million	%
Profit before tax	**22,922**		19,671	
Tax at PRC statutory tax rate of 25% (2015: 25%)	**5,730**	**25.0**	4,918	25.0
Effect of differences in tax rates applicable to certain domestic and foreign subsidiaries	**(1,207)**	**(5.3)**	(1,700)	(8.6)
Tax for the appreciation of land in the PRC	**240**	**1.1**	111	0.5
Profits and losses attributable to joint ventures and associates	**(48)**	**(0.2)**	(96)	(0.5)
Income not subject to tax	**(295)**	**(1.3)**	(400)	(2.0)
Additional tax concession on research and development costs	**(359)**	**(1.6)**	(295)	(1.5)
Expenses not deductible for tax	**345**	**1.5**	171	0.9
Tax losses utilised from previous periods	**(249)**	**(1.1)**	(68)	(0.4)
Tax losses not recognised	**1,076**	**4.7**	1,117	5.7
Tax charge at the Group's effective rate	**5,233**	**22.8**	3,758	19.1

12. DIVIDENDS

	2016 RMB million	2015 RMB million
Proposed final dividend of RMB0.19444 per ordinary share (2015: RMB0.19037)	**3,145**	3,079

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts 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 (2015: 16,174,735,425) in issue during the year.

The calculation of basic earnings per share is based on:

	2016	2015
Profit attributable to ordinary equity holders of the parent (RMB million)	**17,210**	15,828
Less: Interest on perpetual medium-term notes (RMB million)(i)	**(300)**	(300)
Dividend relating to preference shares (RMB million)(ii)	**(718)**	–
Profit used in the basic earnings per share calculation (RMB million)	**16,192**	15,528
Weighted average number of ordinary shares in issue (million)	**16,175**	16,175
Basic earnings per share (RMB per share)	**1.00**	0.96

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

(i) The 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 2016.

(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 2016.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2016 and 2015.

14. 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 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	21,159	27,681	46,365	10,783	13,192	119,180
Accumulated depreciation and impairment	(5,466)	(15,320)	(22,623)	(7,798)	–	(51,207)
Net carrying amount	15,693	12,361	23,742	2,985	13,192	67,973
At 1 January 2016, net of accumulated depreciation and impairment	15,693	12,361	23,742	2,985	13,192	67,973
Additions	491	2,745	1,057	2,167	4,461	10,921
Disposals	(12)	(136)	(91)	(127)	(154)	(520)
Disposal of subsidiaries	(118)	(6)	(224)	(16)	(2,819)	(3,183)
Transfers to/(from) construction in progress	1,202	745	2,438	16	(4,401)	–
Transferred to investment properties	(324)	–	–	–	(119)	(443)
Transferred from investment properties	153	–	–	–	–	153
Depreciation provided during the year	(719)	(3,095)	(2,248)	(2,296)	–	(8,358)
Exchange realignment	31	82	117	2	–	232
At 31 December 2016, net of accumulated depreciation and impairment	16,397	12,696	24,791	2,731	10,160	66,775
At 31 December 2016:						
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

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14. 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 2015						
At 31 December 2014 and at 1 January 2015:						
Cost	19,631	25,638	43,901	8,952	11,387	109,509
Accumulated depreciation and impairment	(4,940)	(13,716)	(21,128)	(6,348)	–	(46,132)
Net carrying amount	14,691	11,922	22,773	2,604	11,387	63,377
At 1 January 2015, net of accumulated depreciation and impairment	14,691	11,922	22,773	2,604	11,387	63,377
Additions	654	3,279	1,020	2,437	7,321	14,711
Disposals	(17)	(343)	(140)	(78)	–	(578)
Acquisition of subsidiaries	102	869	52	18	21	1,062
Disposal of subsidiaries	(177)	(120)	(2)	(5)	(1,214)	(1,518)
Transfers to/(from) construction in progress	1,138	(481)	2,096	239	(2,992)	–
Transferred to investment properties	(22)	–	–	–	(1,325)	(1,347)
Transferred to intangible assets	–	–	–	–	(6)	(6)
Depreciation provided during the year	(669)	(2,714)	(2,054)	(2,229)	–	(7,666)
Exchange realignment	(7)	(51)	(3)	(1)	–	(62)
At 31 December 2015, net of accumulated depreciation and impairment	15,693	12,361	23,742	2,985	13,192	67,973
At 31 December 2015:						
Cost	21,159	27,681	46,365	10,783	13,192	119,180
Accumulated depreciation and impairment	(5,466)	(15,320)	(22,623)	(7,798)	–	(51,207)
Net carrying amount	15,693	12,361	23,742	2,985	13,192	67,973

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 2016 was RMB2,168 million (2015: RMB4,379 million).

At 31 December 2016, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB358 million (2015: RMB772 million) were pledged to secure general banking facilities granted to the Group (note 29(d)).

15. INVESTMENT PROPERTIES

	2016 RMB million	2015 RMB million
Carrying amount at 1 January	**2,045**	733
Additions	**108**	31
Transferred from property, plant and equipment	**443**	1,347
Transferred to property, plant and equipment	**(153)**	–
Depreciation provided during the year	**(97)**	(66)
Carrying amount at 31 December	**2,346**	2,045

As at 31 December 2016, the fair value of the Group's investment properties was 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 mainly 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 was RMB9,335 million (2015: RMB7,808 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 investment properties located outside Mainland China were mainly 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 RMB223 million (2015: RMB640 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 summary details of which are included in note 40(a) to the financial statements.

16. PREPAID LAND LEASE PAYMENTS

	2016 RMB million	2015 RMB million
Carrying amount at 1 January	**10,036**	9,682
Additions	**1,198**	843
Disposals	**(2)**	(62)
Disposal of subsidiaries	**(317)**	(61)
Transferred to inventories	**–**	(144)
Recognised during the year	**(239)**	(222)
Carrying amount at 31 December	**10,676**	10,036

At 31 December 2016, certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB822 million (2015: RMB1,348 million) were pledged to secure general banking facilities granted to the Group (note 29(d)).

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17. 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 2016						
Cost at 1 January 2016, net of accumulated amortisation and impairment	134,056	6,016	913	235	125	141,345
Additions	32,805	–	46	169	12	33,032
Disposal of subsidiaries	(18,371)	(1,080)	–	(5)	–	(19,456)
Transfers	(10,634)	–	–	–	–	(10,634)
Amortisation provided during the year	(853)	–	(14)	(78)	(38)	(983)
Impairment during the year	(198)	–	–	–	–	(198)
Exchange realignment	–	274	–	–	–	274
At 31 December 2016	136,805	5,210	945	321	99	143,380
At 31 December 2016:						
Cost	138,787	5,260	1,155	631	270	146,103
Accumulated amortisation and impairment	(1,982)	(50)	(210)	(310)	(171)	(2,723)
Net carrying amount	136,805	5,210	945	321	99	143,380
31 December 2015						
At 1 January 2015:						
Cost	89,425	1,537	368	306	266	91,902
Accumulated amortisation	(1,043)	–	(170)	(181)	(130)	(1,524)
Net carrying amount	88,382	1,537	198	125	136	90,378
Cost at 1 January 2015, net of accumulated amortisation	88,382	1,537	198	125	136	90,378
Additions	46,600	–	34	50	1	46,685
Acquisition of subsidiaries	–	4,805	743	111	23	5,682
Disposals	–	–	–	–	(6)	(6)
Disposal of subsidiaries	(464)	–	–	(1)	–	(465)
Transferred from property, plant and equipment	–	–	–	6	–	6
Amortisation provided during the year	(462)	–	(20)	(50)	(29)	(561)
Impairment during the year	–	(50)	–	–	–	(50)
Exchange realignment	–	(276)	(42)	(6)	–	(324)
At 31 December 2015	134,056	6,016	913	235	125	141,345
At 31 December 2015 and 1 January 2016:						
Cost	135,561	6,066	1,103	463	280	143,473
Accumulated amortisation and impairment	(1,505)	(50)	(190)	(228)	(155)	(2,128)
Net carrying amount	134,056	6,016	913	235	125	141,345

17. INTANGIBLE ASSETS (CONTINUED)

As at 31 December 2016, 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 RMB112,195 million (2015: RMB60,002 million). The cost of concession assets where the related projects were under construction amounted to RMB26,592 million (2015: RMB75,559 million).

In 2016, the Group recognised an impairment of RMB198 million to profit or loss, based on an impairment test for a concession asset (a toll road) in the construction segment with carrying amount before impairment of RMB2,215 million as at 31 December 2016, as the concession asset has experienced losses and lower than expected traffic volume. The recoverable amount of the concession asset of RMB2,017 million was determined based on value in use method using cash flow projections based on its financial budget. The pre-tax discount rate applied to the cash flow projection was 7.3%.

As at 31 December 2016, certain of the Group's concession assets with a net carrying amount of approximately RMB112,860 million (2015: RMB103,565 million) were pledged to secure general banking facilities granted to the Group (note 29(d)).

Impairment testing of goodwill

Goodwill is allocated to the Group's CGUs 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 Construction Segment that arose in connection with the Group's acquisitions of Sanya Phoenix Island International Cruise Terminal Development Co., Ltd., Sanya Phoenix Island Development Co., Ltd., and Sanya Phoenix Island Real Estate Co., Ltd. (collectively referred to as "Phoenix Island") in March and April 2014, which was derecognised in 2016, as the Group discontinued to have controls over these acquired companies in 2016 (note 38); and

(c) the goodwill included in the Heavy Machinery 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.

The following is a summary of goodwill allocation for each acquisition group:

	2016	2015
	RMB million	RMB million
John Holland (i)	**4,803**	4,529
Phoenix Island	**–**	1,080
F&G	**245**	245
Others	**162**	162
	5,210	6,016

(i) For goodwill arose in connection with John Holland, the recoverable amount was determined based on value in use calculations. These calculations use pre-tax 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 2.7%. The growth rate does not exceed the long-term average growth rate for the related industry in which John Holland operates.

Summary of the key assumptions are set out below:

	2016	2015
Revenue (% annual growth rate) (a)	**2.7%**	2.5%
Pre-tax discount rate (b)	**19.6%**	21.8%

(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 pre-tax and reflects specific risks relating to the acquisition group.

No impairment was recognised based on the assessment in relation to John Holland as at 31 December 2016 and 2015.

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18. INVESTMENTS IN JOINT VENTURES

	2016 RMB million	2015 RMB million
At 1 January	**1,967**	1,742
Additions	**3,045**	189
Disposals	**(11)**	(13)
Share of profit or loss, net	**26**	95
Dividend distribution	**(29)**	(49)
Arising from disposal of subsidiaries (note 38)	**1,200**	–
Share of other comprehensive income of joint ventures	**3**	–
Share of other reserves of a joint venture	**–**	3
At 31 December	**6,201**	1,967

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 and there is no quoted market price available for their shares.

The Group's trade receivable and payable balances with and guarantees provided to the joint ventures are disclosed in note 42(d) and (b) to the financial statements.

19. INVESTMENTS IN ASSOCIATES

	2016 RMB million	2015 RMB million
At 1 January	**10,622**	7,988
Additions	**1,788**	895
Acquisition of subsidiaries	**–**	127
Disposals	**(15)**	(26)
Share of profit or loss, net	**164**	289
Dividend distribution	**(141)**	(108)
Arising from disposal of subsidiaries (note 38)	**60**	560
Transferred from available-for-sale financial assets, due to acquiring significant influence	**–**	900
Share of other comprehensive income of associates	**72**	(3)
At 31 December	**12,550**	10,622

In the opinion of the directors, none of the associates is individually material to the Group. All of the associates of the Group are accounted for using the equity method and there is no quoted market price available for their shares.

The Group's trade receivable and payable balances with and guarantees provided to the associates are disclosed in note 42(d) and (b) to the financial statements.

20. JOINT OPERATIONS

Joint operations in which the Group has material interests are set out below:

Name of arrangement	Principal activity	Country/ region	Ownership interests 2016 %	Ownership interests 2015 %
Hong Kong-Zhuhai-Macau Bridge Hong Kong Link Road (Section between HKSAR Boundary and Scenic Hill)	Construction	Hong Kong	**40.00**	40.00
Toll Road Development of Medan-Kualanamu, Indonesia	Construction	Indonesia	**37.50**	37.50
Abigroup Contractors Pty Ltd & Coleman Rail Pty Ltd & John Holland Pty Ltd (Integrate Rail)	Construction	Australia	**40.00**	40.00
Coleman Rail John Holland & York Civil (Tracksure Rail Upgrade)	Construction	Australia	**38.00**	38.00
GHD John Holland (Perth City Link Rail Alliance)	Construction	Australia	**85.00**	85.00
John Holland Bouygues Travaux Publics (North Strathfield Rail Underpass)	Construction	Australia	**50.00**	50.00
John Holland Abigroup Contractors (Bulk Water Alliance)	Construction	Australia	**50.00**	50.00
John Holland Coleman Rail (Activate)	Construction	Australia	**50.00**	50.00
John Holland Fairbrother (Uni Tas, Risdon, IMAS, Royal Hobart Hospital)	Construction	Australia	**50.00**	50.00
John Holland Fulton Hogan (Hunua, Minor Rail Projects)	Construction	Australia	**50.00**	50.00
John Holland Leed Engineering and Construction (NIAW)	Construction	Australia	**67.00**	67.00
John Holland Leighton Asia, India and Offshore (South East Asia)	Construction	Singapore	**50.00**	50.00
John Holland Lend Lease (SW Program Management Works)	Construction	Australia	**50.00**	50.00
John Holland Pindan (Eastern Goldfields)	Construction	Australia	**50.00**	50.00
John Holland Tenix Alliance (Mackay Water)	Construction	Australia	**50.00**	50.00
John Holland UGL Infrastructure (Murrumbidgee Irrigation Alliance)	Construction	Australia	**50.00**	50.00
John Holland Veolia Water Australia (Sydney Desalination Plant)	Construction	Australia	**72.00**	72.00
John Holland Veolia Water Australia (Gold Coast Desalination Plant)	Construction	Australia	**64.00**	64.00
Leighton Asia, India and Offshore John Holland (Hong Kong South Island Line Project)	Construction	Hong Kong	**45.00**	45.00
Leighton Asia, India and Offshore John Holland (Singapore LTA Project)	Construction	Singapore	**–**	50.00
Thiess John Holland (EastLink)	Construction	Australia	**50.00**	50.00
Dragados Australia Pty Ltd & John Holland Pty Ltd & Thiess Pty Ltd (NWRL TSC)	Construction	Australia	**25.00**	25.00
John Holland Pty Ltd and Kellogg Brown & Root Pty Ltd (Melbourne Water Capital Works)	Construction	Australia	**50.00**	50.00
John Holland Pty Ltd, UGL Engineering Pty Ltd and GHD Pty Ltd (Malabar Alliance)	Construction	Australia	**43.00**	43.00
John Holland Bouygues Travaux Publics (Glenfield Junction Alliance)	Construction	Australia	**54.00**	54.00
John Holland Bouygues Travaux Publics (Arncliffe)	Construction	Australia	**50.00**	–
NRT Infrastructure JV (NWRL OTS (IJV))	Construction	Australia	**50.00**	50.00
John Holland Pty Ltd & Leighton Contractors Pty Ltd & MTR Corporation & (Sydney) NRT Pty Limited & UGL Rail Services Pty Limited (NWRL OTS NRT D&D)	Construction	Australia	**25.00**	25.00
Comdain Civil Constructions Pty Ltd & John Holland Pty Ltd (NSW Water Metering)	Construction	Australia	**50.00**	50.00
John Holland Pty Ltd & Leighton Contractors Pty Ltd & Samsung C&T Corporation (Westconnex Stage 1B)	Construction	Australia	**33.00**	33.00
John Holland Pty Ltd & CPB Pty Ltd JV (Canberra Light Rail (D&C))	Construction	Australia	**50.00**	–
John Holland Zhen Hua Joint Venture (T39 Siglap Station)	Construction	Singapore	**60.00**	–
John Holland Pty Ltd & Strukton Rail Australia Pty Ltd (Acuit Systems)	Construction	Singapore	**50.00**	–
BJB	Construction	Australia	**38.00**	38.00
John Holland Laing O'Rourke (RGP5 Rail – Track and Signals)	Construction	Australia	**50.00**	–
John Holland Laing O'Rourke & NRW (RGP5 South Works)	Construction	Australia	**33.00**	–

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21. AVAILABLE-FOR-SALE INVESTMENTS

	2016 RMB million	2015 RMB million
Non-current		
Listed and unlisted equity investments, at fair value (note b)		
– Mainland China	**16,913**	20,025
– Hong Kong	**1,967**	642
Unlisted equity investments, at cost (note c)	**2,300**	1,655
Other unlisted investments, at fair value	**499**	–
	21,679	22,322
Current		
Other unlisted investments, at fair value	**–**	46
	21,679	22,368

(a) During the year ended 31 December 2016, the gross loss in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB1,432 million (2015: gain of RMB286 million), and a gain of RMB324 million, net of tax (2015: gain of RMB674 million) was reclassified from other comprehensive income to the statement of profit or loss upon disposal.

(b) 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 value of these securities were based on the quoted market prices at the end of the reporting period.

(c) Management is of the opinion that the range of reasonable fair value estimates for the unlisted equity investments is significant and the probabilities of various estimates cannot be reasonably assessed. Accordingly, such financial assets are carried at cost less accumulated impairment losses, if any.

22. UNCONSOLIDATED STRUCTURED ENTITIES MANAGED BY THE GROUP

The Group invested in several funds ("Investee Funds") which were mainly engaged in infrastructure investment activities. These Investee Funds were established in the form of limited liability partnership (the "LLP"). The Group, together with some other unrelated asset managers, acted as general partners of the LLP and applied various investment strategies to accomplish the respective investment objectives of these Investee Funds. A number of trust funds acted as limited partners of the LLP and finance the operating activities of these Investee Funds.

The directors of the Company are of the opinion that the Group did not have sufficient ability to affect the variable returns through its power over the Investee Funds and therefore, these Investee Funds were deemed as structured entities and were not consolidated by the Group.

The exposures to the Group's investments in the unconsolidated structured entities as at 31 December 2016 and 2015 are disclosed in the following table.

	2016 RMB million	2015 RMB million
Available-for-sale investments	**902**	414
Investments in joint ventures	**520**	135
	1,422	549

As at 31 December 2016, there were no contractual liquidity arrangements, guarantees or other commitments between the Group and the Investee Funds (2015: Nil).

23. INVENTORIES

	2016 RMB million	2015 RMB million
Raw materials	**14,166**	16,487
Work in progress	**5,240**	2,966
Properties under development and held for sale (note b)	**21,645**	26,517
Completed properties held for sale (note c)	**3,916**	5,356
Finished goods	**587**	578
	45,554	51,904

(a) At 31 December 2016, certain of the Group's properties under development and held for sale and completed properties held for sale with an aggregate carrying amount of RMB2,945 million (2015: RMB5,331 million) were pledged to secure the Group's bank loans (note 29(d)).

(b) Properties under development and held for sale comprise:

	2016 RMB million	2015 RMB million
Land use rights	**10,990**	14,341
Construction cost	**9,500**	11,230
Finance costs capitalised	**1,155**	946
	21,645	26,517

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 RMB1,926 million (2015: RMB1,856 million). The remaining amount is expected to be recovered within one year.

24. CONTRACTS WORK-IN-PROGRESS

	2016 RMB million	2015 RMB million
Gross amount due from contract customers	**85,973**	74,645
Gross amount due to contract customers	**(27,198)**	(25,499)
	58,775	49,146
Contract costs incurred plus recognised profits less recognised losses to date	**1,672,296**	1,741,664
Less: progress billings	**(1,613,521)**	(1,692,518)
	58,775	49,146

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25. TRADE AND OTHER RECEIVABLES

	2016 RMB million	2015 RMB million
Trade and bills receivables (note a)	93,071	70,446
Impairment	(9,882)	(7,156)
Trade and bills receivables – net	83,189	63,290
Retentions	55,762	53,955
Long-term receivables	80,043	57,304
Prepayments	19,103	20,530
Deposits	22,046	20,810
Other receivables	25,900	29,841
	286,043	245,730
Less: non-current portion		
Retentions	(27,437)	(28,576)
Long-term receivables	(65,732)	(46,179)
Prepayments for equipment	(1,191)	(1,122)
Deposits	(1,198)	(1,939)
	(95,558)	(77,816)
Current portion	190,485	167,914

(a) The majority of the Group's revenues are generated through construction, design, dredging and heavy machinery 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 aged analysis of trade and bills receivables as at the end of the reporting period, net of provisions, is as follows:

	2016 RMB million	2015 RMB million
Within 6 months	64,139	45,508
6 months to 1 year	5,864	6,053
1 year to 2 years	7,977	7,579
2 years to 3 years	2,942	2,659
Over 3 years	2,267	1,491
	83,189	63,290

The movements in provision for impairment of trade and bills receivables are as follows:

	2016 RMB million	2015 RMB million
At beginning of year	7,156	4,161
Impairment losses recognised	4,119	3,912
Amount written off as uncollectible	(21)	(1)
Impairment losses reversed	(1,372)	(916)
	9,882	7,156

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) (continued)

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade and bills receivables of RMB3,383 million (2015: RMB1,320 million) with a carrying amount before provision of RMB5,983 million (2015: RMB3,642 million). The individually impaired trade and bills receivables relate 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.

The aged analysis of the trade and bills receivables that are not individually nor collectively considered to be impaired is as follows:

	2016	2015
	RMB million	RMB million
Neither past due nor impaired	**51,845**	35,110
Less than 3 months past due	**11,440**	7,266
	63,285	42,376

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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

(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 2016, the relevant outstanding trade receivables, long-term receivables and deposits with recourse factoring clauses in the agreements, amounted to RMB5,558 million (2015: RMB1,885 million). In the opinion of the directors, such transactions did not qualify for derecognition of the relevant receivables or deposits and were accounted for as secured borrowings (note 29(d)). In addition, as at 31 December 2016, outstanding trade receivables of RMB11,486 million (2015: RMB11,683 million) had been transferred to the banks in accordance with the relevant non-recourse factoring agreements, among which outstanding trade receivables of RMB9,056 million (2015: RMB11,683 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, whilst substantial risks and rewards of the other outstanding trade receivables of RMB2,430 million (2015: Nil) have not been transferred and hence were not qualified for derecognition and the relevant transactions were accounted for as secured borrowings (note 29(d)).

(c) As at 31 December 2016, outstanding bills receivable of RMB23 million (31 December 2015: RMB61 million) were endorsed to suppliers. 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 2016, outstanding bills receivable of RMB808 million (31 December 2015: RMB1,958 million) were endorsed to suppliers, and RMB182 million (31 December 2015: RMB418 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.

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Retentions receivable represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts from one to two years. 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. As at 31 December 2016, retentions, deposits and long-term receivables of the Group totalling RMB153,714 million (2015: RMB124,723 million) were neither past due nor impaired, and RMB4,873 million (2015: RMB8,000 million) were past due/partially impaired with a provision of RMB736 million (2015: RMB654 million).

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets RMB million	**Liabilities RMB million**	Assets RMB million	Liabilities RMB million
Forward currency contracts (note a)				
– Held for trading	**13**	**(7)**	1	(122)
– Cash flow hedges	**8**	**(9)**	8	(12)
Total return swap (note b)	**50**	**–**	–	–
Forward equity contracts (note c)	**310**	**–**	–	–
	381	**(16)**	9	(134)

(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"), Offshore Chinese Yuan, 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.

(b) In 2016, CCCI entered into several agreements with banks and paid USD100 million to secure the subscription of USD400 million by the banks in senior perpetual securities issued by a subsidiary of Greentown China Holdings 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 (note 42(b)).

(c) In 2016, the Group disposed 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 interest in future with discounts under some conditions (note 38(b)).

27. CASH AND BANK BALANCES

	2016 RMB million	2015 RMB million
Restricted bank deposits	**3,943**	2,438
Time deposits with an initial term of over three months	**1,974**	679
Cash and cash equivalents	**108,720**	94,960
	114,637	98,077

(a) As at 31 December 2016, 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 RMB84,013 million (2015: RMB71,908 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 2016, less than 3% (2015: less than 3%) of the cash and bank balances denominated in currencies other than RMB was 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.

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28. TRADE AND OTHER PAYABLES

	2016 RMB million	2015 RMB million
Trade and bills payables (note a)	**187,794**	156,279
Advances from customers	**56,522**	57,752
Deposits from suppliers	**14,671**	13,250
Retentions	**13,841**	9,706
Deposits from CCCG and fellow subsidiaries (note b)	**8,132**	7,237
Other taxes	**6,886**	7,090
Payroll and social security	**2,452**	2,020
Accrued expenses	**290**	242
Others	**11,856**	10,924
	302,444	264,500
Less: non-current portion		
– Retentions	**(9,339)**	(7,121)
– Other taxes	**(115)**	–
	(9,454)	(7,121)
Current portion	**292,990**	257,379

(a) An aged analysis of trade and bills payables as at the end of the reporting period is as follows:

	2016 RMB million	2015 RMB million
Within 1 year	**173,832**	141,231
1 year to 2 years	**8,713**	9,683
2 years to 3 years	**3,176**	2,504
Over 3 years	**2,073**	2,861
	187,794	156,279

(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 0.6% (2015: 0.3%).

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	2016 RMB million	2015 RMB million
Non-current			
Long-term bank borrowings			
– secured	(d)	88,255	79,124
– unsecured	(e)	56,976	53,287
		145,231	132,411
Other borrowings			
– secured	(d)	850	700
– unsecured	(e)	670	1,451
		1,520	2,151
Corporate bonds	(f)	19,848	19,857
Non-public debt instruments	(i)	6,297	12,192
Financial lease liabilities	(j)	1,100	1,967
		27,245	34,016
Total non-current borrowings		173,996	168,578
Current			
Current portion of long-term bank borrowings			
– secured	(d)	1,123	1,965
– unsecured	(e)	11,527	13,330
		12,650	15,295
Short-term bank borrowings			
– secured	(d)	5,046	2,215
– unsecured	(e)	58,578	58,637
		63,634	60,852
Other borrowings			
– unsecured	(e)	19	221
Corporate bonds	(f)	6,372	374
Medium-term notes	(g)	–	3,989
Debentures	(h)	10,144	5,023
Non-public debt instruments	(i)	6,259	308
Finance lease liabilities	(j)	416	543
		23,210	10,458
Total current borrowings		99,484	86,605
Total borrowings		273,480	255,183

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29. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(a) The Group's borrowings were repayable as follows:

	2016 RMB million	2015 RMB million
Bank borrowings		
– Within one year or on demand	**76,274**	76,147
– In the second year	**24,019**	25,691
– In the third to fifth years, inclusive	**24,538**	21,317
– Beyond five years	**96,674**	85,403
	221,505	208,558
Others, excluding finance lease liabilities		
– Within one year or on demand	**22,794**	9,915
– In the second year	**2,813**	13,247
– In the third to fifth years, inclusive	**18,401**	14,996
– Beyond five years	**6,451**	5,957
	50,459	44,115
	271,964	252,673

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	2016 RMB million	2015 RMB million
RMB	**248,589**	227,699
USD	**18,207**	21,918
JPY	**3,208**	2,388
EUR	**2,256**	1,565
HKD	**787**	1,141
Others	**433**	472
	273,480	255,183

(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 8.70% per annum at the end of the reporting period (2015: 0.40% to 8.70%).

(d) As at 31 December 2016 and 2015, these borrowings were secured by the Group's property, plant and equipment (note 14), prepaid land lease payments (note 16), concession assets (note 17), trade receivables (note 25(b), properties under development and held for sale and completed properties held for sale (note 23(a)).

(e) Unsecured borrowings include those guaranteed by certain subsidiaries of the Group, the Company and certain third parties.

29. 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, 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, five years and 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.

The corporate bonds are stated at amortised cost with effective rates ranging from 3.12% to 5.32%. Interest is payable once a year. Accrued interest is included in the current borrowings.

(g) As approved by the National Association of Financial Market Institutional Investors ("NAFMII") of the PRC, the Group issued medium-term notes with a nominal value of RMB3.8 billion in February 2011, with maturity of five years from the issue date, bearing interest at a rate of 5.85% per annum. The medium-term notes have been fully repaid during 2016.

(h) The Group issued the following debentures as approved by NAFMII:

- Two tranches of debentures were issued in October and November 2015, respectively, at nominal values of RMB3 billion and RMB2 billion, respectively, with maturity of 270 days and one year from the issue date respectively. The interest rates are 3.24% and 3.50% per annum, respectively. These debentures have been fully repaid during 2016.

- Four tranches of debentures were issued in April, May, August and October 2016, respectively, at nominal values of RMB2 billion, RMB3 billion, RMB3 billion and RMB2 billion, respectively, with maturity of 365 days, 270 days, 270 days and 270 days from the issue date respectively. The interest rates are 3.70%, 2.99%, 2.61% and 3.2% per annum, respectively. The debentures are stated at amortised cost with effective interest rates ranging from 3.00% to 3.91%.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(i) 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.

- 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 6.65% per annum, respectively.

- Ten tranches of non-public debt instruments were issued in March, May, June, August, September and December 2014, respectively, at nominal values of RMB500 million, RMB800 million, RMB800 million, RMB700 million, RMB500 million, RMB500 million, RMB500 million, RMB1,000 million, RMB500 million and RMB100 million, respectively, totalling RMB5,900 million, with maturity of three years, three years, three years, three years, three years, three years, five years, five years, three years and three years from the issue date, respectively. The interest rates are 7.10%, 6.35%, 7.00%, 6.50%, 6.60%, 6.30%, 7.00%, 6.00%, 6.15%, and 5.60% per annum, respectively.

- 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.

The non-public debt instruments are stated at amortised cost with effective rates ranging from 4.95% to 7.10%. Interest is payable once a year. The accrued interest is included in current borrowings.

(j) The Group leases certain of its plant and machinery and these leases are classified as finance leases. At 31 December 2016, the total future minimum lease payments under finance leases and their present values were as follows:

	2016 RMB million	2015 RMB million
Minimum lease payments		
– Within one year	474	656
– In the second to fifth years, inclusive	1,019	1,806
– After five years	199	385
Total minimum lease payments	1,692	2,847
Future finance charges	(176)	(337)
Present value of minimum lease payments	1,516	2,510
Representing:		
– Within one year	416	543
– In the second to fifth years, inclusive	907	1,592
– After five years	193	375
	1,516	2,510

30. 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, is as follows:

Deferred tax liabilities

	Available-for-sale investments	Undistributed profits in subsidiaries	Property, plant and equipment	Inventories	Others	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2015	4,145	397	549	2,114	1,398	8,603
Deferred tax charged/(credited) to profit or loss during the year (note 11)	–	122	(14)	–	272	380
Credited to other comprehensive income	(150)	–	–	–	(3)	(153)
Acquisition of subsidiaries	–	–	28	–	76	104
Exchange difference	–	–	52	–	143	195
Gross deferred tax liabilities at 31 December 2015 and at 1 January 2016	**3,995**	**519**	**615**	**2,114**	**1,886**	**9,129**
Deferred tax charged to profit or loss during the year (note 11)	**–**	**147**	**13**	**–**	**110**	**270**
Charged/(credited) to other comprehensive income	**(495)**	**–**	**–**	**–**	**1**	**(494)**
Disposal of subsidiaries	**–**	**–**	**(478)**	**(2,114)**	**(494)**	**(3,086)**
Exchange difference	**–**	**–**	**1**	**–**	**20**	**21**
Gross deferred tax liability at 31 December 2016	**3,500**	**666**	**151**	**–**	**1,523**	**5,840**

Deferred tax assets

	Provision for impairment of assets	Depreciation and amortisation	Provision for foreseeable contract losses	Provision for employee benefits	Tax losses	Discount on long-term receivables	Others	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
At 1 January 2015	1,083	7	102	399	682	718	723	3,714
(Charged)/credited to profit or loss during the year (note 11)	656	(15)	(187)	(72)	610	(22)	(21)	949
Charged to other comprehensive income	–	–	–	6	–	–	16	22
Acquisition of subsidiaries	–	115	961	–	–	–	114	1,190
Disposal of subsidiaries	–	–	–	–	(38)	–	–	(38)
Exchange difference	–	(8)	(65)	–	–	–	(9)	(82)
Gross deferred tax assets at 31 December 2015 and 1 January 2016	**1,739**	**99**	**811**	**333**	**1,254**	**696**	**823**	**5,755**
(Charged)/credited to profit or loss during the year (note 11)	**523**	**3**	**(684)**	**(37)**	**210**	**(40)**	**518**	**493**
(Charged)/credited to other comprehensive income	**–**	**–**	**–**	**(12)**	**–**	**–**	**(27)**	**(39)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**(162)**	**–**	**(71)**	**(233)**
Exchange difference	**–**	**5**	**–**	**–**	**1**	**–**	**51**	**57**
Gross deferred tax assets at 31 December 2016	**2,262**	**107**	**127**	**284**	**1,303**	**656**	**1,294**	**6,033**

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30. 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:

	2016		2015	
	Deferred tax assets RMB million	Deferred tax liabilities RMB million	Deferred tax assets RMB million	Deferred tax liabilities RMB million
The gross balance	6,033	(5,840)	5,755	(9,129)
Offsetting	(1,393)	1,393	(1,586)	1,586
	4,640	(4,447)	4,169	(7,543)

Deferred tax assets of RMB2,747 million (2015: RMB2,745 million) have not been recognised in respect of these losses amounting to RMB11,318 million (2015: RMB11,212 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 the these tax losses will expire in one to five years for offsetting against future taxable profits.

As at 31 December 2016, the Group did not recognise deferred tax assets of RMB469 million (2015: RMB368 million) in respect of deductible temporary differences amounting to RMB1,931 million (2015: RMB1,504 million) as the directors believe it is not probable that such deductible temporary differences would be recognised.

As at 31 December 2016, the unrecognised deferred income tax liabilities were RMB35 million (2015: RMB13 million), relating to income tax that would be payable for undistributed profits of certain overseas subsidiaries, as the directors considered that the timing for the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. The total undistributed profits of these overseas subsidiaries as at 31 December 2016 amounted to RMB278 million (2015: RMB85 million).

31. 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:

	2016 RMB million	2015 RMB million
Present value of defined benefit obligations	1,499	1,702
Less: current portion	(155)	(113)
Non-current portion	1,344	1,589

31. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The movements in the present value of the defined benefit obligations are as follows:

	2016 RMB million	2015 RMB million
At 1 January	**1,702**	1,949
Past service cost	**(6)**	(127)
Interest cost	**49**	69
Effect of settlements	**(12)**	(33)
	1,733	1,858
Remeasurements		
– (Gains)/losses from changes in financial assumptions	**(28)**	99
– Experience gains	**(29)**	(57)
	1,676	1,900
Payments	**(177)**	(198)
At 31 December	**1,499**	1,702

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:

	2016	2015
Discount rate	**3.25%**	3.00%
Medical cost growth rate	**4%–8%**	4%–8%

A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Impact on defined benefit obligations	
	2016 RMB million	2015 RMB million
Discount rate:		
– 0.25% increase	**(27)**	(31)
– 0.25% decrease	**28**	33
Medical cost growth rate:		
– 1.00% increase	**26**	20
– 1.00% decrease	**(23)**	(18)

The sensitivity analysis above has been determined based on a method that is 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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31. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

The following undiscounted payments are expected contributions to the defined benefit plan in future years:

	2016 RMB million	2015 RMB million
Less than 1 year	**155**	168
Between 1 and 2 years	**148**	161
Between 2 and 5 years	**402**	439
More than 5 years	**1,242**	1,414
	1,947	2,182

The average duration of the defined benefit plan obligation at the end of the reporting period was 7 years (2015: 7.5 years).

32. PROVISIONS

	Pending lawsuits RMB million	**Others** RMB million	**Total** RMB million
At 1 January 2015	297	89	386
Charged/(credited) to profit or loss:			
– Additional provisions	–	44	44
– Utilised/reversed during the year	(273)	(4)	(277)
At 31 December 2015 and at 1 January 2016	**24**	**129**	**153**
Charged/(credited) to profit or loss:			
– Additional provisions	**–**	**30**	**30**
– Utilised/reversed during the year	**(2)**	**(12)**	**(14)**
At 31 December 2016	**22**	**147**	**169**

33. SHARE CAPITAL AND PREMIUM

	2016 RMB million	2015 RMB million
Issued and fully paid:		
11,747,235,425 (2015: 11,747,235,425) A shares of RMB1.00 each	**11,747**	11,747
4,427,500,000 (2015: 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 an 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.

33. SHARE CAPITAL AND PREMIUM (CONTINUED)

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. 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 2016, the Company's share capital was RMB16,174,735,425 (2015: 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.

34. FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY

	2016 **RMB million**	2015 RMB million
Medium-term notes (note a)	**4,963**	4,963
Preference shares (note b)	**14,468**	14,468
	19,431	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.

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 the MTN, and the MTN should be classified as equity.

(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.

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35. 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 1 January 2016	3,463	3,768	389	(119)	12,467	(2)	1,552	417	69,527	91,462
Profit for the year	–	–	–	–	–	–	–	–	17,210	17,210
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(1,123)	–	–	–	–	(1,123)
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax	–	–	–	–	(324)	–	–	–	–	(324)
Cash flow hedges, net of tax	–	–	–	–	–	3	–	–	–	3
Share of other comprehensive income of a joint venture	–	–	–	–	75		–	–	–	75
Actuarial losses on retirement benefit obligations, net of tax	–	–	–	45	–	–	–	–	–	45
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	815	–	815
Final 2015 dividend declared	–	–	–	–	–	–	–	–	(3,079)	(3,079)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	–	–	(1,018)	(1,018)
Other distributions	–	–	–	–	–	–	–	–	(5)	(5)
Transfer to statutory surplus reserve	–	444	–	–	–	–	–	–	(444)	–
Transfer to general reserve	–	–	377	–	–	–	–	–	(377)	–
Transfer to safety reserve	–	–	–	–	–	–	297	–	(297)	–
At 31 December 2016	3,463	4,212	766	(74)	11,095	1	1,849	1,232	81,517	104,061

35. 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 2015	512	3,464	108	(83)	12,796	–	1,450	(47)	57,514	75,714
Profit for the year	–	–	–	–	–	–	–	–	15,828	15,828
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	152	–	–	–	–	152
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax	–	–	–	–	(478)	–	–	–	–	(478)
Cash flow hedges, net of tax	–	–	–	–	–	(2)	–	–	–	(2)
Share of other comprehensive income of a joint venture	–	–	–	–	(3)	–	–	–	–	(3)
Actuarial losses on retirement benefit obligations, net of tax	–	–	–	(36)	–	–	–	–	–	(36)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	464	–	464
Final 2014 dividend declared	–	–	–	–	–	–	–	–	(2,778)	(2,778)
Share of other reserves of a joint venture	3	–	–	–	–	–	–	–	–	3
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	–	–	(300)	(300)
Cash contribution from government (note 35(a))	2,971	–	–	–	–	–	–	–	–	2,971
Transaction with non-controlling interests resulting from acquisition of equity interests of certain subsidiaries	(23)	–	–	–	–	–	–	–	(50)	(73)
Transfer to statutory surplus reserve	–	304	–	–	–	–	–	–	(304)	–
Transfer to general reserve	–	–	281	–	–	–	–	–	(281)	–
Transfer to safety reserve	–	–	–	–	–	–	102	–	(102)	–
At 31 December 2015	3,463	3,768	389	(119)	12,467	(2)	1,552	417	69,527	91,462

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35. RESERVES (CONTINUED)

(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 2015 were a concession made by a non-controlling interest of a subsidiary amounting to RMB2,971 million. The amount was originated from the government's capital contribution to a state-owned enterprise operating a BOT project. As the enterprise encountered financial difficulties in obtaining sufficient fund for the project, the Group was invited to become the majority shareholder of the project company upon successful bidding. Based on negotiation, the non-controlling interest agreed to concede a portion of the government's contribution to the Group. As there is no transaction involved in this concession, such amount was treated as transaction between the equity owners and is recorded in equity. Such amount 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 2016, the board of directors proposed an appropriation of 10% (2015: 10%) of the Company's profit after tax as determined under PRC GAAP, of RMB444 million (2015: RMB304 million) to the statutory surplus reserve.

(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 2016 amounted to RMB766 million (2015: RMB389 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 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.

36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

(a) Details of the Group's subsidiaries that have material non-controlling interests are set out in note 1.

The total non-controlling interests as at 31 December 2016 amounted to RMB27,247 million (2015: RMB22,282 million), of which RMB8,169 million was for ZPMC (2015: RMB7,868 million), RMB3,000 million was for CCCC (Beijing) Equity Investment Fund LLP (2015: RMB3,000 million), and RMB6,754 million (2015: RMB6,754 million) was for a tranche of USD-denominated perpetual securities of USD1,100 million classified as equity, with an initial interest rate of 3.5% per annum, issued by CCCI Treasure Limited (a subsidiary of CCCI) in 2015.

In addition, as approved by NAFMII, a tranche of non-public debt instrument was issued in 2016 by CFHEC, a subsidiary of the Company, with a nominal value of RMB1,500 million. There is no maturity date for the non-public debt instrument and the holders have no right to receive a return of principal. The initial interest rate of the non-public debt instrument was 4.5% per annum, which will be reset once in every three years since the issuance date. Pursuant to the terms of the non-public debt instrument, CFHEC 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 non-public debt instrument is subject to redemption in whole, at the option of CFHEC, 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 the non-public debt instrument, and the non-public debt instrument should be classified as equity.

(b) The following tables illustrate the summarised financial information of ZMPC and CCCC (Beijing) Equity Investment Fund LLP in which there are non-controlling interests with voting rights that are material to the Group. The amounts disclosed are before any inter-company eliminations:

	ZMPC RMB million	CCCC (Beijing) Equity Investment Fund LLP RMB million
2016		
Profit for the year allocated to non-controlling interests	121	160
Dividends paid to non-controlling interests	(2)	(160)
Accumulated balances of non-controlling interests	8,169	3,000
Revenue	24,348	212
Profit before tax	369	201
Profit for the year	307	201
Total comprehensive income	430	201
Current assets	29,586	6
Non-current assets	31,238	3,750
Current liabilities	37,889	4
Non-current liabilities	6,448	–
Net cash flows from operating activities	1,660	202
Net cash flows used in investing activities	(726)	–
Net cash flows from/(used in) financing activities	151	(202)
Exchange gains on cash and cash equivalents	74	–
Net increase in cash and cash equivalents	1,159	–

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36. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS (CONTINUED)

	ZMPC RMB million	CCCC (Beijing) Equity Investment Fund LLP RMB million
2015		
Profit for the year allocated to non-controlling interests	51	221
Dividends paid to non-controlling interests	–	(276)
Accumulated balances of non-controlling interests	7,868	3,000
Revenue	23,272	303
Profit before tax	272	276
Profit for the year	194	276
Total comprehensive income	87	276
Current assets	28,673	3,756
Non-current assets	30,348	–
Current liabilities	40,057	2
Non-current liabilities	3,177	–
Net cash flows (used in)/from operating activities	(1,832)	276
Net cash flows from investing activities	2,582	–
Net cash flows used in financing activities	(335)	(276)
Exchange gains on cash and cash equivalents	41	–
Net increase in cash and cash equivalents	456	–

37. CONTINGENT LIABILITIES

	2016 RMB million	2015 RMB million
Pending lawsuits (note a)	**4,173**	3,091
Outstanding loan guarantees (note b)	**1,282**	895
	5,455	3,986

(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 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 lawsuit in the contingent liabilities disclosed if the probability of loss is remote or the claim amount is insignificant to the Group.

Pending lawsuits included, inter alia, the below:

(i) A subsidiary of the Company was involved in a product quality dispute arising from the ordinary course of the business in prior years. In September 2014, the contractor instituted a proceeding against the subsidiary to claim a compensation for breach of contract arising from related product quality totalling GBP250 million (equivalent to approximately RMB2,125 million). In February to March, April and June 2016, a British High Court proceeded with the first hearing in respect of the part of the responsibility of the case. The quantitative part of first court hearing was planned to be held in May 2017 in the United Kingdom. Currently the subsidiary is in preparation for the readiness of such quantitative part of court hearing. Currently the directors of the Company cannot reliably estimate the financial impact to the Group arising from the case.

37. CONTINGENT LIABILITIES (CONTINUED)

(a) (continued)

(ii) In 2015, a subsidiary of the Company was involved in a construction contract dispute. In October 2015, a contractor has notified the subsidiary in writing to terminate the contract based on the serious delay in the project had fulfilled the contract cancellation terms, and drawdown an amount of USD45 million (equivalent to approximately RMB312 million) from a bank under a letter of performance guarantee of the subsidiary. In January 2016, the subsidiary applied to the London Court of International Arbitration for arbitration to claim for the refund of the above amount drawdown under a letter of performance guarantee, and compensation totalling USD224 million (equivalent to approximately RMB1,552 million) from the contractor. After the receipt of the subsidiary's arbitration application, the contractor filed a counterclaim arbitration against the subsidiary for compensation of USD182 million or USD213 million (equivalent to approximately RMB1,261 million or RMB1,476 million), depending on whether the contract will be continued or discontinued. Currently the arbitration court hearing has not yet commenced and the directors of the Company cannot reliably estimate the outcome of the arbitration and its consequential financial impact to the Group.

(b) The Group has acted as the guarantors for various external borrowings made by certain joint ventures and associates of the Group and a third party.

38. DISPOSAL OF SUBSIDIARIES

(a) In prior years, the Group held 45% equity interests and voting rights in Phoenix Island (note 17(b)), as well as 10% voting rights being conferred by another shareholder who held 10% equity interests in Phoenix Island, which was based on the agreement entered into between the Group and such shareholder. As the Group held 55% voting rights in aggregate, the Group controlled and included Phoenix Island in the Group's consolidation scope. In 2016, the above voting right arrangement in business matters of Phoenix Island was changed, thereafter the Group no longer have the control over Phoenix Island, which were deconsolidated since then, and treated as an interest in joint venture using equity accounting method.

(b) In 2016, the Group entered into certain agreements with a joint venture (a fund engaged in infrastructure investment), to dispose of 85% equity interests in four subsidiaries which held concession assets (toll roads), for an aggregate consideration of RMB2,655 million. Furthermore, the Group entered into certain forward equity contracts (note 26(c)) 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 present value of RMB462 million. The fair value of these forward equity contracts was RMB310 million as at trade date and 31 December 2016.

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38. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(c) The aggregate financial information of the subsidiaries disposed of by the Group, at the date of disposal in 2016, is as follows:

	2016 RMB million
Net assets disposed of:	
Property, plant and equipment	3,183
Concession assets	18,371
Goodwill	1,080
Other non-current assets	317
Inventories	8,667
Trade and other receivables	820
Cash and bank balances	716
Trade and other payables	(4,896)
Tax payable	(238)
Interest-bearing bank and other borrowings	(17,253)
Deferred tax liabilities	(3,086)
Other non-current liabilities	(3,672)
Non-controlling interests	(734)
	3,275
Investments in joint ventures and associates	(1,260)
Adjustment in the price of forward equity contracts (note 38(b))	152
Gain on disposal of subsidiaries	511
	2,678
Satisfied by:	
Cash	2,678

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2016 RMB million
Cash consideration	2,678
Cash and bank balances disposed of	(716)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	1,962

39. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 14, 16, 17, 23(a), 25(b), 29, respectively, to the financial statements.

40. 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 RMB million	2015 RMB million
Within one year	253	201
In the second to fifth year, inclusive	297	229
After five years	143	363
	693	793

(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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016 RMB million	2015 RMB million
Within one year	737	971
In the second to fifth year, inclusive	1,025	1,503
After five years	206	171
	1,968	2,645

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had the following capital commitments at the end of the reporting period:

	2016 RMB million	2015 RMB million
Intangible assets – concession assets	105,331	104,154
Property, plant and equipment	3,153	3,819
	108,484	107,973

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42. 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:

	2016 RMB million	2015 RMB million
CCCG:		
– Rental expenses	44	58
– Property maintenance expenses	55	55
– Deposits placed with CCCC Finance	8,093	10,611
– Interest expense from deposits placed with CCCC Finance	38	1
Fellow subsidiaries:		
– Revenue from the provision of construction services	658	142
– Revenue from rental income	35	34
– Deposits placed with CCCC Finance	23,443	13,407
– Interest expense from deposits placed with CCCC Finance	12	17
– Services charges	17	–
Joint ventures and associates:		
– Revenue from the provision of construction services	8,246	9,321
– Sales of goods	188	54
– Subcontracting fee charges	694	350
– Purchase of materials	310	124
– Services charges	10	28
– Revenue from rental income	177	3
– Deposits placed with CCCC Finance	2,514	762
– Interest expense from deposits placed with CCCC Finance	2	–
– Lending funds	2,321	416
– Interest income from loans	168	–

These transactions were carried out on terms agreed with the counterparties in the ordinary course of business.

(b) Other transactions with related parties:

CCCG has guaranteed certain bonds made to the Group of up to RMB20,242 million (2015: RMB20,231 million) as at the end of the reporting period, as further detailed in note 29(f) to the financial statements.

The Group has acted as the guarantors for various external borrowings up to RMB1,267 million (2015: RMB876 million) made by certain joint ventures and associates of the Group as at the end of the reporting period.

The Group has secured a subscription of USD400 million (2015: Nil) in the form of total return swap (note 26(b)) as at the end of the reporting period, which was in relation to senior perpetual securities issued by a subsidiary of Greentown.

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Commitments with related parties:

	2016 RMB million	2015 RMB million
Provision of construction services		
– Fellow subsidiaries, joint ventures and associates	39,877	27,503
Purchase of services		
– Joint ventures and associates	56	1,108
Operating lease		
– CCCG	99	269

(d) Outstanding balances with related parties:

	2016 RMB million	2015 RMB million
Trade and other receivables		
Trade receivables due from		
– Fellow subsidiaries	524	514
– Joint ventures and associates	701	486
Long-term trade receivables due from		
– Fellow subsidiaries	549	106
– Joint ventures and associates	6,719	343
– Fellow subsidiaries' joint ventures	146	–
Prepayments to		
– Joint ventures and associates	5	11
Other receivables due from		
– Fellow subsidiaries	2	–
– Joint ventures and associates	5,434	2,451
	14,080	3,911

The current receivables are unsecured in nature and bear no interest. No provisions are made against receivables from related parties during 2016 and 2015.

Long-term receivables are expected to be received beyond one year. The remaining trade and other receivables are expected to be received within one year.

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42. RELATED PARTY TRANSACTIONS (CONTINUED)

	2016 RMB million	2015 RMB million
Trade and other payables		
Trade and bills payables due to		
– Fellow subsidiaries	9	–
– Joint ventures and associates	956	730
Long-term trade payables due to		
– Fellow subsidiaries	36	–
– Joint venture	129	–
– Fellow subsidiaries' joint venture	23	–
Advances from customers		
– Fellow subsidiaries	114	220
– Joint ventures and associates	1,504	513
Deposits from		
– CCCG	3,223	4,219
– Fellow subsidiaries	4,498	3,018
– Joint ventures and associates	408	–
Other payables due to		
– Joint ventures and associates	450	24
	11,350	8,724

The payables are not secured and bear no interest. They are expected to be repaid within one year.

	2016	2015
Amounts due from contract customers		
– Joint ventures and associates	1,145	2,114
– Fellow subsidiaries	66	–
	1,211	2,114
Amounts due to contract customers		
– Joint ventures and associates	262	225
– Fellow subsidiaries	–	286
	262	511

42. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Compensation of key management personnel of the Group:

	2016 **RMB'000**	2015 RMB'000
Short term employee benefits	**12,697**	12,156
Post-employment benefits	**664**	601
	13,361	12,757

Further details of directors' and supervisors' emoluments are included in note 9 to the financial statements.

The related party transactions in respect of items with CCCG and fellow subsidiaries mentioned above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(f) The Company is controlled by CCCG, the parent company and a state-owned enterprise established in the PRC. CCCG is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred to as the "government-related entities"). In accordance with IAS 24 "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC Government are regarded as related parties of the Group. On that basis, related parties include CCCG, other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence, and key management personnel of the Company and CCCG, as well as their close family members.

The Group's major customers are PRC Government agencies and other government-related entities. A significant portion of revenue from the provision of construction, design, dredging and other services, and sales of heavy machinery is conducted with other government-related entities. The Group also incurred some portions of subcontracting costs, rentals and purchases of materials and services from other government-related entities. In addition, the Group had entered into general banking facilities transactions with certain banks and financial institutions which are state-controlled entities. These transactions are carried out on terms agreed with the counterparties in the ordinary course of business. As a result, a major portion of the Group's trade and other receivables and trade payables, as well as amounts due from/due to contract customers, cash and bank balances and borrowings, is with other government-related entities.

For the purpose of the related party transaction disclosures, management believes that meaningful information relating to related party transactions has been adequately disclosed.

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43. 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:

2016

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	–	–	–	21,679	21,679
Held to maturity investment	–	–	131	–	131
Derivative financial instruments	381	–	–	–	381
Other financial assets at fair value through profit or loss	116	–	–	–	116
Trade and other receivables excluding prepayments	–	263,419	–	–	263,419
Cash and bank balances	–	114,637	–	–	114,637
Total	497	378,056	131	21,679	400,363

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)	–	271,964	271,964
Finance lease liabilities	–	1,516	1,516
Derivative financial instruments	16	–	16
Trade and other payables excluding statutory and non-financial liabilities	–	236,584	236,584
Total	16	510,064	510,080

43. 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)

2015

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	–	–	–	22,368	22,368
Held to maturity investment	–	–	280	–	280
Derivative financial instruments	9	–	–	–	9
Other financial assets at fair value through profit or loss	143	–	–	–	143
Trade and other receivables excluding prepayments	–	225,200	–	–	225,200
Cash and bank balances	–	98,077	–		98,077
Total	152	323,277	280	22,368	346,077

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)	–	252,673	252,673
Finance lease liabilities	–	2,510	2,510
Derivative financial instruments	134	–	134
Trade and other payables excluding statutory and non-financial liabilities	–	197,638	197,638
Total	134	452,821	452,955

44. 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	
	2016	2015	**2016**	2015
	RMB million	RMB million	**RMB million**	RMB million
Financial assets				
Available-for-sale investments	**19,379**	20,713	**19,379**	20,713
Held to maturity investments	**131**	280	**131**	280
Other financial assets at fair value through profit or loss	**116**	143	**116**	143
Derivative financial instruments	**381**	9	**381**	9
Total	**20,007**	21,145	**20,007**	21,145
Financial liabilities				
Derivative financial instruments	**16**	134	**16**	134
Bank borrowings	**145,231**	132,411	**145,638**	133,352
Other borrowings	**1,520**	2,151	**1,548**	1,987
Corporate bonds	**19,848**	19,857	**20,048**	20,418
Non-public debt instruments	**6,297**	12,192	**6,549**	13,048
Finance lease liabilities	**1,100**	1,967	**1,100**	1,967
Total	**174,012**	168,712	**174,899**	170,906

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 2016 and 2015 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, unit price of comparable property.

44. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets and liabilities measured at fair value:

As at 31 December 2016

	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				
Other financial assets at fair value through profit or loss	116	–	–	116
Derivative financial instruments				
– Forward foreign exchange contracts	–	21	–	21
– Total revenue swap	–	–	50	50
– Forward equity contracts	–	–	310	310
Available-for-sale investments				
– Equity securities and other investments	18,853	–	27	18,880
– Other unlisted instruments	–	449	–	499
	18,969	520	387	19,876
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	(16)	–	(16)

As at 31 December 2015

	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				
Other financial assets at fair value through profit or loss	143	–	–	143
Derivative financial instruments				–
– Forward foreign exchange contracts	–	9	–	9
Available-for-sale investments				
– Equity securities and other investments	20,253	–	414	20,667
– Other unlisted instruments	–	46	–	46
	20,396	55	414	20,865
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	(134)	–	(134)
	–	(134)	–	(134)

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 (2015: Nil).

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44. 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 2016

	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	–	145,638	–	145,638
Other borrowings	–	1,548	–	1,548
Corporate bonds	20,048	–	–	20,048
Finance lease liabilities	–	1,100	–	1,100
Non-public debt instruments	–	6,549	–	6,549
	20,048	154,835	–	174,883

As at 31 December 2015

	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	–	133,352	–	133,352
Other borrowings	–	1,987	–	1,987
Corporate bonds	20,418	–	–	20,418
Finance lease liabilities	–	1,967	–	1,967
Non-public debt instruments	–	13,048	–	13,048
	20,418	150,354	–	170,772

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including 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 2016, net assets of RMB5,077 million in aggregate of the Group, 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 2016, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, post-tax profit for the year would had been decreased/increased by approximately RMB107 million, mainly as a result of foreign exchange losses/gains on translation of USD-denominated trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (Continued)

(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 available-for-sale investments 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.

The table below summarises the impact of increases/decreases of quoted price in open markets on the Group's post-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:

	2016	2015
Increases/decreases in quoted price in open markets	**10%**	10%

	2016	2015
	RMB million	RMB million
Impact on post-tax profit for the year	**12**	14
Impact on equity attributable to owners of the parent for the year	**1,888**	2,067

(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 2016 and 2015, the Group's borrowings at variable rates were mainly denominated in RMB, USD, Euro, Hong Kong Dollars ("HKD") and JPY.

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 2016 and 2015.

As at 31 December 2016, the Group's borrowings of approximately RMB150,979 million (2015: RMB134,970 million) were at variable rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 29. As at 31 December 2016, if interest rates on borrowings had been 1.00 percentage-point higher/lower with all other variables held constant, profit attributable to the owners of the parent for the year would have been decreased/increased by RMB1,510 million (2015: 1.00 percentage point higher/lower, RMB1,350 million decreased/increased), mainly as a result of higher/lower interest expense on floating rate borrowings.

45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk

The carrying amounts of cash and bank balances, trade and other receivables except for prepayments, derivative financial instruments, and the nominal value of the guarantees provided on liabilities represent the Group's maximum exposure to credit risk in relation to financial assets.

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 25(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 29.

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.

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45. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (Continued)

2016	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)	**109,128**	**34,744**	**59,944**	**147,255**	**351,071**
Finance lease liabilities	**474**	**423**	**596**	**199**	**1,692**
Trade and other payables (excluding statutory and non-financial liabilities)	**228,336**	**6,203**	**3,514**	**98**	**238,151**
Financial guarantee contracts	**1,282**	**–**	**–**	**–**	**1,282**
Net-settled derivative financial instruments	**3**	**–**	**–**	**–**	**3**
Gross-settled derivative financial instruments outflows	**711**	**17**	**–**	**–**	**728**
Gross-settled derivative financial instruments inflows	**(719)**	**(16)**	**–**	**–**	**(735)**
	339,215	**41,371**	**64,054**	**147,552**	**592,192**
2015					
Borrowings (excluding finance lease liabilities)	94,779	44,667	56,529	151,928	347,903
Finance lease liabilities	656	626	1,180	385	2,847
Trade and other payables (excluding statutory and non-financial liabilities)	190,517	8,668	–	–	199,185
Financial guarantee contracts	895	–	–	–	895
Net-settled derivative financial instruments	8	7	–	–	15
Gross-settled derivative financial instruments outflows	2,388	–	–	–	2,388
Gross-settled derivative financial instruments inflows	(1,756)	–	–	–	(1,756)
	287,487	53,968	57,709	152,313	551,477

The Group entered into guarantee contracts for bank borrowings made by certain joint ventures, associates and a third party. For issued financial guarantee contracts, the maximum amounts of guarantees are allocated to the earliest periods in which the respective guarantees could be called. The directors of the Company are of the opinion that those guarantees are not likely to be crystallised in the foreseeable future.

Derivative financial instruments comprise forward foreign exchange contracts used by the Group to hedge the exposure to foreign currency risk.

45. 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.

	2016 **RMB million**	2015 RMB million
Total borrowings (note 29)	**273,480**	255,183
Less: cash and cash equivalents (note 27)	**(108,720)**	(94,960)
Net debt	**164,760**	160,223
Total equity	**186,570**	169,006
Total capital	**351,330**	329,229
Gearing ratio	**46.9%**	48.7%

The gearing ratio as at 31 December 2016 decreased by 1.8% compared with that in 2015.

46. EVENTS AFTER THE REPORTING PERIOD

On 28 March 2017, the board of directors of the Company resolved that a final dividend of RMB0.19444 per share is to be distributed to the shareholders, subject to approval of the shareholders at the forthcoming annual general meeting. 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.

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47. 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:

	2016 RMB million	2015 RMB million
Non-current assets		
Property, plant and equipment	148	81
Intangible assets	99	62
Investments in subsidiaries	115,431	114,820
Investments in joint ventures	1,015	62
Investments in associates	3,088	2,094
Available-for-sale investments	12,239	13,540
Trade and other receivables	6,574	2,652
Total non-current assets	138,594	133,311
Current assets		
Inventories	393	341
Trade and other receivables	21,022	22,443
Loans to subsidiaries	26,686	24,186
Amounts due from subsidiaries	12,049	9,854
Amounts due from contract customers	7,650	5,334
Restricted bank deposits	23	26
Cash and cash equivalents	38,828	28,875
Total current assets	106,651	91,059
Current liabilities		
Trade and other payables	28,135	24,779
Amounts due to subsidiaries	55,729	42,901
Amounts due to contract customers	1,355	1,640
Tax payables	21	17
Interest-bearing bank and other borrowings	27,212	20,179
Retirement benefit obligations	3	5
Total current liabilities	112,455	89,521
Net current (liabilities)/assets	(5,804)	1,538
Total assets less current liabilities	132,790	134,849
Non-current liabilities		
Trade and other payables	4,161	2,265
Interest-bearing bank and other borrowings	22,958	25,967
Deferred tax liabilities	2,363	2,770
Retirement benefit obligations	57	63
Total non-current liabilities	29,539	31,065
Net assets	103,251	103,784
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	19,431	19,431
Reserves (note)	47,989	48,522
Total equity	103,251	103,784

47. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Capital reserve	Statutory surplus reserve	Remeasurement reserve	Investment revaluation reserve	Safety reserve	Retained earnings	Total
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance at 1 January 2015	21,170	3,468	50	9,244	6	15,249	49,187
Profit for the year	–	–	–	–	–	3,009	3,009
Changes in fair value of available-for-sale investments, net of tax	–	–	–	(601)	–	–	(601)
Actuarial gains on retirement benefit obligations, net of tax	–	–	5	–	–	–	5
Final 2014 dividend declared	–	–	–	–	–	(2,778)	(2,778)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	(300)	(300)
Transfer to statutory surplus reserve	–	304	–	–	–	(304)	–
At 31 December 2015	21,170	3,772	55	8,643	6	14,876	48,522
Profit for the year	–	–	–	–	–	4,644	4,644
Changes in fair value of available-for-sale investments, net of tax	–	–	–	(1,077)	–	–	(1,077)
Actuarial gains on retirement benefit obligations, net of tax	–	–	2	–	–	–	2
Final 2015 dividend declared	–	–	–	–	–	(3,079)	(3,079)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	(1,018)	(1,018)
Other distributions	–	–	–	–	–	(5)	(5)
Transfer to statutory surplus reserve	–	444	–	–	–	(444)	–
Transfer to safety reserve	–	–	–	–	14	(14)	–
At 31 December 2016	21,170	4,216	57	7,566	20	14,960	47,989

48. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2017.