INDEPENDENT AUDITOR'S REPORT

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To the shareholders of China Communications Construction Company Limited

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

OPINION

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

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

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

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yim Chi Hung, Henry.

Ernst & Young

Certified Public Accountants

Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

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

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

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

Liu Qitao
Director

Song Hailiang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

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

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

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

Information about subsidiaries

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

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

Continued/...

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (CONTINUED)

Information about subsidiaries (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

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

Classification and measurement

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

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

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

Notes:

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) (continued)

Classification and measurement (continued)

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

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

The impact on reserves and retained earnings

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

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

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

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

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

Business combinations and goodwill

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

Merger accounting for common control combinations

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

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

The consolidated statement of profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the prior reporting period or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as expenses in the year in which they are incurred.

Acquisition method of accounting for non-common control combinations

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

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

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Acquisition method of accounting for non-common control combinations (continued)

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

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

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

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

Fair value measurement

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

Related parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal estimated useful lives used for this purpose are as follows:

– Freehold land	Not depreciated
– Leasehold land under finance leases	Shorter of useful life and remaining lease term
– Buildings	20–40 years
– Machinery	5–20 years
– Vessels	10–25 years
– Vehicles	5 years
– Other equipment	2–5 years

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for internal use purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is calculated using the straight-line method to write off the cost less accumulated impairment loss of the asset over its estimated useful life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Concession assets

The Group is engaged in certain service concession arrangements in which the Group carries out construction work (e.g., toll highways, bridges and ports) in exchange for a right for the Group to operate the asset concerned in accordance with pre-established conditions set by the granting authority. In accordance with IFRIC Interpretation 12 Service Concession Arrangements (IFRIC 12), the assets under the concession arrangements may be classified as intangible assets or financial assets. The assets are classified as intangibles if the operator receives a right (a license) to charge users of the public service or as financial assets if the operator has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The Group classifies the non-current assets linked to the long-term investment in these concession arrangements as "concession assets" within intangible assets on the statement of financial position if the intangible asset model is adopted. Such concession assets represent the consideration received for its construction service rendered. Once the underlying infrastructure of the concession arrangements is completed, the concession assets are amortised over the term of the concession using the traffic flow method or straight-line method under the intangible asset model.

Trademark, patent and proprietary technologies

Separately acquired trademark, patent and proprietary technologies are shown at historical cost. Trademark patent and proprietary technologies acquired in a business combination are recognised at fair value at the acquisition date. Trademark, patent and proprietary technologies have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives of 3 to 17 years.

Computer software

Acquired computer software license costs recognised as assets are amortised over their estimated useful lives of 1 to 10 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (other than goodwill) (continued)

Research and development costs

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leases

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purposes of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as “other gains, net” in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets at fair value through profit or loss (continued)

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

Loans and receivables

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

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "finance income" in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (policies under IFRS 9 applicable from 1 January 2018 and policies under IAS 39 applicable before 1 January 2018)

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

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (policies under IAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost (continued)

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

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

Available-for-sale financial investments

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

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

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

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

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss (policies under IFRS 9 applicable from 1 January 2018)

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Financial liabilities at fair value through profit or loss (policies under IAS 39 applicable before 1 January 2018)

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

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

Loans and borrowings

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

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

Financial guarantee contracts (policies under IFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under IFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

Financial guarantee contracts (policies under IAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

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

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, total return swaps and forward equity contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The amounts accumulated in other comprehensive income are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in other comprehensive income for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment to which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in other comprehensive income is reclassified to the statement of profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect the statement of profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in other comprehensive income must remain in accumulated other comprehensive income if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to the statement of profit or loss as a reclassification adjustment. After the discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated other comprehensive income is accounted for depending on the nature of the underlying transaction as described above.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedge accounting (policies under IFRS 9 applicable from 1 January 2018 and IAS 39 applicable before 1 January 2018) (continued)

Current versus non-current classification

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

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Financial instruments classified as equity

Financial instruments issued by the Group are classified as equity instruments when all the following conditions have been met:

i) The financial instruments have no contractual obligation to pay cash or other financial assets to others, nor to exchange financial assets or liabilities with others under potential unfavourable circumstances;

ii) The financial instruments will or may be settled in the Group's own equity instruments: if the financial instrument is non-derivative, it should not have the contractual obligation to be settled by the Group delivering a variable number of its own equity instruments; if the financial instrument is derivative, it should solely be settled by the Group delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or other financial assets.

Financial instruments classified as equity instruments are recognised initially at fair value, net of transaction costs incurred.

Inventories

Inventories comprise raw materials, work in progress, properties under development and held for sale, completed properties held for sale and finished goods. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, other direct costs and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Development cost of properties comprises cost of land use rights, construction costs and borrowing costs eligible for capitalisation incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion. Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Cash and cash equivalents

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

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

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

The Group provides for warranties in relation to the provision of construction services during the warranty period. Provision for these assurance-type warranties granted by the Group are recognised based on the best estimates of the Group, discounted to their present value as appropriate.

Income tax

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

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

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

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

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

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(a) Construction services

Revenue from the provision of infrastructure construction services is recognised over time, using an input method to measure progress toward satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the construction services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the most likely amount or the expected value method to estimate the amounts of claims, whichever more appropriate, to best predict the amount of variable consideration to which the Group will be entitled.

(b) Provision of design and other services

Revenue from the provision of Infrastructure design and other services is recognised over time, using an input method to measure progress toward satisfaction of the service, because the Group's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

(c) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products.

(d) Significant financing component

For contracts that include a significant financing component, the Group adjusts the promised amount of consideration for the effects of a significant financing component and recognise revenue as the "cash selling price" of the underlying goods or services at the time of transfer. The "cash selling price" is generated by discounting the promised amount of consideration using the effective interest rate. The Group selects to use the practical expedient that it will not adjust the promised amount of consideration for the effects of a significant financing component if the Group expects, at contract inception, that the period between when the Group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

(e) Warranty

As required by law or agreed in the contract terms, the Group provides assurance-type warranties that promise the customer that the asset created in the construction services is as specified in the construction contract. The Group recognises such assurance-type warranties as provisions. For the warranties that provide a service to the customer in addition to assurance that the asset created is as specified in the contract, the Group identifies such service-type warranties as a separate performance obligation and allocates the transaction price between construction service and service-type warranties using the proportion of their stand-alone selling prices. The Group recognises the revenue of service-type warranties when the customer obtains control of the service. In assessing whether a warranty provides a customer with a service in addition to the assurance that the asset created in the construction services complies with the agreed specifications, the Group considers factors including whether the warranty is required by law, the length of the warranty coverage period, and the nature of the tasks that the entity promises to perform.

(f) Principal versus agent

The Group determines whether it is a principal or an agent in the transactions by evaluating whether it controls each specified good or service before that good or service is transferred to the customer. The Group is a principal and recognises revenue in the gross amount of consideration received or receivable if it controls the specified good or service before that good or service is transferred to a customer. Otherwise, the Group is an agent and recognises revenue in the amount of any fee or commission to which it expects to be entitled. The fee or commission is the net amount of consideration that the Group retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party, or is determined by certain agreed amounts or proportions.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(g) ***Contract modifications***

If the construction contract between the Group and the customers is modified:

(i) if the creation of new construction service and contract price are separately identified, and the new contract price reflects the separate selling price of the new construction service, the Group will treat the contract modification as a separate contract for accounting;

(ii) if the contract modification does not belong to the above situation (i), and there is a clear distinction between transferred construction services and non-transferred construction services at the date of contract modification, the Group will regard it as the termination of the original contract. Meanwhile, the unperformed part of the original contract and the part of contract modification will be merged into a new contract for accounting;

(iii) if the contract does not belong to the above situation (i), and there is no clear distinction between transferred construction services and non-transferred construction services at the date of contract modification, the Group will treat the part of modification as the component of original contract for accounting. The effect that the contract modification has on the transaction price is recognised as an adjustment to revenue at the date of the contract modification.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" below;

(b) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services (applicable before 1 January 2018)" below;

(c) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) rental income, on a time proportion basis over the lease terms;

(e) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(f) dividend income, when the shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Offsetting of contract assets and contract liabilities (applicable from 1 January 2018)

Contract assets and contract liabilities are offset and the net amount is reported in the statement of financial position if they belong to the same contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Construction contracts (applicable before 1 January 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (applicable before 1 January 2018) (continued)

Revenue from cost plus construction contracts is recognised using the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services (applicable before 1 January 2018)

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Past-service costs are recognised immediately in the consolidated statement of profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

(a) Pension obligations (continued)

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation. This cost is included in employee benefit expense in the consolidated statement of profit or loss. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

For defined contribution plans, the full-time employees of the Group in the PRC excluding Hong Kong and Macau ("Mainland China") are covered by the government-sponsored or privately administered pension plans under which the employees are entitled to a monthly pension based on certain formula. The Group pays contributions to these pension plans monthly, on a mandatory or contractual basis. The Group has no further payment obligations once the contributions have been made. The contributions are recognised as employee benefit expense as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or jurisdictions outside Mainland China. Employees' and employers' contributions are calculated based on various percentages of employees' gross salaries of fixed sums and length of service.

(b) Other post-employment obligations

The Group provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Housing funds

All full-time employees of the Group in Mainland China are entitled to participate in various government sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(e) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Measurement of progress toward complete satisfaction of construction services

The Group uses input method to measure the progress toward satisfaction of the performance obligations, and specifically, the proportion of actual construction costs incurred relative to the estimated total costs. Actual construction costs incurred include direct and indirect costs in the process of transferring goods from the Group to customers. The Group believes that contract price is based on construction costs. Therefore, the proportion of actual construction costs incurred relative to the total expected costs can reflect the progress toward satisfaction of construction service. Since the duration of construction is relatively long that it may cover more than one accounting period, the Group will review contract, revise budget and adjust revenue accordingly as the contract carries forward.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Determination of control over structured entities

The Group invested in several structured entities which were mainly engaged in infrastructure investment activities. Based on the assessment following the basis of consolidation and accounting policies set out in note 2.1 and 2.4 respectively, the Group has consolidated certain structured entities that it has control. For the investment that the Group has joint control on the structured entitles, they are accounted for as joint ventures in accordance with IAS 28 *Investments in Associates and Joint Ventures*. For the equities held indirectly through venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds are accounted for as financial assets at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. Judgement is involved when performing the assessment. Should those joint ventures and financial assets through profit or loss be consolidated, net assets, revenue and profit of the Group could be affected.

Management applies its judgement to determine whether the control indicators set out in note 2.1 indicate that the Group controls a structured entity.

The Group acts as manager to a number of structured entities and also carries interests in these entities. Determining whether the Group controls such a structured entity usually focuses on the assessment of the aggregate economic interests of the Group in the entity (comprising any carried interests and expected management fees) and the decision-making authority of the entity.

Further disclosure in respect of unconsolidated structured entities in which the Group has an interest has been set out in note 24.

Financial instruments classified as equity

Certain financial instruments of the Group, such as preference shares, are classified as equity, as the following conditions have been met:

(i) The financial instruments have no contractual obligation to pay cash or other financial assets to others, nor to exchange financial assets or liabilities with others under potential unfavourable circumstances;

(ii) The financial instruments will or may be settled in the Group's own equity instruments: if the financial instrument is non-derivative, it should not have the contractual obligation to be settled by the Group delivering a variable number of its own equity instruments; if the financial instrument is derivative, it should solely be settled by the Group delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash or other financial assets.

Further details are disclosed in note 38 and 40.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

Impairment assessment on concession assets

The Group operates certain concession assets and their impairment is reviewed whenever events or changes in circumstances indicate that the carrying amounts of the concession assets may not be recoverable in accordance with the accounting policy stated in note 2.4.

The recoverable amounts of the concession assets have been determined based on a value-in-use method. The value-in-use calculations require the use of estimates on the projections of cash flows from the traffic volume and other income, deducting the necessary maintenance and operating costs incurred for the concession assets, and discount rates.

Based on management's best estimates, the Group recognised an accumulated impairment of RMB334 million (2017: RMB299 million) to profit or loss for concession assets. Further details are disclosed in note 18.

Impairment of available-for-sale financial assets (applicable before 1 January 2018)

Before 1 January 2018, the Group classified certain assets as available for sale and recognised movements of their fair values in equity. When the fair value declined, management made assumptions about the decline in value to determine whether there is was an impairment that should be recognised in the statement of profit or loss. At 31 December 2017, impairment losses of RMB192 million had been recognised for available-for-sale assets. The carrying amount of available-for-sale assets as at 31 December 2017 was RMB25,908 million.

Fair value of financial instruments

The fair values of listed financial instruments are based on quoted market prices, while the fair values of unlisted financial instruments have been estimated by the most appropriate market-based valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Further details are included in note 50 to the financial statements.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise.

Based on management's best estimates, the Group recognised an accumulated impairment of RMB50 million (2017: RMB50 million) to profit or loss for goodwill. Details of the impairment test for goodwill are disclosed in note 18.

Provision for ECLs of contract assets, trade receivables and long-term receivables

The Group uses a provision matrix to calculate ECLs of the Croup's contract assets, trade receivables and long-term receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product or service type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's contract assets, trade receivables and long-term receivables is disclosed in note 27 and note 29 to the financial statements, respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Infrastructure construction and design services

The recognition of revenue and cost of infrastructure construction and design services requires the management of the Group to make judgements and estimations. For onerous contracts, the present obligation under the contract must be recognised in the current period and measured as provisions, based on the estimated budgets and losses of the construction services. Because of the nature of the activity undertaken in construction, design and dredging businesses, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in each contract budget as the contract progresses and regularly reviews the progress of the contracts.

The Group also monitors the payment progress from customers against the contract terms, and periodically evaluates the creditworthiness of the customers. If circumstances arise that a customer would default on all or part of its payments or otherwise fail to fulfil its performance obligations under the contract terms, the Group will reassess the outcome of the relevant contract and may revise the relevant estimates. The revision will be reflected in the consolidated statement of profit or loss in the period in which the circumstances that give rise to the revision become known by the Group.

Income taxes

The Group is subject to income taxes in the PRC and other jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and taxation in the periods in which such estimate is changed. Further details are disclosed in note 34.

Pension benefits

The present value of the defined benefit pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation. The key assumptions for pension obligations and sensitivity analysis of the discount rate are disclosed in note 35.

Depreciation of property, plant and equipment

Depreciation on the Group's property, plant and equipment is calculated using the straight-line method to allocate cost up to residual values over the estimated useful lives of the assets. Management reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. The accounting estimate of the useful lives of property, plant and equipment is based on historical experience, taking into account anticipated technological changes. When the useful lives differ from the original estimated useful lives, management will adjust the estimated useful lives accordingly. It is possible that actual outcomes in the next financial period are different from estimates made based on historical experience. Then it could cause a material adjustment to the depreciation and carrying amount of the Group's property, plant and equipment. Further details are disclosed in note 15.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the President Office that are used to allocate resources to the operating segments and assess their performance.

The President Office considers the business from the service and product perspectives. Management assesses the performance of the following four operating segments:

(a) infrastructure construction of ports, roads, bridges and railways (the "Construction Segment");

(b) infrastructure design of ports, roads and bridges (the "Design Segment");

(c) dredging (the "Dredging Segment"); and

(d) others (the "Others Segment").

The President Office assesses the performance of the operating segments based on operating profit excluding unallocated income or costs. Other information provided to the President Office is measured in a manner consistent with that in the consolidated financial statements.

Sales between operating segments are carried out on terms with reference to the selling prices used for sales made to third parties. The revenue from external parties reported to the President Office is measured in a manner consistent with that in the consolidated statement of profit or loss.

Operating expenses of a functional unit are allocated to the relevant operating segment which is the predominant user of the services provided by the unit. Operating expenses of shared services which cannot be allocated to a specific operating segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, prepaid land lease payments, investment properties, intangible assets, inventories, receivables, contract assets, amounts due from contract customers, and cash and cash equivalents. They exclude deferred tax assets, investments in joint ventures and associates, equity investments designated at fair value through other comprehensive income, available-for-sale investments, held-to-maturity investments, debt investments at amortised cost, financial assets at fair value through profit or loss, derivative financial instruments and the assets of headquarter of the Company and the Company's subsidiary, CCCC Finance.

Segment liabilities comprise primarily payables, contract liabilities and amounts due to contract customers. They exclude deferred tax liabilities, tax payable, borrowings and derivative financial instruments and the liabilities of headquarter of the Company and CCCC Finance.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 15), prepaid land lease payments (Note 17), investment properties (Note 16) and intangible assets (Note 18).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2018 and other segment information included in the consolidated financial statements are as follows:

	Year ended 31 December 2018					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Total gross segment revenue	431,817	31,557	32,796	12,402	(19,906)	488,666
Intersegment revenue	(7,070)	(3,964)	(310)	(8,562)	19,906	–
Revenue *(note 5)*	424,747	27,593	32,486	3,840	–	488,666
Segment results	27,726	3,510	1,769	604	(364)	33,245
Unallocated income						76
Operating profit						33,321
Finance income						5,314
Finance costs, net						(12,660)
Share of profits and losses of joint ventures and associates						71
Profit before tax from continuing operations						26,046
Income tax expense						(5,608)
Profit for the year from continuing operations						20,438
Other segment information						
Depreciation	6,577	224	1,109	485	–	8,395
Amortisation	1,622	50	31	34	–	1,737
Write-down of inventories	(7)	–	–	12	–	5
Provision for impairment of concession assets	35	–	–	–	–	35
Provision for impairment of trade and other receivables	1,768	343	314	73	–	2,498
Provision for impairment of contract assets	288	–	(33)	(1)	–	254
Capital expenditure	37,835	524	1,503	926	–	40,788

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment results for the year ended 31 December 2017 and other segment information included in the consolidated financial statements are as follows:

	Year ended 31 December 2017					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Total gross segment revenue	410,014	26,965	34,108	9,546	(20,566)	460,067
Intersegment revenue	(13,540)	(3,940)	(1,739)	(1,347)	20,566	–
Revenue	396,474	23,025	32,369	8,199	–	460,067
Segment results	25,846	3,207	2,766	(50)	83	31,852
Unallocated income						(84)
Operating profit						31,768
Finance income						3,071
Finance costs, net						(11,176)
Share of profits and losses of joint ventures and associates						(12)
Profit before tax from continuing operations						23,651
Income tax expense						(5,109)
Profit for the year from continuing operations						18,542
Other segment information						
Depreciation	5,944	210	1,026	118	–	7,298
Amortisation	1,234	43	47	52	–	1,376
Write-down of inventories	109	–	–	55	–	164
Provision for foreseeable losses on construction contracts	915	2	193	–	–	1,110
Provision for impairment of trade and other receivables	2,254	259	416	551	–	3,480
Provision for impairment of concession assets	101	–	–	–	–	101
Provision for impairment of available-for-sale investments	13	–	–	–	–	13
Capital expenditure	42,545	481	1,654	1,107	–	45,787

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The amounts provided to the President Office with respect to total assets and total liabilities are measured in a manner consistent with that of the consolidated financial statements. These assets and liabilities are presented based on the operating segments they are associated with.

The segment assets and liabilities at 31 December 2018 are as follows:

	As at 31 December 2018					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Segment assets	698,988	35,470	78,640	47,113	(46,553)	813,658
Investments in joint ventures						18,646
Investments in associates						23,019
Unallocated assets						105,153
Total assets						960,476
Segment liabilities	381,494	24,439	36,833	5,464	(40,264)	407,966
Unallocated liabilities						312,828
Total liabilities						720,794

Segment assets and liabilities at 31 December 2018 are reconciled to entity assets and liabilities as follows:

	Assets *RMB million*	Liabilities *RMB million*
Segment assets/liabilities	813,658	407,966
Investments in joint ventures	18,646	–
Investments in associates	23,019	–
Unallocated:	–	–
Deferred tax assets/liabilities	4,504	5,162
Tax payable	–	4,034
Current borrowings	–	79,243
Non-current borrowings	–	215,384
Equity investments designated at fair value through other comprehensive income	21,257	–
Debt investments at amortised cost	109	–
Financial assets at fair value through profit or loss	6,048	–
Derivative financial instruments	250	2
Cash and other corporate assets/corporate liabilities	72,985	9,003
Total	960,476	720,794

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities at 31 December 2017 are as follows:

	As at 31 December 2017					
	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Eliminations *RMB million*	Total *RMB million*
Segment assets	587,900	31,103	70,956	41,688	(38,134)	693,513
Investments in joint ventures						11,133
Investments in associates						19,409
Unallocated assets						125,833
Total assets						849,888
Segment liabilities	338,461	21,335	33,081	5,084	(37,827)	360,134
Unallocated liabilities						284,160
Total liabilities						644,294

Segment assets and liabilities at 31 December 2017 are reconciled to entity assets and liabilities as follows:

	Assets *RMB million*	Liabilities *RMB million*
Segment assets/liabilities	693,513	360,134
Investments in joint ventures	11,133	–
Investments in associates	19,409	–
Unallocated:		
Deferred tax assets/liabilities	4,214	5,969
Tax payable	–	3,994
Current borrowings	–	82,680
Non-current borrowings	–	178,522
Available-for-sale investments	25,908	–
Held-to-maturity investments	104	–
Financial assets at fair value through profit or loss	6,329	–
Derivative financial instruments	488	10
Cash and other corporate assets/corporate liabilities	88,790	12,985
Total	849,888	644,294

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	2018 *RMB million*	2017 *RMB million*
Mainland China	**393,489**	354,095
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**95,177**	105,972
	488,666	460,067

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

The proportion of revenue from the individual countries or regions other than Mainland China was not material during 2018 and 2017.

(b) Non-current assets

	2018 *RMB million*	2017 *RMB million*
Mainland China	**241,291**	205,176
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**20,751**	18,238
	262,042	223,414

The non-current asset information above is based on the locations of the assets and excludes financial instruments, investments in joint ventures and associates and deferred tax assets.

The proportion of non-current assets in the individual countries or regions other than Mainland China was not material as at 31 December 2018 and 2017.

Information about a major customer

No revenue derived from services or sales to a single customer accounted for 10% or more of the Group's revenue, including services or sales to a group of entities which are known to be under common control with that customer during 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE, OTHER INCOME AND OTHER GAINS, NET

An analysis of revenue is as follows:

	2018 *RMB million*	2017 *RMB million*
Revenue from contracts with customers		
Construction	**431,817**	410,014
Design	**31,557**	26,965
Dredging	**32,796**	34,108
Others	**12,402**	9,546
Intersegment eliminations	**(19,906)**	(20,566)
	488,666	460,067

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Total *RMB million*
Type of goods or services					
Infrastructure construction	**405,134**	**12,787**	**26,158**	**395**	**444,474**
Infrastructure design	**931**	**14,336**	**717**	**20**	**16,004**
Others	**18,682**	**470**	**5,611**	**3,425**	**28,188**
Total revenue from contracts with customers	**424,747**	**27,593**	**32,486**	**3,840**	**488,666**
Geographical markets					
Mainland China	**334,769**	**26,580**	**28,300**	**3,840**	**393,489**
Other regions (primarily including Australia and countries in Africa, Middle East and South East Asia)	**89,978**	**1,013**	**4,186**	**–**	**95,177**
Total revenue from contracts with customers	**424,747**	**27,593**	**32,486**	**3,840**	**488,666**
Timing of revenue recognition					
Services transferred over time	**406,303**	**27,134**	**27,483**	**1,116**	**462,036**
Merchandise transferred at a point in time	**18,444**	**459**	**5,003**	**2,724**	**26,630**
Total revenue from contracts with customers	**424,747**	**27,593**	**32,486**	**3,840**	**488,666**

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE, OTHER INCOME AND OTHER GAINS, NET (CONTINUED)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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

For the year ended 31 December 2018

Segments	Construction *RMB million*	Design *RMB million*	Dredging *RMB million*	Others *RMB million*	Total *RMB million*
Revenue from contracts with customers					
External customers	424,747	27,593	32,486	3,840	488,666
Intersegment sales	7,070	3,964	310	8,562	19,906
Intersegment adjustments and eliminations	(7,070)	(3,964)	(310)	(8,562)	(19,906)
Total revenue from contracts with customers	424,747	27,593	32,486	3,840	488,666

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period.

	2018 *RMB million*
Balance of contract liabilities at the beginning of the reporting period:	
Construction	24,341
Design	1,552
Dredging	1,247
Others	5,366
	32,506

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Construction, design and dredging services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 180 days from the date of billing. A certain percentage of payment is retained by customers until the end of the retention period as the Group's entitlement to the final payment is conditional on the satisfaction of the service quality by the customers over the certain period as stipulated in the contracts.

Other services

Other services mainly include sale of products. The performance obligation is satisfied upon delivery of the products and payments is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration subject to constraint.

The remaining performance obligations expected to be recognised relate to construction, design, dredging and other services that are to be satisfied within one to five years.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE, OTHER INCOME AND OTHER GAINS, NET (CONTINUED)

Other income

	2018 RMB million	2017 RMB million
Rental income	**747**	859
Dividend income from equity investments designated at fair value through other comprehensive income		
– Listed equity instruments	**632**	–
– Unlisted equity instruments	**68**	–
Dividend income on available-for-sale investments		
– Listed equity securities	**–**	612
– Unlisted equity investments	**–**	18
Government grants	**471**	581
Income from the sale of waste and materials	**79**	20
Income on derivative financial instruments	**83**	98
Dividend income from financial assets at fair value through profit or loss	**160**	–
Income from held-to-maturity financial assets	**–**	16
Income from debt investments at amortised cost	**8**	–
Others (mainly consist of consultation service income, property management service income and transportation income)	**1,803**	1,689
	4,051	3,893

Other gains, net

	2018 RMB million	2017 RMB million
Gains on disposal of available-for-sale investments	**–**	1,836
Gains on disposal of items of property, plant and equipment	**472**	68
Gains on disposal of subsidiaries	**482**	775
(Losses)/gains on disposal of joint ventures and associates	**(1)**	435
Fair value (losses)/gains on financial assets at fair value through profit or loss	**(12)**	57
Losses on derivative financial instruments:		
– Foreign exchange forward contracts	**(236)**	(137)
Foreign exchange difference, net	**842**	(708)
Gains on disposal of financial assets at fair value through profit or loss	**109**	43
Gains from business combinations achieved in stages	**236**	–
	1,892	2,369

NOTES TO FINANCIAL STATEMENTS

31 December 2018

6. PROFIT BEFORE TAX

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

	2018 *RMB million*	2017 *RMB million*
Raw materials and consumables used	**135,420**	118,443
Cost of goods sold	**13,405**	9,246
Subcontracting costs	**164,427**	164,558
Employee benefit expenses:		
– Salaries, wages and bonuses	**24,987**	24,293
– Pension costs – defined contribution plans	**3,587**	3,232
– Pension costs – defined benefit plans	**133**	149
– Housing benefits	**1,709**	1,611
– Welfare, medical and other expenses	**13,933**	13,651
	44,349	42,936
Minimum lease payments under operating leases	**12,957**	13,189
Business tax and other transaction tax	**1,506**	1,650
Fuel	**4,131**	3,808
Depreciation of property, plant and equipment and investment properties	**8,395**	7,298
Amortisation of intangible assets	**1,612**	1,094
Amortisation of land lease payments	**125**	282
Research and development costs	**9,663**	7,885
Repair and maintenance expenses	**2,733**	2,446
Transportation costs	**605**	282
Utilities	**1,833**	1,401
Insurance	**1,310**	1,335
Auditors' remuneration	**24**	25
Write-down of inventories	**5**	164
Provision for foreseeable losses on contract assets	**(125)**	–
Provision for foreseeable losses on construction services/contracts	**–**	1,110
Impairment of financial and contract assets, net:		
– Impairment of trade and other receivables	**2,498**	3,480
– Impairment of contract assets	**254**	–
Provision for impairment of concession assets	**35**	101
Provision for impairment of available-for-sale investments	**–**	13

NOTES TO FINANCIAL STATEMENTS

31 December 2018

7. FINANCE INCOME

	2018 RMB million	2017 RMB million
Interest income		
– Bank deposits	**1,112**	1,070
– Interest of build and transfer project	**1,418**	1,201
– Imputed finance income under effective interest rate method	**1,676**	–
– Others	**1,108**	800
	5,314	3,071

8. FINANCE COSTS, NET

An analysis of finance costs from continuing operations is as follows:

	2018 RMB million	2017 RMB million
Interest expense incurred	**13,235**	12,166
Less: Interest capitalised	**(2,556)**	(2,680)
Net interest expense	**10,679**	9,486
Representing:		
– Bank borrowings	**8,199**	7,314
– Other borrowings	**152**	116
– Corporate bonds	**1,266**	1,175
– Debentures	**190**	121
– Non-public debt instruments	**571**	505
– Finance lease liabilities	**212**	61
– Others	**89**	194
	10,679	9,486
Foreign exchange difference, net	**249**	(149)
Loss on derecognition of financial assets measured at amortised cost	**697**	–
Others	**1,035**	1,839
	12,660	11,176

Borrowing costs directly attributable to the construction and acquisition of qualifying assets were capitalised as part of the costs of those assets. A weighted average capitalisation rate of 5.64% (2017: 4.62%) per annum was used, representing the costs of the borrowings used to finance the qualifying assets. Interest capitalised during the year was as follows:

	2018 RMB million	2017 RMB million
Inventories and contract assets/gross amounts due from contract customers	**(1,251)**	(1,308)
Concession assets	**(1,217)**	(1,273)
Construction-in-progress	**(88)**	(99)
	(2,556)	(2,680)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 *RMB'000*	2017 *RMB'000*
Fees	**248**	275
Other emoluments:		
Salaries, allowances and benefits in kind	**2,775**	2,888
Performance related bonuses	**4,055**	3,139
Pension scheme contributions	**393**	406
	7,223	6,433
	7,471	6,708

(a) Independent non-executive directors

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

	2018 *RMB'000*	2017 *RMB'000*
Mr. Liu Zhangmin (i)	**–**	55
Mr. Leung Chong Shun (i)	**–**	147
Mr. Huang Long	**60**	60
Mr. Zheng Changhong (i)	**60**	5
Mr. Ngai Wai fung (i)	**128**	8
	248	275

(i) Mr. Liu Zhangmin and Mr. Leung Chong Shun retired as the independent non-executive directors on 22 November 2017. Instead, Mr. Zheng Changhong and Mr. Ngai Wai fung were elected as the independent non-executive directors on the same day.

There were no other emoluments payable to the independent non-executive directors during the year (2017: nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS’ AND SUPERVISORS’ REMUNERATION (CONTINUED)

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

	Salaries, allowances and benefits in kind *RMB’000*	Performance related bonuses *RMB’000*	Pension scheme contributions *RMB’000*	Total *RMB’000*
2018				
Executive directors				
Mr. Liu Qitao	**242**	**727**	**55**	**1,024**
Mr. Song Hailiang (i)	**227**	**674**	**55**	**956**
Mr. Chen Fenjian (i)	**114**	**680**	**27**	**821**
Mr. Fu Junyuan (i)	**140**	**640**	**36**	**816**
Mr. Chen Yun	**221**	**702**	**55**	**978**
	944	**3,423**	**228**	**4,595**
Non-executive directors				
Mr. Liu Maoxun	**–**	**–**	**–**	**–**
Mr. Qi Xiaofei	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
Supervisors				
Mr. Zhen Shaohua (ii)	**–**	**–**	**–**	**–**
Mr. Li Sen	**558**	**200**	**55**	**813**
Mr. Wang Yongbin	**636**	**216**	**55**	**907**
Mr. Yao Yanmin	**637**	**216**	**55**	**908**
	1,831	**632**	**165**	**2,628**
	2,775	**4,055**	**393**	**7,223**
2017				
Executive directors				
Mr. Liu Qitao	227	550	50	827
Mr. Chen Fenjian	227	550	50	827
Mr. Fu Junyuan	207	481	51	739
Mr. Chen Yun	207	495	51	753
	868	2,076	202	3,146
Non-executive directors				
Mr. Liu Maoxun	–	–	–	–
Mr. Qi Xiaofei	–	–	–	–
	–	–	–	–
Supervisors				
Mr. Zhen Shaohua	207	481	51	739
Mr. Li Sen	573	182	51	806
Mr. Wang Yongbin	620	200	51	871
Mr. Yao Yanmin	620	200	51	871
	2,020	1,063	204	3,287
	2,888	3,139	406	6,433

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(b) Executive directors, non-executive directors and supervisors (continued)

(i) Mr. Chen Fenjiang retired as executive director of the board on 16 July 2018 and Mr. Fu Junyuan retired as executive director of the board on 27 September 2018. Mr. Song Hailiang was elected as executive director of the board on 20 November 2018.

(ii) Mr. Zhen Shaohua retired from the supervisory committee on 22 November 2017.

During the year, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

None of the Directors' emoluments as disclosed in note 9 above was included in the emoluments paid to the five highest paid individuals. The emoluments of the five individuals whose emoluments were the highest in the Group during the year are as follows:

	2018	2017
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**3,161**	2,979
Performance related bonuses	**5,932**	4,969
Pension scheme contributions	**393**	428
	9,486	8,376

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

	Number of employees	
	2018	2017
HKD1,500,001 to HKD2,000,000 (equivalent to approximately RMB1,314,000 to RMB1,752,000)	**2**	3
HKD2,000,001 to HKD2,500,000 (equivalent to approximately RMB1,752,001 to RMB2,191,000)	**3**	2
	5	5

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. INCOME TAX

Most of the companies of the Group are subject to PRC enterprise income tax, which has been provided based on the statutory income tax rate of 25% (2017: 25%) of the assessable income of each of these companies during the year as determined in accordance with the relevant PRC income tax rules and regulations, except for certain subsidiaries of the Company, which were exempted from tax or taxed at a preferential rate of 15% (2017: 15%).

Certain of the companies of the Group are subject to Hong Kong profits tax, which has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

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

	2018 ***RMB million***	2017 *RMB million*
Current		
– PRC enterprise income tax	**5,150**	4,269
– Others	**350**	993
	5,500	5,262
Deferred	**108**	248
Total tax charge for the year from continuing operations	**5,608**	5,109
Total tax charge for the year from a discontinued operation	**–**	401
	5,608	5,510

NOTES TO FINANCIAL STATEMENTS

31 December 2018

11. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2018		2017	
	RMB million	*%*	*RMB million*	*%*
Profit before tax from continuing operations	**26,046**		23,651	
Profit before tax from a discontinued operation	**–**		3,585	
	26,046		27,236	
Tax at PRC statutory tax rate of 25% (2017: 25%)	**6,512**	**25.0**	6,809	25.0
Tax for the appreciation of land in the PRC	**340**	**1.3**	209	0.8
Profits and losses attributable to joint ventures and associates	**(18)**	**(0.1)**	(7)	0.0
Income not subject to tax	**(368)**	**(1.4)**	(659)	(2.4)
Additional tax concession on research and development costs	**(484)**	**(1.9)**	(449)	(1.7)
Expenses not deductible for tax	**135**	**0.5**	288	1.0
Tax losses utilised from previous periods	**(130)**	**(0.5)**	(444)	(1.6)
Temporary differences utilised from previous periods	**(175)**	**(0.7)**	(15)	(0.1)
Temporary differences not recognised	**48**	**0.2**	356	1.3
Tax losses not recognised	**1,330**	**5.1**	1,191	4.4
Effect of differences in tax rates applicable to certain domestic and foreign subsidiaries	**(1,582)**	**(6.1)**	(1,769)	(6.5)
Tax charge at the Group's effective rate	**5,608**	**21.4**	5,510	20.2
Tax charge from continuing operations at the effective rate	**5,608**	**21.4**	5,109	21.6
Tax charge from a discontinued operation at the effective rate	**–**	**–**	401	11.2

NOTES TO FINANCIAL STATEMENTS

31 December 2018

12. DISCONTINUED OPERATION

On 18 July 2017, the Group entered into an equity transfer agreement with CCCG, pursuant to which the Company and CHEC agreed to transfer 1,316,649,346 ordinary shares of Shanghai Zhenhua Heavy Industries Co., Ltd. ("ZPMC") which represented 29.99% of the total issued share capital of ZPMC to CCCG and CCCG HK. The transfer of ZPMC equity was completed on 27 December 2017. The rest of the business in the former manufacture of heavy machinery business segment was covered in other segments of the Group, and ZPMC was classified as a discontinued operation.

The results of ZPMC for 2017 prior to the disposal are presented below:

	2017 *RMB million*
Revenue	21,728
Eliminations of intersegment revenue	(1,219)
	20,509
Cost of sales	(18,476)
Eliminations of intersegment costs	1,219
	(17,257)
Other income	265
Other gains, net	177
Selling and marketing expenses	(121)
Administrative expenses	(2,173)
Other expenses	(142)
Finance income	293
Finance costs, net	(1,232)
Share of profits and losses of joint ventures and associates	39
Profit from a discontinued operation	358
Gains on disposal of a subsidiary	3,227
Profit before tax from a discontinued operation	3,585
Income tax:	
– Related to pre-tax profit	(92)
– Related to gains on disposal of a subsidiary	(309)
	(401)
Profit for the year from a discontinued operation	3,184
Attributable to:	
– Owners of the parent	3,030
– Non-controlling interests	154
	3,184

NOTES TO FINANCIAL STATEMENTS

31 December 2018

12. DISCONTINUED OPERATION (CONTINUED)

The net cash flows incurred by ZPMC for 2017 prior to the disposal are as follows:

	2017 *RMB million*
Net cash generated from operating activities	1,332
Net cash used in investing activities	(1,682)
Net cash generated from financing activities	2,577
Effect of foreign exchange rate changes, net	(50)
Net increase in cash and cash equivalents	2,177

Earnings per share:	
– Basic, from a discontinued operation	RMB0.19
– Diluted, from a discontinued operation	RMB0.19

The calculations of basic and diluted earnings per share from a discontinued operation are based on:

	2017
Profit attributable to ordinary equity holders of the parent from a discontinued operation *(RMB million)*	3,030
Weighted average number of ordinary shares in issue *(million)*	16,175

13. DIVIDENDS

	2018 ***RMB million***	2017 *RMB million*
Proposed final dividend of RMB0.23077 per ordinary share (2017: RMB0.24190)	**3,733**	3,913

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 16,174,735,425 (2017: 16,174,735,425) in issue during the year.

The calculation of basic earnings per share is based on:

	2018	2017
Profit attributable to ordinary equity holders of the parent *(RMB million)*		
– From continuing operations	**19,819**	17,913
– From a discontinued operation	**–**	3,030
	19,819	20,943
Less: Interest on perpetual medium-term notes *(RMB million)* (i)	**(300)**	(300)
Dividend relating to preference shares *(RMB million)* (ii)	**(718)**	(718)
	18,801	19,925
Attributable to:		
– From continuing operations *(RMB million)*	**18,801**	16,895
– From a discontinued operation *(RMB million)*	**–**	3,030
	18,801	19,925
Weighted average number of ordinary shares in issue *(million)*	**16,175**	16,175
Basic earnings per share		
– From continuing operations *(RMB per share)*	**1.16**	1.04
– From a discontinued operation *(RMB per share)*	**–**	0.19
	1.16	1.23

(i) The perpetual medium-term notes (the "MTN") issued by the Company in 2014 were classified as equity instruments with deferrable accumulative interest distribution and payment. Interest of RMB300 million on the MTN which has been generated during the year was deducted from earnings when calculating the earnings per share amount for the year ended 31 December 2018.

(ii) The preference shares issued by the Company in 2015 were classified as equity instruments with deferrable and non-cumulative dividend distribution and payment. As the conditions of mandatory distribution were triggered, a dividend amounting to RMB718 million on the preference shares was deducted from earnings when calculating the earnings per share amount for the year ended 31 December 2018.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *RMB million*	Machinery *RMB million*	Vessels and vehicles *RMB million*	Other equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	12,761	26,634	41,248	12,146	7,849	100,638
Accumulated depreciation and impairment	(3,293)	(14,538)	(21,180)	(8,876)	–	(47,887)
Net carrying amount	9,468	12,096	20,068	3,270	7,849	52,751
At 1 January 2018, net of accumulated depreciation and impairment	9,468	12,096	20,068	3,270	7,849	52,751
Additions	421	5,084	884	3,500	4,527	14,416
Disposals	(362)	(663)	(240)	(438)	(359)	(2,062)
Acquisition of subsidiaries	–	–	5	3	32	40
Disposal of subsidiaries	(28)	–	(3)	(5)	–	(36)
Transfer to/(from) construction in progress	2,982	376	665	179	(4,202)	–
Transfer from investment properties	106	–	–	–	–	106
Transfer to investment properties	(255)	–	–	–	–	(255)
Transfer to/(from) inventories	243	–	–	–	(820)	(577)
Depreciation provided during the year	(488)	(3,070)	(1,884)	(2,771)	–	(8,213)
Exchange realignment	37	85	68	5	–	195
At 31 December 2018, net of accumulated depreciation and impairment	12,124	13,908	19,563	3,743	7,027	56,365
At 31 December 2018:						
Cost	15,901	30,381	41,731	13,521	7,027	108,561
Accumulated depreciation and impairment	(3,777)	(16,473)	(22,168)	(9,778)	–	(52,196)
Net carrying amount	12,124	13,908	19,563	3,743	7,027	56,365

NOTES TO FINANCIAL STATEMENTS

31 December 2018

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land and buildings *RMB million*	Machinery *RMB million*	Vessels and vehicles *RMB million*	Other equipment *RMB million*	Construction in progress *RMB million*	Total *RMB million*
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	22,380	30,378	48,916	10,903	10,160	122,737
Accumulated depreciation and impairment	(5,983)	(17,682)	(24,125)	(8,172)	–	(55,962)
Net carrying amount	16,397	12,696	24,791	2,731	10,160	66,775
At 1 January 2017, net of accumulated depreciation and impairment	16,397	12,696	24,791	2,731	10,160	66,775
Additions	90	3,972	1,804	2,681	3,652	12,199
Disposals	(93)	(24)	(183)	(52)	(130)	(482)
Acquisition of subsidiaries	44	51	15	66	247	423
Disposal of subsidiaries	(8,200)	(1,908)	(7,175)	(71)	(2,001)	(19,355)
Transfer to/(from) construction in progress	1,920	556	3,085	39	(5,600)	–
Transfer to investment properties	–	–	–	–	(130)	(130)
Transfer from investment properties	89	–	–	–	–	89
Transfer from inventories	23	–	–	–	1,651	1,674
Depreciation provided during the year	(801)	(3,233)	(2,252)	(2,140)	–	(8,426)
Exchange realignment	(1)	(14)	(17)	16	–	(16)
At 31 December 2017, net of accumulated depreciation and impairment	9,468	12,096	20,068	3,270	7,849	52,751
At 31 December 2017:						
Cost	12,761	26,634	41,248	12,146	7,849	100,638
Accumulated depreciation and impairment	(3,293)	(14,538)	(21,180)	(8,876)	–	(47,887)
Net carrying amount	9,468	12,096	20,068	3,270	7,849	52,751

The net carrying amount of the Group's fixed assets held under finance leases in the carrying amount of vessels and machinery at 31 December 2018 was RMB1,737 million (2017: RMB1,974 million).

At 31 December 2018, none of the Group's property, plant and equipment was pledged to secure general banking facilities granted to the Group (2017: nil) (note 33(d), 45(b)).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

16. INVESTMENT PROPERTIES

	2018 RMB million	2017 RMB million
Carrying amount at 1 January	**2,275**	2,346
Additions	**–**	22
Transfer from property, plant and equipment	**255**	130
Transfer from inventory	**1,319**	267
Transfer to property, plant and equipment	**(106)**	(89)
Transferred to inventory	**(98)**	–
Disposal of subsidiaries	**–**	(301)
Depreciation provided during the year	**(182)**	(94)
Others	**–**	(6)
Carrying amount at 31 December	**3,463**	2,275

As at 31 December 2018, the fair value of the Group's investment properties was mainly based on valuations performed by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, a firm of independent and professionally qualified valuers.

The investment properties located in Mainland China were valued by the income approach by taking into account the net rental income of the properties derived mainly from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. The fair value of these properties for commercial purpose was RMB9,465 million (2017: RMB8,001 million), which falls into the category of fair value measurements using significant unobservable inputs (Level 3) including future rental inflows, discount rates and capitalisation rates, etc.

The rest of the investment properties for residential purpose located in Mainland were valued by the comparison approach by making reference to comparable market transactions. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors. The fair value of these properties was RMB966 million (2017: RMB806 million), which falls into the category of fair value measurements using significant observable inputs (Level 2) including comparable price in the market.

The investment properties located outside Mainland China were mainly valued by the comparison approach with reference to comparable market transactions. The fair value of these properties was RMB251 million (2017: RMB230 million), which falls into the category of fair value measurements using significant observable inputs (Level 2) including comparable price in the market.

The investment properties are leased to third parties under operating leases, further details of which are included in note 46(a)to the financial statements.

17. PREPAID LAND LEASE PAYMENTS

	2018 RMB million	2017 RMB million
Carrying amount at 1 January	**7,230**	10,676
Additions	**2,566**	769
Disposals	**(20)**	(10)
Disposal of subsidiaries	**–**	(3,891)
Amortisation during the year	**(125)**	(283)
Transferred to inventories	**–**	–
Transferred to property, plant and equipment	**–**	–
Exchange realignment	**32**	(31)
Carrying amount at 31 December	**9,683**	7,230

At 31 December 2018, certain of the Group's prepaid land lease payments with a net carrying amount of approximately RMB5,028 million (2017: RMB1,628 million) were pledged to secure general banking facilities granted to the Group (note 33(d), 45(b)).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

18. INTANGIBLE ASSETS

	Concession assets *RMB million*	Goodwill *RMB million*	Trademark, patent and proprietary technologies *RMB million*	Computer software *RMB million*	Others *RMB million*	Total *RMB million*
31 December 2018						
Cost at 1 January 2018, net of accumulated amortisation and impairment	**153,957**	**5,426**	**1,286**	**417**	**72**	**161,158**
Additions	**23,829**	**5**	**14**	**107**	**129**	**24,084**
Acquisition of subsidiaries	**7,225**	**–**	**–**	**1**	**–**	**7,226**
Disposal of subsidiaries	**(2,170)**	**–**	**–**	**(1)**	**–**	**(2,171)**
Disposal	**–**	**–**	**(1)**	**(9)**	**–**	**(10)**
Amortisation provided during the year	**(1,346)**	**–**	**(65)**	**(166)**	**(35)**	**(1,612)**
Impairment during the year	**(35)**	**–**	**–**	**–**	**–**	**(35)**
Exchange realignment	**–**	**(270)**	**–**	**–**	**–**	**(270)**
At 31 December 2018	**181,460**	**5,161**	**1,234**	**349**	**166**	**188,370**
At 31 December 2018:						
Cost	**185,437**	**5,211**	**1,513**	**895**	**402**	**193,458**
Accumulated amortisation and impairment	**(3,977)**	**(50)**	**(279)**	**(546)**	**(236)**	**(5,088)**
Net carrying amount	**181,460**	**5,161**	**1,234**	**349**	**166**	**188,370**

	Concession assets *RMB million*	Goodwill *RMB million*	Trademark, patent and proprietary technologies *RMB million*	Computer software *RMB million*	Others *RMB million*	Total *RMB million*
31 December 2017						
Cost at 1 January 2017, net of accumulated amortisation and impairment	136,805	5,210	945	321	99	143,380
Additions	34,173	–	4	194	13	34,384
Acquisition of subsidiaries	13	406	416	13	6	854
Disposal of subsidiaries	(15,682)	(266)	(16)	(13)	–	(15,977)
Disposal	–	–	(3)	(1)	(2)	(6)
Amortisation provided during the year	(1,013)	–	(60)	(97)	(44)	(1,214)
Impairment during the year	(101)	–	–	–	–	(101)
Exchange realignment	(238)	76	–	–	–	(162)
At 31 December 2017	153,957	5,426	1,286	417	72	161,158
At 31 December 2017:						
Cost	156,553	5,476	1,501	806	287	164,623
Accumulated amortisation and impairment	(2,596)	(50)	(215)	(389)	(215)	(3,465)
Net carrying amount	153,957	5,426	1,286	417	72	161,158

NOTES TO FINANCIAL STATEMENTS

31 December 2018

18. INTANGIBLE ASSETS (CONTINUED)

As at 31 December 2018, concession assets represent assets under "Build-Operate-Transfer" service concession arrangements and mainly consist of toll roads in Mainland China. Certain concession projects have been put into operations, the cost of related concession assets amounted to RMB139,080 million (2017: RMB125,715 million). The cost of concession assets where the related projects were under construction amounted to RMB42,380 million (2017: RMB28,242 million).

As at 31 December 2018, the accumulated impairment of concession assets was RMB334 million (2017: RMB299 million). The Group recognised an impairment of RMB35 million (2017: RMB101 million) during the year, based on an impairment test for a concession asset (a toll road) with a carrying amount before impairment of RMB383 million as at 31 December 2018, as the concession asset had experienced losses and the actual traffic volume was lower than expected traffic volume. The recoverable amount of the concession asset of RMB348 million was determined based on value in use method using cash flow projections based on its financial budget. The post-tax discount rate applied to the cash flow projection was 7.49%.

As at 31 December 2018, certain of the Group's concession assets with a net carrying amount of approximately RMB141,261 million (2017: RMB119,600 million) were pledged to secure general banking facilities granted to the Group (note 33(d), 45(b)).

Impairment testing of goodwill

Goodwill is allocated to the Group's cash generating units identified in accordance with individual acquisition groups within respective operating segments. The goodwill of the Group mainly relates to the following acquisition groups:

(a) the goodwill included in the Construction Segment that arose in connection with the Group's acquisition of the 100% equity interest in John Holland Group Pty Limited ("John Holland") in April 2015;

(b) the goodwill included in the Other Segment that arose in connection with the Group's acquisition of the 100% equity interest in Friede Goldman United, Ltd. ("F&G") in August 2010, and

(c) The goodwill included in the Design Segment that arose in connection with the Group's acquisition of the 80% equity interest in Concremat Engenharia e Tecnologia S.A. in January 2017.

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

	2018	2017
	RMB million	*RMB million*
John Holland (i)	**4,608**	4,878
F&G	**245**	245
Concremat Engenharia e Tecnologia S.A.	**252**	252
Others	**56**	51
	5,161	5,426

(i) For goodwill arose in connection with John Holland, the recoverable amount was determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 2%. The growth rate does not exceed the long-term average growth rate for the industry in which John Holland operates.
Summary of the key assumptions are set out below:

	2018	2017
Revenue (% annual growth rate) (a)	**2%**	2.5%
Post-tax discount rate (b)	**12.5%**	13.5%

(a) The revenue growth rate is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

(b) The discount rate used is post-tax and reflects specific risks relating to the acquisition group.

No impairment was recognised based on the assessment in relation of goodwill allocated to John Holland as at 31 December 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

19. INVESTMENTS IN JOINT VENTURES

	2018	2017
	RMB million	*RMB million*
At 1 January	**11,133**	6,201
Additions	**8,490**	5,740
Disposals	**(3)**	(96)
Share of profits or losses, net	**168**	(272)
Dividend distribution	**(459)**	(42)
Residual interest in joint ventures arising from disposal of subsidiaries	**178**	124
Arising from disposal of subsidiaries	**–**	(239)
Conversion into subsidiaries arising from increase in equity interest in joint ventures	**(862)**	(256)
Share of other comprehensive income of joint ventures	**1**	(24)
Others	**–**	(3)
At 31 December	**18,646**	11,133

In the opinion of the directors, none of the joint ventures is individually material to the Group. All of the joint ventures of the Group are accounted for using the equity method.

The Group's trade receivable and payable balances with and guarantees provided to the joint ventures are disclosed in note 48(b) and (c) to the financial statements.

20. INVESTMENTS IN ASSOCIATES

	2018	2017
	RMB million	*RMB million*
At 1 January	**19,409**	12,550
Additions	**4,882**	2,124
Disposals	**(29)**	(249)
Share of profits or losses, net	**(97)**	299
Dividend distribution	**(238)**	(205)
Residual interest in associates arising from disposal of subsidiaries	**324**	5,884
Arising from disposal of subsidiaries	**–**	(194)
Conversion into subsidiaries arising from increase in equity interest in associates	**(1,083)**	(753)
Share of other comprehensive income of associates	**(149)**	(46)
Others	**–**	(1)
At 31 December	**23,019**	19,409

On 27 December 2017, the Group completed the transfer of 29.99% equity interest in ZPMC to CCCG and CCCG HK. Upon completion of this transfer, the Group still holds 16.24% equity interests in ZPMC, and such residual interests in ZPMC are stated as investments in associates under the equity method of accounting.

In the opinion of the directors, except for ZPMC, none of the associates is individually material to the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

20. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information in respect of ZPMC reconciled to the carrying amount in the consolidated financial statements:

	2018 ***RMB million***	2017 *RMB million*
Non-current assets	**35,891**	32,294
Current assets	**34,707**	35,226
Total assets	**70,598**	67,520
Current liabilities	**(34,591)**	(40,861)
Non-current liabilities	**(18,394)**	(9,830)
Total liabilities	**(52,985)**	(50,691)
Non-controlling interests	**(2,427)**	(1,817)
Equity attributable to owners of the parent	**15,186**	15,012
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership *(%)*	**16.24%**	16.24%
Group's share of net assets of the associate, excluding goodwill	**2,466**	2,438
Goodwill on acquisition (less cumulative impairment)	**1,911**	1,911
Carrying amount of the investment	**4,377**	4,349

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 ***RMB million***	2017 *RMB million*
Share of the associates' profit for the year	**(169)**	299
Share of the associates' other comprehensive income	**(140)**	(46)
Share of the associates' total comprehensive income	**(309)**	253
Aggregate carrying amount of the Group's investments in the associates	**18,642**	15,060

All of the associates of the Group are accounted for using the equity method.

The Group's trade receivable and payable balances with and the guarantees provided to the associates are disclosed in note 48(b) and (c) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 *RMB million*	2017 *RMB million*
Listed equity investments, at fair value *(Note a)*	**135**	119
Other unlisted investments, at fair value *(Note b)*	**5,913**	6,210
	6,048	6,329
Less: non-current portion		
Other unlisted investments, at fair value *(Note b)*	**5,893**	3,451
Current portion	**155**	2,878

(a) The listed equity investments at 31 December 2018 were classified as financial assets at fair value through profit or loss as they were held for trading. The fair value of these investments was based on the quoted market prices at the end of the reporting period.

(b) The unlisted investments at 31 December 2018 mainly include unlisted equity investments and wealth management products issued by financial institutions in Mainland China. The above equity investments were classified at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income. The wealth management products were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

22. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *RMB million*
Non-current	
Listed equity instruments	
– China Merchants Bank	**14,411**
– China Merchants Securities Co., Ltd.	**2,833**
– Zhengzhou Yutong Bus Co., Ltd.	**484**
– Hong Kong International Construction Investment Management Group Co., Limited	**361**
– China Development Bank Financial Leasing Co., Ltd.	**270**
– China Everbright Bank	**276**
– CECEP Environmental Protection Equipment Co., Ltd.	**184**
– Bank of Communications	**175**
– Others	**289**
	19,283
Unlisted equity instruments	
– Lunan High Speed Railway Co., Ltd.	**967**
– Beijing CEDC Ltd.	**298**
– China-ASEAN Investment Cooperation Fund	**149**
– Dalian Taipingwan Investment Holding Co., Ltd.	**135**
– Hubei Jiaotou Shiwu Expressway Co., Ltd.	**129**
– Others	**296**
	1,974
	21,257

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

During the year ended 31 December 2018, the Group had no material disposal of equity investments designated at fair value through other comprehensive income. During the year ended 31 December 2018, the Group received dividends in total amounts of RMB700 million, mainly including RMB480 million, RMB73 million and RMB34 million from China Merchants Bank, China Merchants Securities Co., Ltd. and Beijing CEDC Ltd., respectively.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

23. AVAILABLE-FOR-SALE INVESTMENTS

	2017 *RMB million*
Listed and unlisted equity investments, at fair value *(note a)*	
– Mainland China	22,499
– Hong Kong	705
Unlisted equity investments, at cost	2,648
Other unlisted investments, at fair value	56
	25,908

During the year ended 31 December 2017, the gain in respect of the Group's available-for-sale investments recognised in other comprehensive income (net of tax) amounted to RMB5,759 million, and a gain (net of tax) of RMB1,647 million was reclassified from other comprehensive income to the statement of profit or loss upon disposal.

(a) These securities primarily represent promoters' shares listed and traded in stock markets, of which no securities were subject to trading restrictions at the end of the reporting period. The fair values of these securities were based on the quoted market prices at the end of the reporting period.

24. UNCONSOLIDATED STRUCTURED ENTITIES MANAGED BY THE GROUP

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The unconsolidated structured entities include private equity funds, unit trust funds, trust products and asset management plans, etc. The nature and purpose of these structured entities are to engage in infrastructure investment activities. These structured entities were financed through the issue of units to investors.

As at 31 December 2018, the maximum exposure to loss and the book value of relevant investments of the Group arising from the interests held in invested structured entities that are sponsored by the Group or the third party financial institutions are set out as below:

	2018		2017	
	Carrying amount	**Maximum exposure to loss**	Carrying amount	Maximum exposure to loss
Financial assets at fair value through profit or loss	**4,049**	**4,049**	3,451	3,451
Interests in associates and joint ventures	**7**	**7**	8	8
Available-for-sale investments	**–**	**–**	27	27
	4,056	**4,056**	3,486	3,486

In 2018, the Group received management fees, commission and performance fees amounting to RMB58 million (2017: RMB80 million) from unconsolidated structured entities sponsored by the Group.

As at 31 December 2018, there are no contractual liquidity arrangements, guarantees or other commitments between the Group and the unconsolidated structured entities (2017: nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

25. INVENTORIES

	2018 *RMB million*	2017 *RMB million*
Raw materials	**16,719**	12,520
Work in progress	**699**	1,004
Properties under development and held for sale *(note b)*	**24,092**	22,957
Completed properties held for sale *(note c)*	**4,136**	2,975
Finished goods	**1,215**	1,080
	46,861	40,536

(a) At 31 December 2018, certain of the Group's properties under development and held for sale and completed properties held for sale with an aggregate carrying amount of RMB3,597 million (2017: RMB4,013 million) were pledged to secure the Group's bank loans (note 33(d), 45(b)).

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

	2018 *RMB million*	2017 *RMB million*
Land use rights	**12,443**	11,682
Construction cost	**9,889**	9,982
Finance costs capitalised	**1,760**	1,293
	24,092	22,957

All of the properties under development are expected to be completed within the Group's normal operating cycle and are included under current assets.

(c) The amount of completed properties held for sale expected to be recovered beyond one year is RMB1,712 million (2017: RMB1,253 million). The remaining amount is expected to be recovered within one year.

26. CONTRACTS WORK-IN-PROGRESS

	2017 *RMB million*
Gross amount due from contract customers	89,577
Gross amount due to contract customers	(27,175)
	62,402
Contract costs incurred plus recognised profits less recognised losses to date	1,314,536
Less: progress billings	(1,252,134)
	62,402

NOTES TO FINANCIAL STATEMENTS

31 December 2018

27. TRADE AND OTHER RECEIVABLES

	2018 RMB million	2017 RMB million
Trade and bills receivables *(note a)*	**100,176**	80,187
Impairment	**(12,380)**	(10,881)
Trade and bills receivables, net	**87,796**	69,306
Retentions	**–**	64,392
Long-term receivables	**150,910**	92,943
Prepayments	**18,431**	16,290
Deposits	**19,054**	20,753
Other receivables	**38,663**	30,771
	314,854	294,455
Less: non-current portion		
Retentions	**–**	(33,927)
Long-term receivables	**(113,090)**	(74,598)
Prepayments	**(4,161)**	(3,108)
Deposits	**(1,716)**	(1,077)
	(118,967)	(112,710)
Current portion	**195,887**	181,745

(a) The majority of the Group's revenues are generated through construction, design and dredging contracts and settlements are made in accordance with the terms specified in the contracts governing the relevant transactions. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

An ageing analysis of trade and bills receivables as at the end of the reporting period, net of loss allowance, is as follows:

	2018 RMB million	2017 RMB million
Within 6 months	**61,140**	47,570
6 months to 1 year	**9,417**	8,907
1 year to 2 years	**9,218**	7,838
2 years to 3 years	**3,950**	3,222
Over 3 years	**4,071**	1,769
	87,796	69,306

NOTES TO FINANCIAL STATEMENTS

31 December 2018

27. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) (continued)

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2018 *RMB million*	2017 *RMB million*
At the end of prior year	**10,881**	9,882
Effect of adoption of IFRS 9	**(723)**	–
At beginning of year (restated)	**10,158**	9,882
Impairment losses, net	**2,221**	2,422
Acquisition of subsidiaries	**11**	65
Disposal of subsidiaries	**(10)**	(1,488)
At end of year	**12,380**	10,881

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Past due						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Expected credit loss rate	0.91%	13.69%	24.71%	39.15%	55.08%	80.01%	8.75%
Gross carrying amount *(RMB million)*	69,288	10,599	4,819	3,052	2,264	3,037	93,059
Expected credit losses *(RMB million)*	632	1,451	1,191	1,195	1,247	2,430	8,146

In addition to the above provision matrix, for certain customers with credit risk increased significantly, the Group has made individual loss allowance. As at 31 December 2018, the accumulated individual loss allowance was RMB4,234 million with a carrying amount before loss allowance of RMB7,117 million.

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under IAS 39, as at 31 December 2017, was a provision for individually impaired trade and bills receivables of RMB3,138 million with a carrying amount before provision of RMB4,268 million. The individually impaired trade and bills receivables as at 31 December 2017 related to customers that were in financial difficulties or were in default in interest and/or principal payments and only a portion of the receivables is expected to be recovered.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

27. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) (continued)

Impairment under IAS 39 for the year ended 31 December 2017 (continued)

The ageing analysis of the trade and bills receivables as at 31 December 2017 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	2017 *RMB million*
Neither past due nor impaired	38,610
Less than 3 months past due	7,583
	46,193

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under IAS 39 is necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(b) As part of its normal business, the Group has entered into certain recourse and non-recourse factoring agreements with certain banks so as to obtain bank advances. As at 31 December 2018, the relevant outstanding trade receivables and long-term receivables with recourse factoring clauses in the agreements, amounted to RMB820 million (2017: RMB5,643 million). In the opinion of the directors, such transactions did not qualify for derecognition of the relevant receivables and were accounted for as secured borrowings. In addition, as at 31 December 2018, outstanding trade receivables of RMB15,666 million (2017: RMB19,002 million) had been transferred to the banks in accordance with the relevant non-recourse factoring agreements, among which outstanding trade receivables of RMB13,894 million (2017: RMB18,802 million) were derecognised as the directors are of the opinion that the substantial risks and rewards associated with the trade receivables have been transferred and therefore qualified for derecognition of the relevant receivables, whilst substantial risks and rewards of the other outstanding trade receivables of RMB1,772 million (2017: RMB200 million) have not been transferred and hence were not qualified for derecognition and the relevant transactions were accounted for as secured borrowings.

As at 31 December 2018, certain of the Group's outstanding trade and other receivables with a net carrying amount of approximately RMB27,261 million (2017: RMB14,859 million) were pledged to secure general banking facilities granted to the Group (note 33(d), 45(b)).

(c) As part of its normal business, the Group has entered into certain agreements with certain financial institution so as to establish asset-backed securities (ABS) and asset-backed notes (ABN). The ABS and ABN are bonds or notes backed by trade receivables and long-term receivables. The Group sell pools of trade receivables and long-term receivables to a special-purpose vehicle (SPV), whose sole function is to buy such assets in order to securitize them. The SPV, which is usually a corporation, then sells them to a trust. The trust repackages the loans as interest-bearing securities and actually issues them. As at 31 December 2018, the relevant outstanding trade receivables and long-term receivables under the ABS and ABN, amounted to RMB7,230 million (2017: RMB1,230 million). Such trade receivables and long-term receivables were derecognised as the directors are of the opinion that the substantial risks and rewards associated with the trade receivables and long-term receivables have been transferred and therefore qualified for derecognition.

(d) As at 31 December 2018, outstanding bills receivable of RMB217 million (31 December 2017: RMB4 million) were endorsed to suppliers, and RMB81 million (31 December 2017: RMB3 million) were discounted with banks. In the opinion of directors, the Group has retained the substantial risks and rewards, which include default risks relating to such bills receivable, and accordingly, it continued to recognise the full carrying amounts of the bills receivable. In addition, as at 31 December 2018, outstanding bills receivable of RMB296 million (31 December 2017: RMB908 million) were endorsed to suppliers, and RMB574 million (31 December 2017: RMB443 million) were discounted with banks. In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to such bills receivable which were fully derecognised.

(e) The prior year retentions receivable represented amounts due from customers upon completion of the free maintenance period of the construction work, which normally lasts from one to three years. Upon adoption of IFRS 15 as at 1 January 2018, retentions in respect of quality assurance warranties were reclassified as contract assets, the remaining retentions were reclassified as long-term receivables.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

27. TRADE AND OTHER RECEIVABLES (CONTINUED)

(f) Deposits represented tender and performance bonds due from customers. Long-term receivables represented amounts due from customers for "Build-Transfer" projects and certain construction works with payment periods over one year. The impairment losses of deposits and long-term receivables of the Group were RMB1,914 million (2017: RMB1,033 million).

(g) The impairment losses of other receivables were RMB1,574 million (2017: RMB1,271 million), while the amounts before impairment were RMB40,237 million (2017: RMB32,042 million).

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets *RMB million*	**Liabilities** *RMB million*	Assets *RMB million*	Liabilities *RMB million*
Forward currency contracts *(note a)*				
– Held for trading	**–**	**–**	–	(3)
– Cash flow hedges	**2**	**(2)**	8	(7)
Total return swap *(note b)*	**21**	**–**	81	–
Forward equity contracts *(note c)*	**227**	**–**	399	–
	250	**(2)**	488	(10)

(a) In order to protect against exchange rate movements, John Holland (a subsidiary of CCCI) has entered into forward exchange contracts to purchase United States Dollars ("USD"), Euros ("EUR"), Great British Pound ("GBP"), Japanese Yen ("JPY") and New Zealand Dollars ("NZD") by Australian Dollars ("AUD"), and also purchase AUD by NZD. These contracts are hedging recognised assets and liabilities, firm commitments and highly probable forecast transactions, and the contracts are timed to mature when items of plant and equipment or construction materials are to be shipped or when trade and other payables are due. In 2018, the fair value gain included in the hedging reserve was RMB6 million, net of tax (2017: gain of RMB2 million).

(b) In 2016 and 2018, CCCI entered into several agreements with banks, and paid USD100 million and USD125 million, respectively to secure the subscriptions of USD400 million and USD500 million, respectively, by the banks in senior perpetual securities. Both of the senior perpetual securities were issued by a subsidiary of Greentown China Holding Limited ("Greentown"). According to the agreements, CCCI could earn any distribution by reference to the banks' subscription, and also have to pay a fixed amount of rewards and any loss on the subscription to the banks. As Greentown is a subsidiary of CCCG, the total return swap constitutes a related party transaction of the Company.

(c) In 2016 the Group disposed of 85% equity interests in certain subsidiaries with concession assets (toll roads) to a joint venture (a fund engaged in infrastructure investment activities) of the Company, whilst entered into certain forward equity contracts to obtain the options to repurchase these equity interests in future with discounts under some conditions. The fair value of these forward equity contracts was RMB104 million (31 December 2017: RMB143 million) as at 31 December 2018.

In 2017, the Group disposed of 99% equity interests in certain subsidiaries with concession assets (toll roads) to a joint venture (a fund engaged in infrastructure investment activities) of the Company, whilst entered into certain forward equity contracts to obtain the options to repurchase these equity interests in future with discounts under some conditions. The fair value of these forward equity contracts was RMB123 million (31 December 2017: RMB256 million) as at 31 December 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

29. CONTRACT ASSETS

	31 December 2018 RMB million	1 January 2018 RMB million	31 December 2017 RMB million
Contract assets arising from:			
Infrastructure construction	117,416	99,606	–
Infrastructure design	4,105	2,864	–
Dredging	10,346	12,777	–
Others	1,952	1,690	–
	133,819	116,937	–
Impairment	(1,140)	(885)	–
	132,679	116,052	–
Current portion	103,981	96,234	–
Non-current portion	28,698	19,818	–

Contract assets are initially recognised for revenue earned from contracts with customers for the infrastructure construction, infrastructure design and others. Upon settlement with the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in the ongoing provision of contract construction and services at the end of the year.

During the year ended 31 December 2018, RMB255 million was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 27 to the financial statements.

As at 31 December 2018, the expected timing of recovery or settlement for contract assets is subjected to the specific contracts terms and the progress of the performance obligations.

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB million
At beginning of year	–
Effect of adoption of IFRS 9	885
At beginning of year (restated)	885
Impairment losses, net *(note 6)*	255
At end of year	1,140

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases. The provision rates of contract assets are based on days past due of trade receivables for groupings of various customer segments with similar loss patterns (i.e., by product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a provision matrix:

As at December 2018

Expected credit loss rate	0.85%
	RMB million
Gross carrying amount	133,819
Expected credit losses	1,140

NOTES TO FINANCIAL STATEMENTS

31 December 2018

30. CASH AND BANK BALANCES

	2018 *RMB million*	2017 *RMB million*
Restricted bank deposits	**4,633**	2,880
Time deposits with an initial term of over three months	**2,322**	2,244
	6,955	5,124
Cash and cash equivalents	**127,413**	129,197
	134,368	134,321

(a) As at 31 December 2018, restricted bank deposits mainly included deposits for issuance of bank acceptance notes, performance bonds, letters of credit to customers, and mandatory reserve deposits placed with the People's Bank of China by CCCC Finance.

(b) Time deposits with an initial term of over three months are excluded from cash and cash equivalents, as management is of the opinion that these time deposits are not readily convertible to known amounts of cash without significant risk of changes in value.

(c) At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB89,296 million (2017: RMB90,958 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2018, less than 3% (2017: less than 3%) of the cash and bank balances denominated in currencies other than RMB were deposited in banks in certain countries which are subject to foreign exchange control and the currencies are not freely convertible into other currencies or remitted out of those countries.

(d) Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

31. CONTRACT LIABILITIES

Details of contract liabilities as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 *RMB million*	1 January 2018 *RMB million*
Short-term advances received from customers		
Infrastructure construction	**65,445**	60,276
Infrastructure design	**5,489**	5,730
Dredging	**2,910**	2,319
Others	**8,109**	7,521
Total contract liabilities	**81,953**	75,846

Contract liabilities include short-term advances received from customers and gross amount settled due to customers. The increase in contract liabilities in 2018 was mainly due to the increase in short-term advances received from customers and gross amount settled due to customers in relation to the provision of infrastructure construction, infrastructure design and others at the end of the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

32. TRADE AND OTHER PAYABLES

	2018 *RMB million*	2017 *RMB million*
Trade and bills payables *(note a)*	**242,167**	212,740
Advances from customers	**–**	61,293
Deposits from suppliers	**25,020**	20,468
Retentions	**19,110**	14,967
CCCC Finance deposits *(note b)*	**9,283**	8,340
Other taxes	**17,256**	11,718
Payroll and social security	**2,247**	2,056
Accrued expenses and others	**16,598**	11,666
	331,681	343,248
Less: non-current portion		
– Retentions	**(13,192)**	(10,261)
– Other taxes	**(144)**	(91)
– Others	**(3,849)**	(193)
	(17,185)	(10,545)
Current portion	**314,496**	332,703

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

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

(b) CCCC Finance, a subsidiary of the Company, accepted deposits from CCCG and fellow subsidiaries. These deposits were due within one year with an average annual interest rate of 0.9% (2017: 0.8%).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

33. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	**2018** **RMB million**	2017 *RMB million*
Non-current			
Long-term bank borrowings			
– secured	(d)	**132,721**	100,988
– unsecured	(e)	**59,985**	51,957
		192,706	152,945
Other borrowings			
– secured	(d)	**–**	430
– unsecured	(e)	**1,120**	1,057
		1,120	1,487
Corporate bonds	(f)	**15,974**	19,866
Non-public debt instruments	(h)	**5,140**	3,500
Financial lease liabilities	(i)	**444**	724
		21,558	24,090
Total non-current borrowings		**215,384**	178,522
Current			
Current portion of long-term bank borrowings			
– secured	(d)	**4,185**	2,296
– unsecured	(e)	**14,393**	14,345
		18,578	16,641
Short-term bank borrowings			
– secured	(d)	**3,901**	2,667
– unsecured	(e)	**41,400**	59,001
		45,301	61,668
Other borrowings			
– secured	(d)	**–**	570
– unsecured	(e)	**69**	79
Corporate bonds	(f)	**8,406**	378
Debentures	(g)	**5,003**	–
Non-public debt instruments	(h)	**1,600**	2,959
Finance lease liabilities	(i)	**286**	385
		15,364	4,371
Total current borrowings		**79,243**	82,680
Total borrowings		**294,627**	261,202

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

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

	2018 RMB million	2017 RMB million
Bank borrowings		
– Within one year or on demand	**63,879**	78,309
– In the second year	**29,775**	21,426
– In the third to fifth years, inclusive	**39,251**	26,764
– Beyond five years	**123,680**	104,755
	256,585	231,254
Others, excluding finance lease liabilities		
– Within one year or on demand	**15,078**	3,986
– In the second year	**6,734**	14,672
– In the third to fifth years, inclusive	**11,115**	5,727
– Beyond five years	**4,385**	4,454
	37,312	28,839
	293,897	260,093

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

	2018 RMB million	2017 RMB million
RMB	**272,367**	239,569
USD	**14,925**	14,144
JPY	**3,992**	3,786
HKD	**1,404**	1,692
EUR	**1,386**	1,488
Others	**553**	523
	294,627	261,202

(c) Borrowings of the Group, excluding corporate bonds, medium-term notes, debentures, non-public debt instruments and finance lease liabilities, bear interest at effective rates ranging from 0.30% to 8.39% (2017: 0.30% to 8.39%) per annum at the end of the reporting period, excluding certain borrowings bearing an interest rate at 20.14% (2017: nil) for a Brazilian subsidiary of the Group.

(d) As at 31 December 2018 and 2017, these borrowings were secured by the Group's prepaid land lease payments (note 17, 45(b)), concession assets (note 18, 45(b)), trade and other receivables (note 27(b), 45(b)), properties under development and held for sale and completed properties held for sale (note 25(a), 45(b)).

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

(f) As approved by China Securities Regulatory Commission ("CSRC") document [2009] No. 761, the Company issued domestic corporate bonds with an aggregate principal amount of RMB7.9 billion in August 2009. These corporate bonds bear interest at a rate of 5.2% per annum with maturity through 2019. These corporate bonds are guaranteed by CCCG.

As approved by CSRC document [2012] No. 998, the Company issued domestic corporate bonds with an aggregate principal amount of RMB12 billion in August 2012. RMB6 billion of such bonds bears interest at a rate of 4.4% per annum with maturity through 2017 and has been fully repaid, RMB2 billion bears interest at a rate of 5.0% per annum with maturity through 2022 and RMB4 billion bears interest at a rate of 5.15% per annum with maturity through 2027. These corporate bonds are guaranteed by CCCG.

As approved by CSRC document [2016] No. 162, the Group issued domestic corporate bonds in February, July and July 2016 with principal amounts of RMB2 billion, RMB3 billion and RMB1 billion, respectively, totalling RMB6 billion, and the maturity of these corporate bonds are five years from the issue date, bearing interest at rates of 2.99%, 3.01% and 3.35% per annum, respectively. The Group has the right to raise the nominal interest rates and the investors also could sell back at the end of the third year from the issue date.

As approved by CSRC document [2018] No. 159, the Group issued domestic corporate bonds in October 2018 with principal amounts of RMB4 billion, and the maturity of these corporate bonds are five years from the issue date, bearing interest at rates of 4.25% per annum. The Group has the right to raise the nominal interest rates and the investors also could sell back at the end of the third year from the issue date.

The corporate bonds are stated at amortised cost with effective rates ranging from 3.00% to 5.23%. Interest is payable once a year. Accrued interest is included in the current borrowings.

(g) The Group issued the following debentures as approved by National Association of Financial Market Institutional Investors ("NAFMII"):

- Three tranches of debentures were issued in August, November and November 2018, respectively, at nominal values of RMB3 billion, RMB0.5 billion, RMB1.5 billion, respectively, with maturity of 270 days, 270 days and 270 days from the issue date respectively. The interest rates are 3.75%, 3.87%, 3.85% and per annum, respectively.
- Six tranches of debentures were issued in April, May, August and October 2016 and in February and April 2017, respectively, at nominal values of RMB2 billion, RMB3 billion, RMB3 billion, RMB2 billion, RMB3 billion and RMB1 billion, respectively, with maturity of 365 days, 270 days, 270 days, 270 days, 270 days and 240 days from the issue date respectively. The interest rates are 3.70%, 2.99%, 2.61%, 3.2 %, 3.75% and 4.75% per annum, respectively. These debentures have been fully repaid during 2017.

(h) The Group issued the following non-public debt instruments:

- A tranche of non-public debt instrument with a nominal value of RMB1,500 million was issued in October 2012, with maturity of five years from the issue date, bearing interest at a rate of 5.80% per annum. This non-public debt instrument has been fully repaid during 2017.
- Two tranches of non-public debt instruments were issued in April 2013 and one tranche of non-public debt instrument was issued in October 2013, respectively, at nominal values of RMB1,500 million, RMB800 million and RMB500 million, respectively, totalling RMB2,800 million, with maturity of five years, five years and five years from the issue date, respectively. The interest rates are 5.10%, 6.00% and 6.30% per annum, respectively. These non-public debt instruments have been fully repaid during 2018.
- Two tranches of non-public debt instruments were issued in August and September 2014, respectively, at nominal values of RMB500 million and RMB1,000 million, respectively, totalling RMB1,500 million, with maturity of five years and five years, respectively. The interest rates are 7.00% and 6.00% per annum, respectively.
- Eight tranches of non-public debt instruments were issued in March, May, June, June, August, August, September and December 2014, respectively, at nominal values of RMB500 million, RMB800 million, RMB800 million, RMB700 million, RMB500 million, RMB500 million, RMB500 million and RMB100 million, respectively, totalling RMB4,400 million, with maturity of three years from the issue date. The interest rates are 7.10%, 6.35%, 7.00%, 6.50%, 6.60%, 6.65%, 6.15% and 5.60% per annum, respectively. These non-public debt instruments have been fully repaid during 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

(h) The Group issued the following non-public debt instruments: (Continued)

- A tranche of non-public debt instrument with a nominal value of RMB2,000 million was issued in August 2015, with maturity of five years from the issue date, bearing interest at a rate of 4.80% per annum. RMB860 million of these non-public debt instruments have been repaid during 2018.
- Two tranches of non-public debt instruments were issued in July and November 2018, respectively, at nominal values of RMB2,000 million and RMB2,000 million, with maturity of three years from the issue date. The interest rates are 7.00% and 5.40% per annum, respectively. These non-public debt instruments will be fully repaid during 2021.

The non-public debt instruments are stated at amortised cost with effective rates ranging from 4.80% to 7.00%. Interest is payable once a year. The accrued interest is included in current borrowings.

(i) The Group leases certain of its plant and machinery and these leases are classified as finance leases. At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	2018	2017
	RMB million	*RMB million*
Minimum lease payments		
– Within one year	**286**	409
– In the second to fifth years, inclusive	**511**	688
– Beyond five years	**–**	125
Total minimum lease payments	**797**	1,222
Future finance charges	**(67)**	(113)
Present value of minimum lease payments	**730**	1,109
Representing:		
– Within one year	**286**	385
– In the second to fifth years, inclusive	**444**	622
– Beyond five years	**–**	102
	730	1,109

NOTES TO FINANCIAL STATEMENTS

31 December 2018

34. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax liabilities:

	2018					
	Fair value adjustments of equity investments at fair value through other comprehensive income *RMB million*	Available-for-sale investments *RMB million*	Undistributed profits in subsidiaries *RMB million*	Property, plant and equipment *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2018	–	4,607	1,074	52	1,942	7,675
Effect of adoption of IFRS 9	4,667	(4,607)	7	–	–	67
At 1 January 2018 (restated)	4,667	–	1,081	52	1,942	7,742
Deferred tax charged to profit or loss during the year *(note 11)*	–	–	218	5	52	275
Charged/(credited) to other comprehensive income	(944)	–	–	–	(1)	(945)
Acquisition of a subsidiary	–	–	–	–	–	–
Disposal of subsidiaries	–	–	–	–	(25)	(25)
Exchange difference	1	–	–	5	(27)	(21)
At 31 December 2018	3,724	–	1,299	62	1,941	7,026

Deferred tax assets:

	2018								
	Impairment of financial and contract assets *RMB million*	Provision for impairment of assets *RMB million*	Depreciation and amortisation *RMB million*	Provision for foreseeable contract losses *RMB million*	Provision for employee benefits *RMB million*	Tax losses *RMB million*	Discount on long-term receivables *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2018	–	2,157	94	145	242	1,312	889	1,081	5,920
Effect of adoption of IFRS 9	2,416	(2,157)	–	–	–	–	–	9	268
At 1 January 2018 (restated)	2,416	–	94	145	242	1,312	889	1,090	6,188
(Charged)/credited to profit or loss during the year *(note 11)*	390	–	(15)	(26)	(19)	385	(402)	(146)	167
(Charged)/credited to other comprehensive income	–	–	–	–	11	–	–	83	94
Acquisition of a subsidiary	–	–	–	–	–	–	–	43	43
Disposal of subsidiaries	–	–	–	–	–	(4)	–	(27)	(31)
Exchange difference	(42)	–	(4)	23	1	(32)	(11)	(28)	(93)
At 31 December 2018	2,764	–	75	142	235	1,661	476	1,015	6,368

NOTES TO FINANCIAL STATEMENTS

31 December 2018

34. DEFERRED TAX (CONTINUED)

Deferred tax liabilities:

	2017				
	Available-for-sale investments *RMB million*	Undistributed profits in subsidiaries *RMB million*	Property, plant and equipment *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2017	3,500	666	151	1,523	5,840
Deferred tax charged to profit or loss during the year *(note 11)*	–	408	34	265	707
Charged/(credited) to other comprehensive income	1,158	–	–	–	1,158
Acquisition of a subsidiary	–	–	–	164	164
Disposal of subsidiaries	(51)	–	(134)	(23)	(208)
Exchange difference	–	–	1	13	14
Gross deferred tax liabilities at 31 December 2017	4,607	1,074	52	1,942	7,675

Deferred tax assets:

	2017							
	Provision for impairment of assets *RMB million*	Depreciation and amortisation *RMB million*	Provision for foreseeable contract losses *RMB million*	Provision for employee benefits *RMB million*	Tax losses *RMB million*	Discount on long-term receivables *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2017	2,262	107	127	284	1,303	656	1,294	6,033
(Charged)/credited to profit or loss during the year *(note 11)*	382	(13)	60	(33)	(47)	233	(123)	459
(Charged)/credited to other comprehensive income	–	–	–	(9)	–	–	10	1
Acquisition of a subsidiary	–	–	–	–	47	–	–	47
Disposal of subsidiaries	(487)	–	(42)	–	–	–	(114)	(643)
Exchange difference	–	–	–	–	9	–	14	23
Gross deferred tax assets at 31 December 2017	2,157	94	145	242	1,312	889	1,081	5,920

NOTES TO FINANCIAL STATEMENTS

31 December 2018

34. DEFERRED TAX (CONTINUED)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018		2017	
	Deferred tax assets	**Deferred tax liabilities**	Deferred tax assets	Deferred tax liabilities
	RMB million	***RMB million***	*RMB million*	*RMB million*
The gross balance	**6,368**	**(7,026)**	5,920	(7,675)
Offsetting	**(1,864)**	**1,864**	(1,706)	1,706
	4,504	**(5,162)**	4,214	(5,969)

Deferred tax assets of RMB4,126 million (2017: RMB3,063 million) have not been recognised in respect of these losses amounting to RMB16,834 million (2017: RMB12,582 million) as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Most of these tax losses will expire in one to five years for offsetting against future taxable profits.

As at 31 December 2018, the Group did not recognise deferred tax assets of RMB684 million (2017: RMB811 million) in respect of deductible temporary differences amounting to RMB2,789 million (2017: RMB3,296 million) as the directors believe it is not probable that such deductible temporary differences would be recognised.

35. RETIREMENT BENEFIT OBLIGATIONS

The Group provided supplementary pension subsidies and medical benefits to its normal retired or early retired employees in Mainland China who retired prior to 1 January 2006, which are considered to be defined benefit plans, and recognised a liability for the unfunded employee benefit obligations in the consolidated statement of financial position as follows:

	2018	2017
	RMB million	*RMB million*
Present value of defined benefit obligations	**1,293**	1,347
Less: current portion	**(141)**	(149)
Non-current portion	**1,152**	1,198

NOTES TO FINANCIAL STATEMENTS

31 December 2018

35. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2018	2017
	RMB million	*RMB million*
At 1 January	**1,347**	1,499
Past service cost	**6**	25
Interest cost	**51**	46
Effect of settlements	**–**	–
	1,404	1,570
Remeasurements		
– Gains from changes in financial assumptions	**65**	(73)
– Losses from changes in the demographic hypothesis	**–**	24
– Experience (gains)/losses	**(5)**	14
	1,464	1,535
Payments	**(171)**	(188)
At 31 December	**1,293**	1,347

The above obligations were determined based on actuarial valuation performed by an independent actuary, Towers Watson Management Consulting (Shenzhen) Co., Ltd. Beijing Branch, using the projected unit credit method. The significant actuarial assumptions are as follows:

	2018	2017
Discount rate	**3.25%**	4.00%
Medical cost growth rate	**4.00%–8.00%**	4.00%–8.00%

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

	Impact on defined benefit obligations	
	2018	2017
	RMB million	*RMB million*
Discount rate:		
– 0.25% increase	**(22)**	(23)
– 0.25% decrease	**23**	24
Medical cost growth rate:		
– 1.00% increase	**21**	22
– 1.00% decrease	**(19)**	(20)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the retirement benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the retirement benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

35. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

	2018 *RMB million*	2017 *RMB million*
Within 1 year	141	149
1 year to 2 years	133	142
2 years to 5 years	358	384
Over 5 years	1,032	1,167
	1,664	1,842

The average duration of the defined benefit plan obligation at the end of the reporting period was 7 years (2017: 6.9 years).

36. PROVISIONS

	Pending lawsuits *RMB million*	Provision for foreseeable losses on contract assets *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2018	442	–	238	680
Effect of Adoption of IFRS 15	–	828	–	828
At 1 January 2018 (restated)	442	828	238	1,508
Additional provisions	16	448	149	613
Utilised/reversed during the year	(333)	(573)	–	(906)
At 31 December 2018	125	703	387	1,215
Non-current portion	125	703	387	1,215

	Pending lawsuits *RMB million*	Others *RMB million*	Total *RMB million*
At 1 January 2017	22	147	169
Additional provisions	490	104	594
Acquisition of subsidiaries	22	–	22
Utilised/reversed during the year	(7)	(10)	(17)
Disposal of subsidiaries	(85)	(3)	(88)
At 31 December 2017	442	238	680
Non-current portion	442	238	680

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. SHARE CAPITAL AND PREMIUM

	2018 RMB million	2017 RMB million
Issued and fully paid:		
11,747,235,425 (2017: 11,747,235,425) A shares of RMB1.00 each	**11,747**	11,747
4,427,500,000 (2017: 4,427,500,000) H shares of RMB1.00 each	**4,428**	4,428
	16,175	16,175

The Company was incorporated on 8 October 2006, with an initial registered share capital of RMB10,800 million, divided into 10,800,000,000 domestic shares with a nominal value of RMB1.00 each which were issued to CCCG, the parent company.

In December 2006, the Company completed its H share listing on the Hong Kong Stock Exchange and 4,025,000,000 H shares with a nominal value of RMB1.00 each were issued at HKD4.6 (equivalent to approximately RMB4.63) each. The Company raised net proceeds of approximately RMB17,878 million (equivalent to HKD17,772 million) from the issuance of H shares, of which paid-up share capital was RMB4,025 million and share premium was approximately RMB13,853 million. Upon the issuance of H shares, 402,500,000 domestic shares (10% of the number of H shares issued) were converted into H shares and transferred to the National Social Security Fund.

In March 2012, the Company completed an initial public offering of A shares on the Shanghai Stock exchange. In this connection, the Company issued 1,349,735,425 A shares, of which 925,925,925 A shares were issued to domestic investors by way of public offering, and 423,809,500 A shares were issued for the purpose of implementing the merger agreement through share exchange with the non-controlling shareholders of Road & Bridge International Co., Ltd. ("Road & Bridge International"), a former A share listed company and a subsidiary of the Company. The Company raised net proceeds of approximately RMB7,153 million, of which paid-up share capital was RMB1,350 million and share premium was approximately RMB5,803 million. Upon the completion of this A share issuance and listing, 92,592,593 A shares (10% of the number of new A shares issued by public offering) were transferred to the National Social Security Fund.

As at 31 December 2018, the Company's share capital was RMB16,174,735,425 (2017: RMB16,174,735,425), comprising 11,747,235,425 A shares and 4,427,500,000 H shares, representing approximately 72.6% and 27.4% of the registered capital, respectively.

38. FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY

	2018 RMB million	2017 RMB million
Medium-term notes *(note a)*	**9,958**	4,963
Preference shares *(note b)*	**14,468**	14,468
	24,426	19,431

(a) As approved by NAFMII, a tranche of MTN was issued by the Company in 2014, with a nominal value of RMB5,000 million. There is no maturity date for the MTN and the holders have no right to receive a return of principal. The initial interest rate of the MTN was 6% per annum, which will be reset once in every five years since the issuance date. Pursuant to the terms of the MTN, the Company may elect to defer the distribution of interest, and is not subject to any restriction as to the number of times the distribution can be deferred. The MTN is subject to redemption in whole, at the option of the Company, five years after the issue date, at its principal amount together with accrued interest.

As approved by NAFMII, three tranches of MTNs were issued by the Company in 2018, with nominal values of RMB2,000 million, RMB2,000 million, RMB1,000 million, respectively. There is no maturity date for these MTNs and the holders have no right to receive a return of principal. The initial interest rates of these MTNs were 4.58%, 4.55% and 4.55% per annum respectively, which will be reset once in every three years since the issuance date. Pursuant to the terms of these MTNs, the Company may elect to defer the distribution of interest, and is not subject to any restriction as to the number of times the distribution can be deferred. These MTNs are subject to redemption in whole, at the option of the Company, three years after the issue date, at its principal amount together with accrued interest.

The directors of the Company are of the opinion that the Group has no contractual obligations to repay the principal or to pay any distribution for these MTNs, and these MTNs should be classified as equity.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

38. FINANCIAL INSTRUMENTS CLASSIFIED AS EQUITY (CONTINUED)

(b) As approved by the CSRC, two tranches of preference shares were issued in 2015, with a total number of shares of 145 million. The initial dividend rates of these tranches of preference shares were 5.1% and 4.7% respectively, which will be reset once in every five years since the issuance dates. The declaration of dividend is optional for the issuer and the undeclared dividend is non-cumulative. The subscription price of these preference shares was RMB100 per share and the total net proceeds were RMB14,468 million.

The directors of the Company are of the opinion that the Group has no contractual obligations to repay the principal or to pay any dividend for the preference shares, and the preference shares should be classified as equity.

39. RESERVES

	Capital reserve *RMB million*	Statutory surplus reserve *RMB million*	General reserve *RMB million*	Remeasurement reserve *RMB million*	Investment revaluation reserve *RMB million*	Hedging reserve *RMB million*	Safety reserve *RMB million*	Exchange reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*
At 31 December 2017	4,933	4,716	975	(48)	15,143	3	2,216	505	97,217	125,660
Adjustment on adoption of IFRS 9, net of tax	–	–	–	–	85	–	–	–	(718)	(633)
At 1 January 2018	4,933	4,716	975	(48)	15,228	3	2,216	505	96,499	125,027
Profit for the year	–	–	–	–	–	–	–	–	19,819	19,819
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax	–	–	–	–	(3,017)	–	–	–	–	(3,017)
Cash flow hedges, net of tax	–	–	–	–	–	(4)	–	–	–	(4)
Share of other comprehensive income of joint ventures and associates	9	–	–	–	(106)	–	–	–	–	(97)
Actuarial gains on retirement benefit obligations, net of tax	–	–	–	(49)	–	–	–	–	–	(49)
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	265	–	265
Final 2017 dividend declared	–	–	–	–	–	–	–	–	(3,913)	(3,913)
Transaction with non-controlling interests	(92)	–	–	–	–	–	–	–	–	(92)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	–	–	(1,018)	(1,018)
Transfer to statutory surplus reserve (b)	–	526	–	–	–	–	–	–	(526)	–
Transfer to general reserve (c)	–	–	113	–	–	–	–	–	(113)	–
Transfer to safety reserve (d)	–	–	–	–	–	–	139	–	(139)	–
At 31 December 2018	4,850	5,242	1,088	(97)	12,105	(1)	2,355	770	110,609	136,921

NOTES TO FINANCIAL STATEMENTS

31 December 2018

39. RESERVES (CONTINUED)

	Capital reserve RMB million	Statutory surplus reserve RMB million	General reserve RMB million	Remeasurement reserve RMB million	Investment revaluation reserve RMB million	Hedging reserve RMB million	Safety reserve RMB million	Exchange reserve RMB million	Retained earnings RMB million	Total RMB million
At 1 January 2017	3,463	4,212	766	(74)	11,095	1	1,849	1,232	81,517	104,061
Profit for the year	–	–	–	–	–	–	–	–	20,943	20,943
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	5,765	–	–	–	–	5,765
Release of investment revaluation reserve upon disposal of available-for-sale investments, net of tax	–	–	–	–	(1,647)	–	–	–	–	(1,647)
Cash flow hedges, net of tax	–	–	–	–	–	2	–	–	–	2
Share of other comprehensive income of joint ventures and associates	–	–	–	–	(70)	–	–	–	–	(70)
Actuarial gains on retirement benefit obligations, net of tax	–	–	–	26	–	–	–	–	–	26
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(727)	–	(727)
Final 2016 dividend declared	–	–	–	–	–	–	–	–	(3,145)	(3,145)
Transaction with non-controlling interests (a)	1,480	–	–	–	–	–	–	–	–	1,480
Share of other reserves of joint ventures and associates	(10)	–	–	–	–	–	–	–	–	(10)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	–	–	(1,018)	(1,018)
Transfer to statutory surplus reserve	–	504	–	–	–	–	–	–	(504)	–
Transfer to general reserve	–	–	209	–	–	–	–	–	(209)	–
Transfer to safety reserve	–	–	–	–	–	–	367	–	(367)	–
At 31 December 2017	4,933	4,716	975	(48)	15,143	3	2,216	505	97,217	125,660

(a) Capital reserve

Capital reserve primarily arose upon incorporation of the Company on 8 October 2006 when the Company took over the assets and liabilities relating to the principal operations and businesses (the "Core Operations") of CCCG. The net value of the Core Operations transferred to the Company from CCCG was converted into the Company's share capital of RMB10,800,000,000 of RMB1.00 each with the then existing reserves eliminated and the resulting difference dealt with in the capital reserve of the Group.

Including in the contributions of 2017 were concessions made by non-controlling interests of two subsidiaries amounting to RMB1,480 million. The amount was originated from the government's capital contribution to two state-owned enterprises operating BOT projects. Based on negotiation, the non-controlling interests agreed to concede such government contribution to the Group. Such amounts were treated as transactions between the equity owners and are recorded in equity. Such amounts cannot be converted into shares of the Company.

(b) Statutory surplus reserve

In accordance with the PRC Company Law and the Company's articles of association, the Company is required to appropriate 10% of its profit after tax as determined in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises ("PRC GAAP") and regulations applicable to the Company, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. The appropriation to the reserve must be made before any distribution of dividends to owners. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

For the year ended 31 December 2018, the board of directors proposed an appropriation of 10% (2017: 10%) of the Company's profit after tax, as determined under PRC GAAP, of RMB526 million (2017: RMB504 million) to the statutory surplus reserve.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

39. RESERVES (CONTINUED)

(c) General reserve

CCCC Finance, one of the subsidiaries of the Company, is required by the Ministry of Finance to maintain a general reserve within equity, through the appropriation of profit, which should not be less than 1.5% of the year-end balance of its risk assets.

The general reserve balance of CCCC Finance as at 31 December 2018 amounted to RMB1,088 million (2017: RMB975 million).

(d) Safety reserve

Pursuant to certain regulations issued by the Ministry of Finance and the State Administration of Work Safety, the Group is required to set aside from profit after tax an amount to a safety reserve at different rates ranging from 1.5% to 2% of the total construction contract revenue recognised for the year. The reserve can be utilised for improvements of safety on the construction work, and the amounts are generally expenses in nature and charged to the consolidated statement of profit or loss as incurred, and at the same time the corresponding amounts of safety reserve fund were utilised and transferred back to retained profits until such special reserve was fully utilised.

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

Percentage of equity interest held by non-controlling interests:

	2018	2017
	(%)	*(%)*
CCCC (Beijing) One-term Equity Investment Fund LLP	**39.98**	–
CCCC Financial Leasing*	**30.00**	30.0
ZPMC	**–**	–
CCCC (Beijing) Equity Investment Fund LLP	**–**	–

Profit/(loss) for the year allocated to non-controlling interests:

	2018	2017
	RMB million	*RMB million*
CCCC (Beijing) One-term Equity Investment Fund LLP	**(1)**	–
CCCC Financial Leasing	**87**	–
ZPMC	**–**	154
CCCC (Beijing) Equity Investment Fund LLP	**–**	134

Dividends paid to non-controlling interests:

	2018	2017
	RMB million	*RMB million*
CCCC (Beijing) One-term Equity Investment Fund LLP	**–**	–
CCCC Financial Leasing	**47**	–
ZPMC	**–**	236
CCCC (Beijing) Equity Investment Fund LLP	**–**	134

Accumulated balances of non-controlling interests at the reporting date:

	2018	2017
	RMB million	*RMB million*
CCCC (Beijing) One-term Equity Investment Fund LLP	**1,761**	–
CCCC Financial Leasing	**1,719**	1,678
ZPMC	**–**	–
CCCC (Beijing) Equity Investment Fund LLP	**–**	–

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

2018	**CCCC Financial Leasing** *RMB million*	**CCCC (Beijing) One-term Equity Investment Fund LLP** *RMB million*
Revenue	**1,693**	**–**
Profit before tax	**466**	**(3)**
Profit for the year	**352**	**(3)**
Total comprehensive income	**354**	**(3)**
Current assets	**16,768**	**2**
Non-current assets	**14,387**	**4,406**
Current liabilities	**14,391**	**–**
Non-current liabilities	**9,283**	**6**
Net cash flows used in operating activities	**(1,108)**	**–**
Net cash flows used in investing activities	**(505)**	**(4,406)**
Net cash flows from financing activities	**2,668**	**4,406**
Exchange gains on cash and cash equivalents	**4**	**–**
Net increase in cash and cash equivalents	**1,059**	**–**

* ZPMC was deconsolidated from the Group on 27 December 2017 such that the 30% equity interests of CCCC Financial Leasing as held by ZPMC became non-controlling interests in CCCC Financial Leasing,

2017	CCCC Financial Leasing *RMB million*
Revenue	1,173
Profit before tax	362
Profit for the year	272
Total comprehensive income	271
Current assets	17,074
Non-current assets	8,988
Current liabilities	(9,405)
Non-current liabilities	(9,560)
Net cash flows used in operating activities	(82)
Net cash flows used in investing activities	(2)
Net cash flows from financing activities	980
Exchange gains on cash and cash equivalents	(3)
Net increase in cash and cash equivalents	893

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

In addition, the other information of partly-owned subsidiaries with material non-controlling interests are as below:

(a) A tranche of USD denominated perpetual securities of USD1,100 million (with a nominal value equivalent to RMB6,706 million) was issued in April 2015 by CCCI. There is no maturity date for the debt instrument and the holders have no right to receive a return of principal, so this financial instrument was classified as equity of the issuer, and consequently, as non-controlling interests of the Group. The initial interest rate of the debt instrument was 3.50% per annum, which will be reset once in every three years since the issuance date.

(b) In 2018, fourteen tranches of debt instruments were issued by subsidiaries of the Group, with nominal value in total amounts of RMB14,250 million. There is no maturity date for these debt instruments and the holders have no right to receive returns of principal, so these financial instruments were classified as equity of the issuer, and consequently, as non-controlling interests of the Group. The initial interest rates of these debt instruments were in the range from 4.68% to 7.00%, which will be reset once in every three or five years since the issuance date.

41. CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group has below significant non-cash transactions:

	2018	2017
	RMB million	*RMB million*
Bank acceptance bills received for sale of goods and services had been endorsed to engineering contractor or equipment supplier	**10**	751

NOTES TO FINANCIAL STATEMENTS

31 December 2018

41. CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Changes in liabilities arising from financing activities

2018	Bank and other loans	Finance lease payables	Corporate bonds	Debentures	Non-public debt instruments	Dividend	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2018	233,390	1,109	20,244	–	6,459	304	261,506
Changes from financing cash flows	15,461	(597)	2,790	4,817	(216)	(5,679)	16,576
New finance lease	–	6	–	–	–	–	6
Foreign exchange movement	249	–	–	–	–	–	249
Declared dividends	–	–	–	–	–	5,664	5,664
Interest expense	11,090	212	1,341	186	496	–	13,325
Discounted amounts	–	–	5	–	1	–	6
Increase arising from acquisition of subsidiaries	2,153	–	–	–	–	122	2,275
Decrease arising from disposal of subsidiaries	(4,569)	–	–	–	–	(94)	(4,663)
At 31 December 2018	257,774	730	24,380	5,003	6,740	317	294,944

2017	Bank and other loans	Finance lease payables	Corporate bonds	Debentures	Non-public debt instruments	Dividend	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*	*RMB million*
At 1 January 2017	223,044	1,516	26,220	10,144	12,556	85	273,565
Changes from financing cash flows	48,656	(560)	(7,170)	(10,325)	(6,606)	(4,887)	19,108
New finance lease	–	4	–	–	–	–	4
Foreign exchange movement	138	–	–	–	–	–	138
Declared dividends	–	–	–	–	–	5,129	5,129
Interest expense	11,123	149	1,175	181	506	–	13,134
Discounted amounts	–	–	19	–	3	–	22
Increase arising from acquisition of subsidiaries	803	–	–	–	–	9	812
Decrease arising from disposal of subsidiaries	(50,374)	–	–	–	–	(32)	(50,406)
At 31 December 2017	233,390	1,109	20,244	–	6,459	304	261,506

NOTES TO FINANCIAL STATEMENTS

31 December 2018

42. CONTINGENT LIABILITIES

	2018 *RMB million*	2017 *RMB million*
Pending lawsuits *(note a)*	**626**	689
Outstanding loan guarantees *(note b)*	**8,217**	7,912
	8,843	8,601

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

(b) The Group has acted as the guarantor for several external borrowings made by certain joint ventures and associates of the Group. The above amount represents the maximum exposure to default risk under the financial guarantee.

As at 31 December 2018, the above amount included the Group's guarantees for the borrowings of RMB6,430 million (2017: RMB6,325 million) in respect of Guizhou Zhong Jiao Gui Weng Expressway Limited Company ("Zhong Jiao Gui Weng"). Meanwhile Zhong Jiao Gui Weng has pledged its 100% highway toll rights and all relevant benefits to secure the borrowings.

After the assessment of the financial position of these joint ventures and associates, the Directors concluded there is no significant default risk and no provision for such guarantees are required.

(c) As disclosed in note 27(c), as part of the normal business, the Group has entered into certain agreements with certain financial institution so as to establish ABS and ABN. As at 31 December 2018, certain of the ABS and ABN in issue with an aggregate amount of RMB6,710 million (31 December 2017: RMB1,151 million) included the ABS and ABN issued to preferential investors of an aggregate amount of RMB6,322 million (31 December 2017: RMB1,040 million). Under the clauses of the agreements, the Group is subject to the obligations of liquidity supplementary payments to preferential investors when the cash available for distribution of the principal and fixed return at the due date is not sufficient. The directors of the Company evaluate the possibilities to assume the obligations of liquidity supplementary payments is low.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

43. BUSINESS COMBINATIONS INVOLVING ENTITIES NOT UNDER COMMON CONTROL

In 2018, certain subsidiaries of the Company obtained control over Shijiazhuang Real Estate Development Co., Ltd. ("Shijiazhuang"), Kunming Construction Investment Development Co., Ltd. ("Kunming Construction"), and certain other companies, at a total consideration of RMB3,352 million. Set below are the details of the major acquisitions:

Beijing United Real Estate Co., Ltd., a subsidiary of the Company, holds 51% of the equity shares of Shijiazhuang. During the year, Beijing United Real Estate Co., Ltd. entered into an agreement with another shareholder of Shijiazhuang, according to which this shareholder agreed to take concerted action with Beijing United Real Estate Co., Ltd. in the decision-making of major issues in Shijiazhuang. The Group thus obtained control over Shijiazhuang.

On 25 December 2018, CCCC Southwest Investment Development Co., Ltd., a subsidiary of the Company, acquired a 90% equity interest in Kunming Construction held by Beijing Zhongjiao Jian Xin Equity Investment Fund LLP, at a consideration of RMB288 million. Thus the Group obtained control over Kunming Construction.

The fair value and book value of assets and liabilities of these companies at the date of acquisition were as follows:

	31 January 2018 Fair value *RMB million*	**31 January 2018 Book value** *RMB million*
Non-current assets		
Property, plant and equipment	40	40
Intangible assets	7,226	7,226
Trade and other receivables	2,286	2,286
Deferred tax assets	43	43
Investments in joint ventures and associates	17	17
	9,612	9,612
Current assets		
Trade and other receivables	3,072	3,072
Inventories	1,779	1,342
Cash and cash equivalents	1,118	1,118
	5,969	5,532
Current liabilities		
Interest-bearing bank and other borrowings	(403)	(403)
Trade and other payables	(4,722)	(4,722)
Contract liabilities	(1,423)	(1,423)
	(6,548)	(6,548)
Non-current liabilities		
Interest-bearing bank and other borrowings	(1,750)	(1,750)
Trade and other payables	(2,895)	(2,895)
	(4,645)	(4,645)
Net assets	4,388	3,951
Non-controlling interests	(805)	
Gains from business combinations achieved in stages	(236)	
	3,347	
Goodwill on acquisition	5	
	3,352	
Consideration		
Satisfied by cash	337	

NOTES TO FINANCIAL STATEMENTS

31 December 2018

43. BUSINESS COMBINATIONS INVOLVING ENTITIES NOT UNDER COMMON CONTROL (CONTINUED)

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

	2018 *RMB million*
Cash consideration	**3,352**
Cash paid for acquisition of subsidiaries	**337**
Cash and bank balances of subsidiaries acquired	**(1,117)**
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(780)**

Since the acquisition, the acquirees contributed RMB78 million to the Group's revenue and caused a profit of RMB46 million to the consolidated profit for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB488,810 million and RMB26,097 million, respectively.

44. DISPOSAL OF SUBSIDIARIES

(a) On 27 December 2018, the Group entered into an equity transfer agreement with China Communications Real Estate Co., Ltd. ("CCCC Real Estate"), to transfer 100% equity interests in Beijing United Real Estate Co., Ltd. to CCCC Real Estate at a consideration of RMB866 million. Therefore, Beijing United Real Estate Co., Ltd. ceased to be subsidiary of the Company.

(b) On 27 December 2018, two third parties made capital contributions to Yulin Zhongjiao Construction Investment Co., Ltd. ("Yulin Zhongjiao") by RMB80 million through Zhongjiao Yulin Road Network Upgrade and Private Investment No. 1 Fund ("No. 1 Fund"), and by RMB200 million through Zhongjiao Yulin Road Network Upgrade and Private Investment No. 2 Fund ("No. 2 Fund"), respectively. Thereafter, CFHCC, No. 1 Fund and No. 2 Fund control Yulin Zhongjiao jointly, and the Group no longer has the control over Yulin Zhongjiao.

(c) On 24 December 2018, Zhongjiao Jianyin (Xiamen) Equity Investment Fund Management Co., Ltd. made a capital contribution to Guangdong Zhongjiao Yuzhan Expressway Development Co., Ltd. ("Guangdong Yuzhan") through Beijing Zhongjiao Luqiao Investment Phase III Fund LLP by RMB70 million. Thereafter, CFHCC and Beijing Zhongjiao Luqiao Investment Phase III Fund LLP jointly control Guangdong Yuzhan, and the Group no longer has the control over Guangdong Yuzhan.

(d) On 21 December 2018, China Communications Water Transportation Consultants Co., Ltd. ("Water Transportation Consultants") and CCCG entered into a capital increase agreement, pursuant to which CCCG agreed to make a capital contribution in cash of RMB318 million to China Communications Information Center, while Water Transportation Consultants agreed to make a capital contribution to China Communications Information Center with its 58% equity interests in Beijing Zhongjiao Ziguang Technology Co., Ltd.. Thereafter, the Group no longer has the control over China Communications Information Center.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

44. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(e) The aggregate financial information of the subsidiaries disposed of by the Group, at the date of disposal in 2018, is as follows:

	Total *RMB million*
Non-current assets	**3,555**
Current assets	**6,191**
Current liabilities	**(3,310)**
Non-current liabilities	**(4,910)**
Non-controlling interests	**(423)**
	1,103
Gain on disposal of subsidiaries	**482**
	1,585
Represented by:	
Residual interests in joint ventures	**178**
Residual interests in associates	**324**
Financial assets at fair value through profit or loss	**138**
Cash consideration	**945**
	1,585

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

	2018 *RMB million*	2017 *RMB million*
Cash received from disposal of subsidiaries in current year	**859**	9,573
Cash received from disposal of subsidiaries in prior year	**593**	–
Cash and bank balances of subsidiaries disposed of	**(1,792)**	(6,413)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(340)**	3,160

(f) The information of disposal of subsidiaries that occurred and has been completed in 2017 is as follow:

In 2017, the Group entered into an equity transfer agreement with CCCG, pursuant to which the Company and CHEC agreed to transfer 29.99% equity interests of ZPMC to CCCG and CCCG HK for a consideration of RMB5,661 million. Upon the completion of this transfer on 27 December 2017, the Group still holds 16.24% equity interest in ZPMC, and thus ZPMC ceased to be a subsidiary of the Group.

On 31 December 2017, the Group entered into certain agreements with a joint venture (a fund engaged in infrastructure investment), to dispose of the Group's 99% equity interests in three subsidiaries which held concession assets (toll roads), for an aggregate consideration of RMB2,847 million. Furthermore, the Group entered into certain forward equity contracts with the joint venture to repurchase these equity interests in future with discount to the consideration under some conditions. The cost of these forward equity contracts will be paid by instalments in five years, with a discounted net present value of RMB390 million. The fair value of these forward equity contracts was RMB256 million as at trade date and 31 December 2017.

In addition, during 2017, the Group disposed of certain other companies, the aggregate financial information of the subsidiaries disposed of by the Group, at the date of disposal in 2017, is as follows:

NOTES TO FINANCIAL STATEMENTS

31 December 2018

44. DISPOSAL OF SUBSIDIARIES (CONTINUED)

(f) (continued)

	2017 *RMB million*
Net assets disposed of:	
Non-current assets	
Property, plant and equipment	19,355
Intangible assets	15,977
Investment properties	301
Prepaid land lease payments	3,891
Investments in joint ventures	239
Investments in associates	194
Available-for-sale investments	1,304
Trade and other receivables	2,502
Deferred tax assets	618
Other non-current assets	10,500
	54,881
Current assets	
Inventories	19,428
Amounts due from contract customers	2,509
Trade and other receivables	9,180
Cash and bank balances	6,413
Other financial assets at fair value through profit or loss	8
	37,538
Current liabilities	
Interest-bearing bank and other borrowings	(27,601)
Trade and other payables	(17,831)
Provision	(88)
Tax payable	(206)
	(45,726)
Non-current liabilities	
Interest-bearing bank and other borrowings	(22,773)
Deferred income	(551)
Deferred tax liabilities	(183)
Trade and other payable	(2,688)
	(26,195)
Non-controlling interests	(6,969)
Other reserve	(157)
	13,372
Gain on disposal of subsidiaries	4,002
	17,374
Represented by:	
Residual interests in joint ventures	124
Residual interests in associates	5,882
Cash consideration	11,368
	17,374

NOTES TO FINANCIAL STATEMENTS

31 December 2018

45. PLEDGE OF ASSETS

(a) At 31 December 2018, the restricted deposits were RMB4,633 million (31 December 2017: RMB2,880 million).

(b) Details of the Group's interest-bearing bank and other borrowings, which are secured by the assets of the Group, are included in notes 16, 17, 18, 25(a) and 27(b), respectively, to the financial statements as follows:

	2018 *RMB million*	2017 *RMB million*
Trade and other receivables	**27,261**	14,859
Inventories	**3,597**	4,013
Investment properties	**1,117**	–
Prepaid land lease payments	**5,028**	1,628
Intangible assets	**141,261**	119,600
	178,264	140,100

46. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group rents out various offices, machinery, vessels and vehicles and other equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 *RMB million*	2017 *RMB million*
Within one year	**384**	331
In the second to fifth year, inclusive	**795**	658
Beyond five years	**384**	410
	1,563	1,399

(b) As lessee

The Group leases certain of its offices, warehouses, residential properties, machinery and vessels under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 *RMB million*	2017 *RMB million*
Within one year	**1,439**	1,303
In the second to fifth year, inclusive	**1,249**	701
Beyond five years	**241**	137
	2,929	2,141

NOTES TO FINANCIAL STATEMENTS

31 December 2018

47. COMMITMENTS

In addition to the operating lease commitments detailed in note 46(b) above, the Group had the following capital commitments at the end of the reporting period:

	2018 *RMB million*	2017 *RMB million*
Intangible assets – concession assets	**122,293**	115,133
Property, plant and equipment	**1,387**	139
	123,680	115,272

48. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2018 *RMB million*	2017 *RMB million*
Transactions with CCCG		
– Rental expenses	**108**	100
– Deposits placed with CCCC Finance	**20,252**	23,004
– Interest expense from deposits placed with CCCC Finance	**39**	30
– Other borrowing from CCCG	**2,000**	10,505
– Interest expense on loans	**128**	23
Transactions with fellow subsidiaries' joint venture		
– Interest income on finance lease loans	**1**	6
– Revenue from the provision of construction services	**46**	–
– Services charges	**1**	–
Transactions with fellow subsidiaries		
– Revenue from the provision of construction services	**845**	591
– Revenue from the other services	**12**	–
– Purchase of materials	**21**	–
– Subcontracting fee charges	**45**	–
– Services charges	**29**	16
– Revenue from rental income	**2**	–
– Deposits placed with CCCC Finance	**33,566**	59,614
– Interest expense from deposits placed with CCCC Finance	**39**	37
– Loans to fellow subsidiaries	**723**	–
– Interest income from loans	**43**	–
– Finance lease loan to fellow subsidiary	**459**	1,000
– Interest income on finance lease loans	**36**	49
Transactions with joint ventures and associates		
– Revenue from the provision of construction services	**53,345**	29,376
– Revenue from the other services	**16**	27
– Sales of goods	**2,442**	12
– Subcontracting fee charges	**842**	746
– Purchase of materials	**3,956**	745
– Services charges	**35**	172
– Rental expenses	**50**	–
– Revenue from rental income	**2**	169
– Deposits placed with CCCC Finance	**15,290**	8,669
– Interest expense from deposits placed with CCCC Finance	**14**	1
– Loans to joint ventures and associates	**3,284**	4,822
– Interest income from loans	**427**	243
– Commercial factoring provided to joint ventures and associates	**1,491**	235
– Interest income from commercial factoring	**45**	42
– Finance lease loan to joint ventures and associates	**425**	1,000
– Interest income on finance lease loans	**140**	57

These transactions were carried out on terms based on those terms in the ordinary course of business.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties:

	2018 RMB million	2017 RMB million
Trade and bills receivables due from		
– Fellow subsidiaries	**1,484**	935
– Joint ventures and associates	**7,555**	3,928
	9,039	4,863
Long-term trade receivables due from		
– CCCG	**–**	3
– Fellow subsidiaries	**633**	606
– Joint ventures and associates	**15,433**	13,586
– Fellow subsidiaries' joint ventures	**–**	50
	16,066	14,245
Prepayments to		
– Fellow subsidiaries	**63**	706
– Joint ventures and associates	**1,624**	754
	1,687	1,460
Other receivables due from		
– CCCG	**2**	3
– Fellow subsidiaries	**662**	333
– Joint ventures and associates	**3,839**	5,398
	4,503	5,734
Contract assets		
– Fellow subsidiaries	**115**	110
– Joint ventures and associates	**3,686**	4,015
– Fellow subsidiaries' joint ventures	**4**	–
	3,805	4,125
	35,100	30,427

NOTES TO FINANCIAL STATEMENTS

31 December 2018

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Outstanding balances with related parties: (continued)

	2018 *RMB million*	2017 *RMB million*
Trade and other payables due to		
– Fellow subsidiaries	**201**	56
– Joint ventures and associates	**3,749**	2,745
– Fellow subsidiaries' joint ventures	**6**	–
	3,956	2,801
Long-term trade payables due to		
– Fellow subsidiaries	**3**	6
– Fellow subsidiaries' joint ventures	**–**	23
– Joint ventures and associates	**950**	986
	953	1,015
Advances from customers		
– CCCG	**–**	7
– Fellow subsidiaries	**71**	74
– Joint ventures and associates	**9,736**	7,869
– Fellow subsidiaries' joint ventures	**7**	–
	9,814	7,950
Deposits from:		
– CCCG	**3,900**	3,980
– Fellow subsidiaries	**4,877**	3,763
– Joint ventures and associates	**1,044**	1,301
	9,821	9,044
Other payables due to:		
– CCCG	**391**	767
– Fellow subsidiaries	**349**	10
– Joint ventures and associates	**1,450**	1,347
	2,190	2,124
Contract liabilities		
– Fellow subsidiaries	**54**	–
– Joint ventures and associates	**2,831**	1,438
	2,885	1,438
Other borrowings		
– CCCG	**2,500**	10,055
	32,119	34,427

NOTES TO FINANCIAL STATEMENTS

31 December 2018

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Guarantees with related parties

	2018	2017
	RMB million	*RMB million*
Outstanding loan guarantees provided to		
– Joint ventures	**6,546**	6,442
– Associates	**1,671**	1,470
	8,217	7,912
Outstanding guarantees provided by CCCG	**14,158**	14,149

(d) Commitments with related parties:

	2018	2017
	RMB million	*RMB million*
Provision of construction services		
– Fellow subsidiaries	**767**	418
– Joint ventures and associates	**161,285**	149,360
– Fellow subsidiaries' joint ventures	**191**	–
	162,243	149,778
Purchase of services		
– Joint ventures and associates	**574**	635
Operating lease as lessee		
– CCCG	**108**	100

(e) Key management compensation

	2018	2017
	RMB million	*RMB million*
Short term employee benefits	**11,129**	14,753
Post-employment benefits	**690**	759
	11,819	15,512

NOTES TO FINANCIAL STATEMENTS

31 December 2018

48. RELATED PARTY TRANSACTIONS (CONTINUED)

(f) Other transactions with related parties

(i) During the year, the equity investments of the Group together with related parties are set below:

	2018 *RMB million*
Transactions with fellow subsidiaries	
– Establishment of a subsidiary of the Group	17
– Establishment of associates of the Group	600
	617
Transactions with joint ventures and associates	
– Establishment of a subsidiary of the Group	30
– Establishment of an associate of the Group	2
– Establishment of joint ventures of the Group	494
	526
	1,143

(ii) Details of the Group's other equity transactions with related parties are included in note 44(a) and (d) to the financial statements.

(iii) Details of the Group's arrangement of the total return swap with related parties are included in note 28(b).

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

49. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss		
	Debt investments *RMB million*	Equity investments *RMB million*	Held for trading *RMB million*	Financial assets at amortised cost *RMB million*	Total *RMB million*
Financial assets at fair value through profit or loss	–	–	6,048	–	6,048
Equity investments at fair value through other comprehensive income	–	21,257	–	–	21,257
Derivative financial instruments	–	–	250	–	250
Debt investments at amortised cost	–	–	–	109	109
Trade and other receivables excluding prepayments	4,341	–	–	272,341	276,682
Cash and bank balances	–	–	–	134,368	134,368
Total	4,341	21,257	6,298	406,818	438,714

NOTES TO FINANCIAL STATEMENTS

31 December 2018

49. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2018 (continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss *RMB million*	Financial liabilities at amortised cost *RMB million*	Total *RMB million*
Borrowings (excluding finance lease liabilities)	–	293,897	293,897
Finance lease liabilities	–	730	730
Derivative financial instruments	2	–	2
Trade and other payables excluding statutory and non-financial liabilities	–	312,423	312,423
Total	2	607,050	607,052

2017

Financial assets

	Financial assets at fair value through profit or loss *RMB million*	Loans and receivables *RMB million*	Held-to-maturity investment *RMB million*	Available-for-sale financial assets *RMB million*	Total *RMB million*
Available-for-sale investments	–	–	–	25,908	25,908
Held-to-maturity investment	–	–	104	–	104
Derivative financial instruments	488	–	–	–	488
Other financial assets at fair value through profit or loss	6,329	–	–	–	6,329
Trade and other receivables excluding prepayments	–	270,222	–	–	270,222
Cash and bank balances	–	134,321	–	–	134,321
Total	6,817	404,543	104	25,908	437,372

Financial liabilities

	Financial liabilities at fair value through profit or loss *RMB million*	Financial liabilities at amortised cost *RMB million*	Total *RMB million*
Borrowings (excluding finance lease liabilities)	–	260,093	260,093
Finance lease liabilities	–	1,109	1,109
Derivative financial instruments	10	–	10
Trade and other payables excluding statutory and non-financial liabilities	–	268,376	268,376
Total	10	529,578	529,588

NOTES TO FINANCIAL STATEMENTS

31 December 2018

50. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2018	2017	**2018**	2017
	RMB million	*RMB million*	***RMB million***	*RMB million*
Financial liabilities				
Bank borrowings	**192,706**	152,945	**192,755**	152,698
Other borrowings	**1,120**	1,487	**1,120**	1,364
Corporate bonds	**15,974**	19,866	**15,974**	19,821
Non-public debt instruments	**5,140**	3,500	**5,140**	3,654
Total	**214,940**	177,798	**214,989**	177,537

Management has assessed that the fair values of cash and bank balances, financial assets included in trade and other receivables, financial liabilities included in trade and other payables approximate to their carrying amounts.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of finance lease payables, and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for finance lease payables, and interest-bearing bank and other borrowings as at 31 December 2018 and 2017 was assessed to be insignificant.

The fair value of financial instruments traded in an active market is determined at the quoted market price; and the fair value of those not traded in an active market is determined by the Group using valuation technique. The valuation models used mainly comprise discounted cash flow model and market comparable corporate model. The inputs of the valuation technique mainly include future cash flow, PBR (price/book ratio) of companies in same category and unit price of comparable property.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, including forward currency contracts and total return swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and total return swaps are the same as their fair values.

As at 31 December 2018, the market to market value of the derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value measurement categorised within level 3 adopts discounted cash flow method. The unobservable inputs are weighted average capital costs and long-term growth rate.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments, have been estimated by the most appropriate valuation techniques based on assumptions that are not supported by observable market prices or rates, including: (i) market approach by using initial cost of the investment itself or a multiple of earnings, or of revenue depending on the stage of development of an enterprise; (ii) income approach by using the discounted cash flows or earnings of underlying business based on reasonable assumptions and estimations of expected future cash flows (or expected future earnings), the terminal value, and the appropriate risk-adjusted rate that captures the risk inherent in the projections; (iii) replacement cost approach by using the perspective of a market participant to value its assets and liabilities (adjusting, if appropriate, for non-operating assets, excess liabilities and contingent assets and liabilities) to estimate the fair value of an investment.

The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income or profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in unlisted investments, which represent wealth management products issued by financial institutions in Mainland China. The Group has estimated the fair values of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Fair value hierarchy

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

Assets and liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	**Significant observable inputs (Level 2)** *RMB million*	**Significant unobservable inputs (Level 3)** *RMB million*	**Total** *RMB million*
Assets				
Bills receivables	–	4,341	–	4,341
Equity investments designated at fair value through other comprehensive income	19,283	–	1,974	21,257
Financial assets at fair value through profit or loss	155	–	5,893	6,048
Derivative financial instruments				
– Forward foreign exchange contracts	–	2	–	2
– Total revenue swap	–	–	21	21
– Forward equity contracts	–	–	227	227
	19,438	4,343	8,115	31,896
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	(2)	–	(2)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

Fair value hierarchy (continued)

Assets and liabilities measured at fair value: (continued)

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	Significant observable inputs (Level 2) *RMB million*	Significant unobservable inputs (Level 3) *RMB million*	Total *RMB million*
Assets				
Financial assets at fair value through profit or loss	2,878	–	3,451	6,329
Derivative financial instruments				
– Forward foreign exchange contracts	–	8	–	8
– Total revenue swap	–	–	81	81
– Forward equity contracts	–	–	399	399
Available-for-sale investments				
– Equity securities and other investments	23,045	–	159	23,204
– Other unlisted instruments	–	56	–	56
	25,923	64	4,090	30,077
Liabilities				
Derivative financial instruments				
– Forward foreign exchange contracts	–	(10)	–	(10)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 ***RMB million***	2017 *RMB million*
At 1 January	**4,090**	387
Effect of adoption of IFRS 9	**2,896**	–
At 1 January (restated)	**6,986**	387
Total losses recognised in the statement of profit or loss included in other gains	**(213)**	(131)
Total losses recognised in other comprehensive income	**(226)**	(4)
Purchases	**2,860**	3,838
Disposals	**(1,292)**	–
At 31 December	**8,115**	4,090

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

Fair value hierarchy (continued)

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	**Significant observable inputs (Level 2)** *RMB million*	**Significant unobservable inputs (Level 3)** *RMB million*	**Total** *RMB million*
Bank borrowings	–	**192,755**	–	**192,755**
Other borrowings	**–**	**1,120**	**–**	**1,120**
Corporate bonds	**5,993**	**9,981**	**–**	**15,974**
Non-public debt instruments	**–**	**5,140**	**–**	**5,140**
	5,993	**208,996**	**–**	**214,989**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB million*	Significant observable inputs (Level 2) *RMB million*	Significant unobservable inputs (Level 3) *RMB million*	Total *RMB million*
Bank borrowings	–	152,698	–	152,698
Other borrowings	–	1,364	–	1,364
Corporate bonds	14,002	5,819	–	19,821
Non-public debt instruments	–	3,654	–	3,654
	14,002	163,535	–	177,537

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the finance department under policies approved by the board of directors. The finance department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign currency risk

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

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

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

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

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

(ii) Price risk

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

The table below summarises the impact of increases/decreases of quoted price in open markets on the Group's pre-tax profit for the year and on equity. The analysis is based on the assumption that the equity price had increased/decreased by 10% with all other variables held constant:

	2018	2017
Increases/decreases in quoted price in open markets	**10%**	10%

	2018 *RMB million*	2017 *RMB million*
Impact on profit before tax for the year	**14**	12
Impact on equity (excluding retained profits)	**1,928**	1,798

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Market risk (continued)

(iii) Interest rate risk

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

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

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

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

(b) Credit risk

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

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are net carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 *RMB million*	Stage 2 *RMB million*	Stage 3 *RMB million*	Simplified approach *RMB million*	*RMB million*
Contract assets*	–	–	–	132,679	132,679
Trade and other receivables*	166,690	21,700	–	87,796	276,186
Pledged deposits					
– Not yet past due	6,955	–	–	–	6,955
Cash and cash equivalents					
– Not yet past due	127,413	–	–	–	127,413
Guarantees given to banks in connection with facilities granted to associates and joint ventures					
– Not yet past due	8,217	–	–	–	8,217
	309,275	21,700	–	220,475	551,450

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 27 and 29 to the financial statements, respectively.

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2018 (continued)

The credit quality of the financial assets included in other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

As at 31 December 2018, the financial assets classified to stage 3 for lifetime ECLs are other receivables with a gross carrying amount of approximately RMB585 million. As they are fully impaired, the net carrying amount is nil.

Maximum exposure as at 31 December 2017

The Group holds substantially all of the bank deposits in major financial institutions located in the PRC and certain overseas banks with proper credit ratings. Management believes these financial institutions are reputable and there is no significant credit risk of losses on such assets. The Group has policies that limit the amount of credit exposure to any financial institutions.

The Group's major customers are PRC Government agencies at the national, provincial and local levels, and other state-owned enterprises, which accounted for a substantial amount of the Group's total operating revenue during the year. The Group also has policies in place to ensure that services are rendered to customers with appropriate credit history and the Group performs periodic credit evaluation of its customers. With regard to overseas companies of inadequate creditworthiness, the Group usually demands letters of guarantee or letters of credit.

Moreover, impairment losses are recognised for the credit risk that is inherent in trade receivables from the domestic and overseas businesses. The maximum exposure to loss of trade receivables is equal to their total carrying amounts. The carrying amounts of trade receivables, showing separately those receivables that are past due or impaired, are disclosed in note 27(a).

Transactions involving derivative financial instruments that hedge foreign exchange exposures are with counterparties that have good credit ratings, and the Group does not use derivative financial instruments for purposes other than risk management. The maximum exposure to credit risk at the reporting date is equal to the carrying amount of those derivatives classified as financial assets. Given their good credit ratings, management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk encompasses the risk that the Group cannot meet its financial obligations in full.

The Group's maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in note 33.

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. Due to the capital intensive nature of the Group's business, the Group ensures that it maintains flexibility through keeping sufficient cash and cash equivalents and credit lines to meet its liquidity requirements. The Group finances its working capital requirements through a combination of funds generated from operations and banks and other borrowings.

The table below analyses the Group's non-derivative financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity dates, and the amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Liquidity risk (continued)

2018	**Less than 1 year** *RMB million*	**Between 1 and 2 years** *RMB million*	**Between 2 and 5 years** *RMB million*	**Over 5 years** *RMB million*	**Total** *RMB million*
Borrowings (excluding finance lease liabilities)	**90,504**	**44,924**	**71,994**	**179,862**	**387,284**
Finance lease liabilities	**287**	**191**	**320**	**–**	**798**
Trade and other payables (excluding statutory and non-financial liabilities)	**295,558**	**10,966**	**5,829**	**527**	**312,880**
Net-settled derivative financial instruments	**2**	**–**	**–**	**–**	**2**
	386,351	**56,081**	**78,143**	**180,389**	**700,964**

2017	Less than 1 year *RMB million*	Between 1 and 2 years *RMB million*	Between 2 and 5 years *RMB million*	Over 5 years *RMB million*	Total *RMB million*
Borrowings (excluding finance lease liabilities)	91,443	42,274	47,357	156,414	337,488
Finance lease liabilities	409	299	389	125	1,222
Trade and other payables (excluding statutory and non-financial liabilities)	258,096	7,547	3,408	103	269,154
Net-settled derivative financial instruments	3	–	–	–	3
Gross-settled derivative financial instruments outflows	17	–	–	–	17
Gross-settled derivative financial instruments inflows	(10)	–	–	–	(10)
	349,958	50,120	51,154	156,642	607,874

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

51. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated statement of financial position plus net debt. The Group aims to maintain the gearing ratio at a reasonable level.

	2018 *RMB million*	2017 *RMB million*
Total borrowings *(note 33)*	**294,627**	261,202
Less: cash and cash equivalents *(note 30)*	**(127,413)**	(129,197)
Net debt	**167,214**	132,005
Total equity	**239,682**	205,594
Total capital	**406,896**	337,599
Gearing ratio	**41.1%**	39.1%

The gearing ratio as at 31 December 2018 increased by 2% compared with that in 2017.

52. EVENTS AFTER THE REPORTING PERIOD

On 29 March 2019, the board of directors of the Company resolved that a final dividend of RMB0.23077 per share, totalling approximately RMB3,733 million, is to be distributed to the shareholders, subject to approval of the shareholders at the forthcoming AGM. Such final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

53. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018	2017
	RMB million	*RMB million*
Non-current assets		
Property, plant and equipment	**143**	161
Intangible assets	**231**	103
Investments in subsidiaries	**113,690**	112,056
Investments in joint ventures	**2,668**	1,124
Investments in associates	**6,741**	7,491
Financial assets at fair value through profit or loss	**460**	210
Available-for-sale investments	**–**	17,257
Equity investments designated at fair value through other comprehensive income	**14,453**	–
Contract assets	**2,509**	–
Trade and other receivables	**5,444**	12,217
Loans to subsidiaries	**455**	455
Amounts due from subsidiaries	**544**	1,582
Total non-current assets	**147,338**	152,656
Current assets		
Inventories	**436**	421
Contract assets	**11,620**	–
Trade and other receivables	**11,486**	14,103
Loans to subsidiaries	**25,741**	17,904
Amounts due from subsidiaries	**21,322**	16,144
Amounts due from contract customers	**–**	4,915
Restricted bank deposits	**106**	111
Cash and cash equivalents	**58,558**	60,180
Total current assets	**129,269**	113,778
Current liabilities		
Trade and other payables	**3,139**	6,581
Contract liabilities	**5,290**	–
Amounts due to subsidiaries	**100,076**	90,904
Amounts due to contract customers	**–**	2,807
Tax payables	**20**	25
Interest-bearing bank and other borrowings	**32,980**	32,005
Total current liabilities	**141,505**	132,322
Net current (liabilities)/assets	**(12,236)**	(18,544)
Total assets less current liabilities	**135,102**	134,112

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

	2018 *RMB million*	2017 *RMB million*
Total assets less current liabilities	**135,102**	134,112
Non-current liabilities		
Trade and other payables	**398**	831
Amounts due to subsidiaries	**3,252**	3,146
Interest-bearing bank and other borrowings	**17,759**	18,925
Deferred tax liabilities	**2,862**	3,488
Retirement benefit obligations	**54**	55
Provisions	**81**	386
Total non-current liabilities	**24,406**	26,831
Net assets	**110,696**	107,281
Equity		
Equity attributable to owners of the parent		
Share capital	**16,175**	16,175
Share premium	**19,656**	19,656
Financial instruments classified as equity	**24,426**	19,431
Reserves *(note)*	**50,439**	52,019
Total equity	**110,696**	107,281

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

Note:

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

	Capital reserve *RMB million*	Statutory surplus reserve *RMB million*	Remeasurement reserve *RMB million*	Investment revaluation reserve *RMB million*	Safety reserve *RMB million*	Exchange reserve *RMB million*	Retained earnings *RMB million*	Total *RMB million*
Balance at 1 January 2017	21,170	4,216	57	7,566	20	–	14,960	47,989
Profit for the year	–	–	–	–	–	–	3,354	3,354
Changes in fair value of available-for-sale investments, net of tax	–	–	–	4,006	–	–	–	4,006
Actuarial gains on retirement benefit obligations, net of tax	–	–	1	–	–	–	–	1
Share of other comprehensive income of joint ventures and associates	3	–	6	–	–	–	–	9
Exchange differences on translation of foreign operations	–	–	–	–	–	(8)	–	(8)
Share of other reserve of associates	3	–	–	44	–	–	784	831
Final 2016 dividend declared	–	–	–	–	–	–	(3,145)	(3,145)
Distributions to holders of financial instruments classified as equity	–	–	–	–	–	–	(1,018)	(1,018)
Transfer to statutory surplus reserve	–	504	–	–	–	–	(504)	–
Transfer to safety reserve	–	–	–	–	(20)	–	20	–
At 31 December 2017	21,176	4,720	64	11,616	–	(8)	14,451	52,019
Adjustment on adoption of IFRS 9, net of tax	–	–	–	–	–	–	(70)	(70)
At 1 January 2018	**21,176**	**4,720**	**64**	**11,616**	**–**	**(8)**	**14,381**	**51,949**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**5,262**	**5,262**
Changes in fair value of equity instruments at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**(1,828)**	**–**	**–**	**–**	**(1,828)**
Actuarial gains on retirement benefit obligations, net of tax	**–**	**–**	**(3)**	**–**	**–**	**–**	**–**	**(3)**
Share of other comprehensive income of joint ventures and associates	**5**	**–**	**–**	**(8)**	**–**	**–**	**–**	**(3)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(7)**	**–**	**(7)**
Final 2017 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**(3,913)**	**(3,913)**
Distributions to holders of financial instruments classified as equity	**–**	**–**	**–**	**–**	**–**	**–**	**(1,018)**	**(1,018)**
Transfer to statutory surplus reserve	**–**	**(526)**	**–**	**–**	**–**	**–**	**526**	**–**
At 31 December 2018	**21,181**	**4,194**	**61**	**9,780**	**–**	**(15)**	**15,238**	**50,439**

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 29 March 2019.