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CITIC Limited

中國中信股份有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00267)

**ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

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

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

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

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

THE FOUNDATIONS OF OUR GROWTH

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

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

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

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

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

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

THE PILLARS OF OUR MODEL AS A 21ST CENTURY CONGLOMERATE

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

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

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

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

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

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

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

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

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

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

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

3) We have embraced international standards of governance.

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

4) We have promoted both innovation and continuity.

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

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

THE OPPORTUNITIES AHEAD

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

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

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

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

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

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

Chang Zhenming

Chairman

Hong Kong, 29 March 2019

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

		For the year ended 31 December	
		2018	2017
	<i>Note</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Interest income		279,148	256,108
Interest expenses		(152,895)	(139,426)
Net interest income	4(a)	126,253	116,682
Fee and commission income		66,670	64,797
Fee and commission expenses		(6,641)	(5,617)
Net fee and commission income	4(b)	60,029	59,180
Sales of goods and services	4(c)	330,288	260,481
Other revenue	4(d)	16,715	14,193
		347,003	274,674
Total revenue		533,285	450,536
Cost of sales and services		(270,863)	(222,869)
Other net income		7,713	14,596
Impairment losses		N/A	(78,925)
Expected credit losses		(69,059)	N/A
Other impairment losses		(6,511)	N/A
Other operating expenses		(102,685)	(83,981)
Net valuation gain on investment properties		954	58
Share of profits of associates, net of tax		7,914	7,564
Share of profits of joint ventures, net of tax		2,786	5,889
Profit before net finance charges and taxation		103,534	92,868
Finance income		2,729	1,412
Finance costs		(12,294)	(11,497)
Net finance charges	5	(9,565)	(10,085)
Profit before taxation	6	93,969	82,783
Income tax	7	(18,944)	(17,687)
Profit for the year		75,025	65,096

CONSOLIDATED INCOME STATEMENT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

		For the year ended	
		31 December	
		2018	2017
	<i>Note</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit for the year		<u>75,025</u>	<u>65,096</u>
Attributable to:			
– Ordinary shareholders of the Company		50,239	43,902
– Holders of perpetual capital securities		600	673
– Non-controlling interests		<u>24,186</u>	<u>20,521</u>
Profit for the year		<u>75,025</u>	<u>65,096</u>
Earnings per share for profit attributable to ordinary shareholders of the Company during the year:			
Basic and diluted earnings per share (HK\$)	9	<u>1.73</u>	<u>1.51</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018**

	For the year ended 31 December	
	2018	2017
	HK\$ million	HK\$ million
Profit for the year	75,025	65,096
Other comprehensive (loss)/income for the year (after tax and reclassification adjustments)		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Available-for-sale financial assets: net movement in the fair value reserve	N/A	(9,892)
Fair value changes on financial assets at fair value through other comprehensive income	11,885	N/A
Loss allowance on financial assets at fair value through other comprehensive income	166	N/A
Cash flow hedge: net movement in the hedging reserve	234	968
Share of other comprehensive (loss)/income of associates and joint ventures	(1,938)	1,373
Exchange differences on translation of financial statements and others	(34,735)	44,961
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Reclassification of owner-occupied property as investment property: revaluation gain	164	47
Fair value changes on investments in equity instruments designated at fair value through other comprehensive income	(844)	N/A
Other comprehensive (loss)/income for the year, net of tax	(25,068)	37,457
Total comprehensive income for the year	49,957	102,553
Attributable to:		
– Ordinary shareholders of the Company	32,081	70,453
– Holders of perpetual capital securities	600	673
– Non-controlling interests	17,276	31,427
Total comprehensive income for the year	49,957	102,553

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2018

		31 December 2018	31 December 2017
	<i>Note</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Assets			
Cash and deposits		832,968	924,584
Placements with banks and non-bank financial institutions		200,030	205,346
Financial assets at fair value through profit or loss		N/A	91,350
Derivative financial instruments		37,294	79,339
Trade and other receivables		111,057	149,204
Amounts due from customers for contract work		N/A	1,820
Contract assets		11,068	N/A
Inventories		58,087	58,552
Financial assets held under resale agreements		12,955	65,349
Loans and advances to customers and other parties	<i>10</i>	4,024,401	3,721,886
Investments in financial assets	<i>11</i>		
– Financial assets at amortised cost		899,348	N/A
– Financial assets at fair value through profit or loss		395,259	N/A
– Debt investments at fair value through other comprehensive income		582,899	N/A
– Equity investments at fair value through other comprehensive income		6,921	N/A
Available-for-sale financial assets		N/A	807,912
Held-to-maturity investments		N/A	261,654
Investments classified as receivables		N/A	644,789
Interests in associates		116,631	98,644
Interests in joint ventures		38,620	37,418
Fixed assets		189,647	196,047
Investment properties		32,579	33,073
Intangible assets		14,387	23,721
Goodwill		22,885	23,989
Deferred tax assets		50,011	48,585
Other assets		23,666	47,477
Total assets		<u>7,660,713</u>	<u>7,520,739</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 31 DECEMBER 2018

		31 December 2018	31 December 2017
	<i>Note</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Liabilities			
Borrowing from central banks		327,629	284,818
Deposits from banks and non-bank financial institutions		888,966	954,638
Placements from banks and non-bank financial institutions		129,163	90,131
Financial liabilities at fair value through profit or loss		1,468	–
Derivative financial instruments		37,676	80,075
Trade and other payables		171,093	226,110
Amounts due to customers for contract work		N/A	3,334
Contract liabilities		18,535	N/A
Financial assets sold under repurchase agreements		138,589	160,902
Deposits from customers	12	4,159,924	4,056,158
Employee benefits payables		22,705	20,429
Income tax payable		11,551	13,446
Bank and other loans	13	156,678	142,442
Debt instruments issued	14	745,031	653,371
Provisions		9,713	5,474
Deferred tax liabilities		8,756	9,438
Other liabilities		22,576	26,332
Total liabilities		6,850,053	6,727,098
Equity			
Share capital		381,710	381,710
Perpetual capital securities		–	7,873
Reserves		176,835	161,368
Total ordinary shareholders' funds and perpetual capital securities		558,545	550,951
Non-controlling interests		252,115	242,690
Total equity		810,660	793,641
Total liabilities and equity		7,660,713	7,520,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

CITIC Limited (the “Company”) was incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The address of its registered office is 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central Hong Kong.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

The parent and the ultimate holding company of the Company is CITIC Group Corporation (“CITIC Group”). As at 31 December 2018, the equity interests held by CITIC Group in the Company through its overseas wholly-owned subsidiaries was 58.13% (31 December 2017: 58.13%).

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”), which in collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of amendments to HKFRS that are first effective for the current accounting period of the Group. None of these had a significant effect on the consolidated financial statements of the Group, except for the adoption of HKFRS 9 Financial Instruments (“HKFRS 9”) and HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”).

(i) *HKFRS 9, Financial Instruments*

The adoption of HKFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

Disclosure relating to the impact of the adoption of HKFRS 9 on the Group are described in Note 2(c).

(ii) *Amendments to HKFRS 4, Insurance Contracts*

The amendment to HKFRS 4 addresses the concerns of insurance companies about the different effective dates of HKFRS 9 Financial instruments and the forthcoming new insurance contracts standard. The amendment provides two different solutions for insurance companies: a temporary exemption from HKFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the ‘overlay approach’. Both approaches are optional.

(iii) HKFRS 15, Revenue from contracts with customers

This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

Disclosure relating to the impact of the adoption of HKFRS 15 on the Group are described in Note 2(c).

(iv) Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions

The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled.

(v) Annual improvements 2014–2016 cycle

The following improvements were finalised in December 2016:

- HKFRS 1 – deleted short-term exemptions covering transition provisions of HKFRS 7, HKAS 19 and HKFRS 10 which are no longer relevant.
- HKAS 28 – clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

(vi) Amendments to HKAS 40, Transfers of Investment Property

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer.

(vii) Amendments to Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts.

(b) Changes in significant accounting policies and accounting estimates

HKFRS 9 Financial Instruments

The Group has adopted HKFRS 9 replacing HKAS 39 Financial Instruments: Recognition and measurement (“HKAS 39”) with a date of initial application as 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt HKFRS 9 in previous periods.

As permitted by the transition provisions of HKFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of initial application were recognised in the opening balance of equity of the current period.

The adoption of HKFRS 9 has resulted in changes in the Group’s accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The impact of the adoption of HKFRS 9 on the Group are described in Note 2(c).

HKFRS 15 Revenue from Contracts with Customers

The Group has adopted HKFRS 15 replacing HKAS 18 Revenue (“HKAS 18”) and HKAS 11 Construction Contracts (“HKAS 11”) with a date of initial application as 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt HKFRS 15 in previous periods.

As permitted by the transition provisions of HKFRS 15, the Group elected not to restate comparative figures. The impact at the date of initial application were recognised in the opening balance of equity of the current period.

The impact of the adoption of HKFRS 15 on the Group are described in Note 2(c).

(c) **Impact of changes in significant accounting policies**

(i) ***Impact of the Group's adoption of HKFRS 9 and HKFRS 15 on the consolidated balance sheet***

	As at 31 December 2017 HK\$ million	Impact of first-time adoption of HKFRS 9 HK\$ million (Note 2(c)(ii)(iii))	Impact of first-time adoption of HKFRS 15 HK\$ million	As at 1 January 2018 HK\$ million
Cash and deposits	924,584	(72)	–	924,512
Placements with banks and non- bank financial institutions	205,346	(196)	–	205,150
Financial assets at fair value through profit or loss	91,350	(91,350)	–	–
Derivative financial instruments	79,339	–	–	79,339
Trade and other receivables	149,204	(8,563)	(2,089)	138,552
Amounts due from customers for contract work	1,820	–	(1,820)	–
Fixed assets	196,047	–	(2,932)	193,115
Contract assets	–	–	6,458	6,458
Financial assets held under resale agreements	65,349	(44)	–	65,305
Loans and advances to customers and other parties	3,721,886	(8,374)	–	3,713,512
Investments in financial assets				
–At amortised cost	–	774,199	–	774,199
–At fair value through profit or loss	–	531,754	–	531,754
–Debt investments at fair value through other comprehensive income	–	507,420	–	507,420
–Equity investments at fair value through other comprehensive income	–	5,031	–	5,031
Available-for-sale financial assets	807,912	(807,912)	–	–
Held-to-maturity investments	261,654	(261,654)	–	–
Investments classified as receivables	644,789	(644,789)	–	–
Interests in associates	98,644	14	(497)	98,161
Deferred tax assets	48,585	555	5	49,145
Other assets	47,477	(188)	–	47,289
Total assets	7,520,739	(4,169)	(875)	7,515,695
Trade and other payables	226,110	–	(11,182)	214,928
Amounts due to customers for contract work	3,334	–	(3,334)	–
Contract liabilities	–	–	14,065	14,065
Income tax payable	13,446	(1,752)	(8)	11,686
Provisions	5,474	5,452	–	10,926
Other liabilities	26,332	(481)	165	26,016
Total liabilities	6,727,098	3,219	(294)	6,730,023
Reserves	161,368	(4,711)	(550)	156,107
Non-controlling interests	242,690	(2,677)	(31)	239,982
Total equity	793,641	(7,388)	(581)	785,672
Total liabilities and equity	7,520,739	(4,169)	(875)	7,515,695

Note: Only items affected by the first-time adoption of HKFRS 9 and HKFRS 15 are disclosed above.

(ii) **Reconciliation from HKAS 39 to HKFRS 9 for balance sheet items**

The Group performed a detailed analysis of its business models for managing financial assets and of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with the HKAS 39 to their new measurement categories upon initial application of HKFRS 9 on 1 January 2018:

	As at 31 December 2017 HKAS 39 carrying amount HK\$ million	Reclassification HK\$ million	Remeasurement HK\$ million	As at 1 January 2018 HKFRS 9 carrying amount HK\$ million
Cash and deposits				
–At amortised cost	924,584	–	(72)	924,512
Placements with banks and non-bank financial institutions				
–At amortised cost	205,346	–	(196)	205,150
Derivative financial instruments				
–At fair value through profit or loss	79,339	–	–	79,339
Financial assets held under resale agreements				
–At amortised cost	65,349	–	(44)	65,305
Trade and other receivables (<i>note</i>)				
–At amortised cost	149,204	(7,336)	(1,227)	140,641
Loans and advances to customers and other parties				
–At amortised cost	3,721,886	(7,068)	(8,368)	3,706,450
–At fair value through other comprehensive income	–	7,068	(6)	7,062
	3,721,886	–	(8,374)	3,713,512

	As at 31 December 2017 HKAS 39 carrying amount <i>HK\$ million</i>	Reclassification <i>HK\$ million</i>	Remeasurement <i>HK\$ million</i>	As at 1 January 2018 HKFRS 9 carrying amount <i>HK\$ million</i>
Financial assets at fair value through profit or loss				
–At fair value through profit or loss	75,560	(75,560)	–	–
–Designated as measured at fair value through profit or loss	15,790	(15,790)	–	–
Available-for-sale financial assets				
–At fair value through other comprehensive income	807,912	(807,912)	–	–
Held-to-maturity investments				
–At amortised cost	261,654	(261,654)	–	–
Investments classified as receivables				
–At amortised cost	644,789	(644,789)	–	–
Investments in financial assets				
–At amortised cost	–	768,175	6,024	774,199
–At fair value through profit or loss	–	524,283	7,471	531,754
–Debt investments at fair value through other comprehensive income	–	507,884	(464)	507,420
–Equity investments at fair value through other comprehensive income	–	5,363	(332)	5,031
	<u>1,805,705</u>	<u>–</u>	<u>12,699</u>	<u>1,818,404</u>

Note:

The amount for trade and other receivables as at 1 January 2018 is after the adjustments related to the adoption of HKFRS 9 but before those related to the adoption of HKFRS 15.

(iii) **Reconciliation from HKAS 39 to HKFRS 9 for loss allowances**

The following table reconciles the prior period's closing impairment allowance measured in accordance with the HKAS 39 incurred loss model to the new impairment allowance measured in accordance with the HKFRS 9 expected loss model at 1 January 2018:

	As at 31 December 2017 Loss allowances under HKAS 39/ Provision under HKAS 37 HK\$ million	Reclassification HK\$ million	Remeasurement HK\$ million	As at 1 January 2018 Loss allowances under HKFRS 9 HK\$ million
Cash and deposits	–	–	72	72
Placements with banks and non-bank financial institutions	1	–	196	197
Financial assets held under resale agreements	–	–	44	44
Trade and other receivables	9,699	–	1,227	10,926
Loans and advances to customers and other parties				
– At amortised cost	113,321	–	8,368	121,689
– At fair value through other comprehensive income (<i>note</i>)	–	–	8	8
Available-for-sale financial assets	1,653	(1,653)	–	–
Investments classified as receivables				
– At amortised cost	4,064	(4,064)	–	–
Investments in financial assets				
– At amortised cost	–	4,174	431	4,605
– At fair value through profit or loss	–	900	(900)	–
– Debt investments at fair value through other comprehensive income (<i>note</i>)	–	403	733	1,136
– Equity investments at fair value through other comprehensive income	–	240	(240)	–
	128,738	–	9,939	138,677
Credit commitments and guarantees provided	837	481	4,971	6,289
	129,575	481	14,910	144,966

Note:

The loss allowances for loans and advances to customers and other parties and investments in financial assets that are at fair value through other comprehensive income are recognised in other comprehensive income and do not affect the carrying amount of the assets in the balance sheet.

(iv) **Financial assets that have been reclassified to the amortised cost category**

For financial assets that have been reclassified to the amortised cost category, the following table shows their fair value as at 31 December 2018 and the fair value gain or loss that would have been recognised if these financial assets had not been reclassified as part of the transition to HKFRS 9.

	31 December 2018 HK\$ million
Reclassified into amortised cost	
From available-for-sale (HKAS 39) reclassified to financial assets at amortised cost (HKFRS 9)	
Fair values as at 31 December 2018	108,328
Fair value gain that would have been recognised during the year if the financial assets had not been reclassified	4,329

(v) **Reconciliation of equity due to first-time adoption of HKFRS 9 and HKFRS 15**

The following table reconciles balance of equity as at 31 December 2017 to the amounts upon initial application of HKFRS 9 and HKFRS 15 on 1 January 2018:

	Retained earnings <i>HK\$ million</i>	Investment related reserves <i>HK\$ million</i>	General reserve <i>HK\$ million</i>	Non-controlling interests <i>HK\$ million</i>
As at 31 December 2017	191,554	(7,603)	45,088	242,690
Reclassification under HKFRS 9	(198)	198	–	–
Remeasurement under HKFRS 9	(7,956)	3,231	–	(2,677)
Impact on general reserve under HKFRS 9	(14)	–	14	–
Shares of the impact on associates and joint ventures adopting HKFRS 9	223	(209)	–	–
Total impact of HKFRS 9	(7,945)	3,220	14	(2,677)
Impact of changes in points/ periods for revenue recognition	(17)	–	–	(1)
Impact of adjustment to the stage of completion for revenue recognition	(36)	–	–	(30)
Shares of the impact on associates and joint ventures adopting HKFRS 15	(497)	–	–	–
Total impact of HKFRS 15	(550)	–	–	(31)
As at 1 January 2018	183,059	(4,383)	45,102	239,982

3 SEGMENT REPORTING

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the board of directors for the purposes of resources allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	For the year ended 31 December 2018								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
Revenue from external customers	202,949	78,722	121,939	19,700	8,968	100,920	87	-	533,285
Inter-segment revenue	(452)	5,009	485	61	3,065	1,308	234	(9,710)	-
Reportable segment revenue	202,497	83,731	122,424	19,761	12,033	102,228	321	(9,710)	533,285
Disaggregation of revenue:									
- Net interest income	125,752	-	-	-	-	-	202	299	126,253
- Net fee and commission income	60,041	-	-	-	-	-	26	(38)	60,029
- Sales of goods	-	82,274	120,224	17	7,998	79,732	-	(8,334)	281,911
- Services rendered to customers- construction contracts	-	-	111	16,888	-	2,974	-	(67)	19,906
- Services rendered to customers-others	-	1,457	2,089	2,856	4,035	19,522	39	(1,527)	28,471
- Other revenue	16,704	-	-	-	-	-	54	(43)	16,715
Share of profits/(losses) of associates, net of tax	3,189	1,749	128	119	4,076	(1,491)	144	-	7,914
Share of profits of joint ventures, net of tax	337	1,338	3	-	364	744	-	-	2,786
Finance income (Note 5)	-	360	465	510	709	256	1,548	(1,119)	2,729
Finance costs (Note 5)	-	(2,085)	(1,285)	(103)	(736)	(1,588)	(7,532)	1,035	(12,294)
Depreciation and amortisation	(3,503)	(2,931)	(4,232)	(188)	(265)	(3,900)	(72)	-	(15,091)
Expected credit losses	(68,501)	19	63	(405)	52	(287)	-	-	(69,059)
Other impairment losses	(411)	(1,184)	(532)	-	(3,809)	(575)	-	-	(6,511)
Profit/(loss) before taxation	73,926	3,783	8,085	2,225	8,104	5,675	(6,719)	(1,110)	93,969
Income tax	(12,231)	(811)	(1,399)	(168)	(2,167)	(1,578)	(845)	255	(18,944)
Profit/(loss) for the year	61,695	2,972	6,686	2,057	5,937	4,097	(7,564)	(855)	75,025
Attributable to:									
- Ordinary shareholders of the Company	41,704	2,102	6,008	2,053	5,353	2,049	(8,175)	(855)	50,239
- Non-controlling interests and holders of perpetual capital securities	19,991	870	678	4	584	2,048	611	-	24,786
	As at 31 December 2018								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
Reportable segment assets	7,067,565	131,842	134,882	55,432	154,631	151,071	171,453	(206,163)	7,660,713
Including:									
Interests in associates	41,925	19,227	996	867	38,366	14,237	1,013	-	116,631
Interests in joint ventures	8,442	6,409	139	-	17,548	6,082	-	-	38,620
Reportable segment liabilities	6,476,405	175,525	80,894	43,306	92,267	80,208	201,570	(300,122)	6,850,053
Including:									
Bank and other loans (note)	5,898	40,885	31,923	2,657	9,402	34,825	67,778	(37,778)	155,590
Debt instruments issued (note)	628,169	-	144	-	-	3,849	106,561	-	738,723

Note: The amount is the principal excluding interest accrued.

	For the year ended 31 December 2017								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
Revenue from external customers	190,028	63,456	97,432	14,653	3,227	81,673	67	–	450,536
Inter-segment revenue	(266)	3,215	268	476	134	1,221	–	(5,048)	–
Reportable segment revenue	189,762	66,671	97,700	15,129	3,361	82,894	67	(5,048)	450,536
Share of profits of associates, net of tax	2,352	1,275	25	12	3,836	57	7	–	7,564
Share of profits/(losses) of joint ventures, net of tax	415	1,698	(9)	–	3,181	604	–	–	5,889
Finance income (Note 5)	–	285	408	215	534	151	948	(1,129)	1,412
Finance costs (Note 5)	–	(2,033)	(1,311)	(113)	(512)	(1,758)	(6,799)	1,029	(11,497)
Depreciation and amortisation	(3,262)	(3,225)	(4,153)	(152)	(233)	(3,090)	(56)	–	(14,171)
Impairment losses	(65,889)	(8,402)	(2,025)	(872)	(344)	(1,393)	–	–	(78,925)
Profit/(loss) before taxation	69,464	(8,879)	3,942	2,002	9,034	12,892	(5,732)	60	82,783
Income tax	(11,885)	(605)	(418)	(273)	(1,093)	(1,847)	(1,554)	(12)	(17,687)
Profit/(loss) for the year	57,579	(9,484)	3,524	1,729	7,941	11,045	(7,286)	48	65,096
Attributable to:									
– Ordinary shareholders of the Company	39,506	(9,900)	3,318	1,731	7,660	9,455	(7,908)	40	43,902
– Non-controlling interests and holders of perpetual capital securities	18,073	416	206	(2)	281	1,590	622	8	21,194

	As at 31 December 2017								
	Financial services HK\$ million	Resources and energy HK\$ million	Manufacturing HK\$ million	Engineering contracting HK\$ million	Real estate HK\$ million	Others HK\$ million	Operation management HK\$ million	Elimination HK\$ million	Total HK\$ million
Reportable segment assets	6,925,076	129,438	130,381	46,127	159,664	163,835	177,797	(211,579)	7,520,739
Including:									
Interests in associates	35,567	14,524	951	370	36,150	9,959	1,123	–	98,644
Interests in joint ventures	6,362	4,995	177	–	19,929	5,955	–	–	37,418
Reportable segment liabilities	6,362,774	170,212	77,721	33,626	94,851	95,165	188,253	(295,504)	6,727,098
Including:									
Bank and other loans	7,176	43,900	28,130	1,267	7,898	41,934	34,605	(22,468)	142,442
Debt instruments issued	529,238	598	2,632	–	–	5,175	115,728	–	653,371

(b) Geographical information

An analysis of the Group's revenue and total assets by geographical area are as follows:

	Revenue from external customers		Reportable segment assets	
	For the year ended 31 December 2018	For the year ended 31 December 2017	31 December 2018	31 December 2017
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Mainland China	426,667	347,203	7,011,809	6,902,597
Hong Kong, Macau and Taiwan	59,298	58,134	534,766	505,686
Overseas	47,320	45,199	114,138	112,456
	533,285	450,536	7,660,713	7,520,739

4 REVENUE

As a multi-industry conglomerate, the Group is principally engaging in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

For financial services segment, revenue mainly comprises net interest income, net fee and commission income and net trading gain (Notes 4(a), 4(b) and 4(d)). For non-financial services segment, revenue mainly comprises total invoiced value of sales of goods and services rendered to customers (Note 4(c)).

The Group's customer base is diversified and there is no single customer with which transactions have exceeded 10% of the Group's revenue.

(a) Net interest income

	For the year ended	
	31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Interest income arising from (note):		
Deposits with central banks, banks and non-bank financial institutions	11,819	12,589
Placements with banks and non-bank financial institutions	9,696	7,173
Financial assets held under resale agreements	1,328	1,391
Investments in financial assets		
– Financial assets at amortised cost	39,301	N/A
– Debt investments at fair value through other comprehensive income	19,573	N/A
Investments classified as receivables	N/A	41,484
Loans and advances to customers and other parties	197,232	163,317
Investments in debt securities	N/A	30,034
Others	199	120
	279,148	256,108
Interest expenses arising from:		
Borrowing from central banks	(10,585)	(7,088)
Deposits from banks and non-bank financial institutions	(31,232)	(42,534)
Placements from banks and non-bank financial institutions	(3,915)	(3,478)
Financial assets sold under repurchase agreements	(1,923)	(3,103)
Deposits from customers	(78,242)	(60,936)
Debt instruments issued	(26,667)	(22,113)
Others	(331)	(174)
	(152,895)	(139,426)
Net interest income	126,253	116,682

Note:

Interest income includes interest income accrued on credit-impaired financial assets of HK\$444 million for the year ended 31 December 2018.

(b) Net fee and commission income

	For the year ended	
	31 December	
	2018	2017
	HK\$ million	HK\$ million
Guarantee and advisory fees	6,627	7,326
Bank card fees	38,658	35,107
Settlement and clearing fees	1,502	1,400
Agency fees and commission	5,730	5,094
Trustee commission and fees	13,623	15,362
Others	530	508
	66,670	64,797
Fee and commission expenses	(6,641)	(5,617)
Net fee and commission income	60,029	59,180

(c) Sales of goods and services

	For the year ended	
	31 December	
	2018	2017
	HK\$ million	HK\$ million
Sales of goods	281,911	217,333
Services rendered to customers		
– Revenue from construction contracts	19,906	16,766
– Revenue from other services	28,471	26,382
	330,288	260,481

(d) Other revenue

	For the year ended	
	31 December	
	2018	2017
	HK\$ million	HK\$ million
Net trading gain (<i>note (i)</i>)	7,708	7,580
Net gain on investments in financial assets under financial services segment	5,575	3,580
Net gain from securitisation of financial assets	3,766	3,023
Others	(334)	10
	16,715	14,193

(i) *Net trading gain*

	For the year ended	
	31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Trading profit:		
– debt securities and certificates of deposits	4,702	3,187
– foreign currencies	2,354	1,932
– derivatives	652	2,461
	7,708	7,580

5 NET FINANCE CHARGES

	For the year ended	
	31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Finance costs		
– Interest on bank and other loans	6,446	5,125
– Interest on debt instruments issued	5,714	6,316
	12,160	11,441
Less: interest expense capitalised	(175)	(361)
	11,985	11,080
Other finance charges	309	417
	12,294	11,497
Finance income	(2,729)	(1,412)
	9,565	10,085

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging below costs and expenses in cost of sales and services and other operating expenses:

(a) Staff costs

	For the year ended 31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Salaries and bonuses	48,193	40,572
Contributions to defined contribution retirement schemes	4,982	4,322
Others	9,188	7,622
	<u>62,363</u>	<u>52,516</u>

(b) Other items

	For the year ended 31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Amortisation	2,514	2,407
Depreciation	12,577	11,764
Operating lease charges	8,135	6,453
Tax and surcharges	2,491	2,368
Property management fees	1,308	1,421
Non-operating expenses	886	949
Professional fees (other than auditors' remuneration)	1,191	981
Auditors' remuneration		
– Audit services	198	162
– Non-audit services	51	52
	<u>29,351</u>	<u>26,557</u>

7 INCOME TAX EXPENSE

	For the year ended 31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Current tax – Mainland China		
Provision for enterprise income tax	23,238	23,475
Land appreciation tax	243	48
	<u>23,481</u>	<u>23,523</u>
Current tax – Hong Kong		
Provision for Hong Kong profits tax	1,993	2,075
Current tax – Overseas		
Provision for the year	174	367
	<u>25,648</u>	<u>25,965</u>
Deferred tax		
Origination and reversal of temporary differences	(6,704)	(8,278)
	<u>18,944</u>	<u>17,687</u>

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the year ended 31 December 2018 is 16.5% (2017: 16.5%).

Except for the preferential tax treatments, the income tax rate applicable to the Group's other subsidiaries in Mainland China for the year ended 31 December 2018 is 25% (2017: 25%).

Taxation for other overseas subsidiaries is charged at the rates of taxation prevailing in the countries/ jurisdiction in which the overseas subsidiaries operate.

8 DIVIDENDS

	For the year ended 31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
2017 Final dividend paid: HK\$0.25 (2016 Final: HK\$0.23) per share	7,273	6,691
2018 Interim dividend paid: HK\$0.15 (2017 Interim: HK\$0.11) per share	4,364	3,200
2018 Final dividend proposed: HK\$0.26 (2017 Final: HK\$0.25) per share	<u>7,563</u>	<u>7,273</u>

9 EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share are based on the profit attributable to ordinary shareholders of the Company of HK\$50,239 million for the year ended 31 December 2018 (2017: HK\$43,902 million) calculated as follows:

	For the year ended 31 December	
	2018	2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Profit attributable to ordinary shareholders of the Company	<u>50,239</u>	<u>43,902</u>
Weighted average number of ordinary shares (in million)	<u>29,090</u>	<u>29,090</u>

Diluted earnings per share for the year ended 31 December 2018 and 2017 are same with basic earnings per share. As at 31 December 2018, there are no share options or other equity securities of the Company in issue which if exercised would have a dilutive effect on the issued ordinary share capital as at 31 December 2018 (31 December 2017: Nil).

10 LOANS AND ADVANCES TO CUSTOMERS AND OTHER PARTIES

Loans and advances

	31 December 2018 HK\$ million	31 December 2017 HK\$ million
Loans and advances to customers and other parties at amortised cost		
Corporate loans		
– Loans	2,106,071	2,177,528
– Discounted bills	169,204	130,190
– Finance lease receivables	54,574	54,143
	<u>2,329,849</u>	<u>2,361,861</u>
Personal loans		
– Residential mortgages	734,315	604,498
– Business loans	222,252	198,604
– Credit cards	505,013	399,228
– Personal consumption	232,656	271,016
	<u>1,694,236</u>	<u>1,473,346</u>
	4,024,085	3,835,207
Accrued interest	<u>10,016</u>	<u>N/A</u>
	4,034,101	3,835,207
Less: allowance for impairment losses	<u>(119,857)</u>	<u>(113,321)</u>
Carrying amount of loans and advances to customers and other parties at amortised cost	<u>3,914,244</u>	<u>3,721,886</u>
Loans and advances to customers and other parties at fair value through other comprehensive income		
Corporate loans		
– Loans	156	N/A
– Discounted bills	110,001	N/A
Carrying amount of loans and advances to customers and other parties at fair value through other comprehensive income (note)	<u>110,157</u>	<u>N/A</u>
	<u>4,024,401</u>	<u>3,721,886</u>
Allowance for impairment losses on loans and advances to customers and other parties at fair value through other comprehensive income	<u>(151)</u>	<u>N/A</u>

Note:

As at 31 December 2018, the fair value gains in the carrying amount of loans and advances to customers and other parties at fair value through other comprehensive income is HK\$24 million.

11 INVESTMENTS IN FINANCIAL ASSETS

	31 December 2018 <i>HK\$ million</i>
Debt securities	1,084,868
Investment management products managed by securities companies (<i>note</i>)	266,318
Investment funds	233,549
Trust investment plans (<i>note</i>)	215,072
Certificates of deposit and certificates of interbank deposit	46,523
Equity investment	21,076
Wealth management products	3,144
Investments in creditor's rights on assets	583
Others	921
	1,872,054
Accrued interest	17,340
	1,889,394
Less: allowance for impairment losses	(4,967)
	1,884,427

Note:

As at 31 December 2018, certain of the Group's investments with an aggregate amount of HK\$113,096 million (31 December 2017: HK\$116,069 million) were managed by certain subsidiaries and related parties of the Group.

The underlying assets of trust investment plans and investment management products managed by securities companies primarily include interbank assets and wealth management products issued by other banks, credit assets and rediscounted bills.

12 DEPOSITS FROM CUSTOMERS

(a) Types of deposits from customers

	31 December 2018 <i>HK\$ million</i>	31 December 2017 <i>HK\$ million</i>
Demand deposits		
– Corporate customers	1,725,834	1,947,517
– Personal customers	300,114	281,084
	2,025,948	2,228,601
Time and call deposits		
– Corporate customers	1,577,529	1,463,098
– Personal customers	513,066	357,069
	2,090,595	1,820,167
Outward remittance and remittance payables	5,504	7,390
Accrued interest	37,877	N/A
	4,159,924	4,056,158

(b) Deposits from customers include pledged deposits for the following items:

	31 December 2018 <i>HK\$ million</i>	31 December 2017 <i>HK\$ million</i>
Bank acceptances	186,106	233,647
Letters of credit	7,115	11,112
Guarantees	24,831	29,837
Others	125,116	130,193
	343,168	404,789

13 BANK AND OTHER LOANS

(a) Types of loans

	31 December 2018	31 December 2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Bank loans		
Unsecured loans	101,708	78,106
Loan pledged with assets	24,144	37,408
Guaranteed loans	308	5,955
	126,160	121,469
Other loans		
Unsecured loans	25,709	17,765
Loan pledged with assets	3,721	3,077
Guaranteed loans	–	131
	29,430	20,973
	155,590	142,442
Accrued interest	1,088	N/A
	156,678	142,442

(b) Maturity of loans

	31 December 2018	31 December 2017
	<i>HK\$ million</i>	<i>HK\$ million</i>
Bank and other loans are repayable:		
– Within 1 year or on demand	37,937	31,062
– Between 1 and 2 years	35,222	14,318
– Between 2 and 5 years	44,709	39,200
– Over 5 years	37,722	57,862
	155,590	142,442
Accrued interest	1,088	N/A
	156,678	142,442

14 DEBT INSTRUMENTS ISSUED

	31 December 2018 HK\$ million	31 December 2017 HK\$ million
Corporate bonds issued	85,196	91,644
Notes issued	119,367	147,002
Subordinated bonds issued	141,485	88,200
Certificates of deposit issued	3,141	3,409
Certificates of interbank deposit issued	389,534	323,116
	738,723	653,371
Accrued interest	6,308	N/A
	745,031	653,371
Analysed by remaining maturity:		
–Within 1 year or on demand	400,682	370,069
–Between 1 and 2 years	114,852	7,073
–Between 2 and 5 years	58,997	156,004
–Over 5 years	164,192	120,225
	738,723	653,371
Accrued interest	6,308	N/A
	745,031	653,371

The Group did not have any defaults of principal, interest or other breaches with respect to its debt instruments issued during the year ended 31 December 2018 (2017: Nil).

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES

The Group is involved in a number of current and pending legal proceedings. The Group provided for liabilities arising from those legal proceedings in which the outflow of economic benefit is probable and can be reliably estimated in the consolidated balance sheet. The Group believes that these accruals are reasonable and adequate.

(a) Investigation into 2008 forex incident

Following the Company's announcement of a foreign exchange related loss, on 22 October 2008, the Hong Kong Securities and Futures Commission (the "SFC") announced that it had commenced a formal investigation into the affairs of the Company. On 3 April 2009, the Commercial Crime Bureau of the Hong Kong Police Force began an investigation of suspected offences relating to the same matter.

The SFC announced on 11 September 2014 that it has commenced proceedings in the Court of First Instance of the High Court of Hong Kong (the "High Court") and the Market Misconduct Tribunal (the "MMT"), respectively, against the Company and five of its former executive directors.

The SFC alleged that the Company and the former directors had engaged in market misconduct involving the disclosure of false or misleading information about the Company's financial position in connection with losses that the Company had suffered through its investment in the leveraged foreign exchange contracts.

In the action instigated by the SFC at the MMT, the SFC asked the MMT to (i) determine whether any market misconduct has taken place, and (ii) identify persons who had engaged in such misconduct. In the event that the MMT makes determinations of market misconduct against either the Company or the former directors, it is understood that the SFC will seek from the High Court orders against those who have been found to have engaged in market misconduct to restore affected investors to their pre-transaction positions or to compensate affected investors for their losses.

The MMT hearing was completed in July 2016. On 10 April 2017, the MMT handed down its decision determining that, in the publication of the Company's circular on 12 September 2008, no market misconduct within the meaning of section 277(1) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) took place. The time limits for appeal of the MMT decision have expired and the SFC has discontinued the proceedings in the High Court by consent.

On 15 October 2014, the Secretary for the Financial Services and the Treasury said that the Police's investigation into the CITIC matters on aspects outside the subject matters of the SFC's actions are still ongoing.

In the absence of the findings of these investigations being made available to the Company and due to the inherent difficulties involved in attempting to predict the outcome of such investigations and in assessing the possible findings, the directors do not have sufficient information to reasonably estimate the fair value of contingent liabilities (if any) relating to such investigations, the timing of the ultimate resolution of those matters or what the eventual outcome may be. However, based on information currently available, the directors are not aware of any matters arising from the above investigations that might have a material adverse financial impact on the consolidated financial position or liquidity of the Group.

(b) Mineralogy Pty Ltd ("Mineralogy") disputes

Each of Sino Iron Pty Ltd ("Sino Iron") and Korean Steel Pty Ltd ("Korean Steel"), subsidiary companies of the Company, has entered into a Mining Right and Site Lease Agreement ("MRSLA") with Mineralogy. Among other things, those agreements confer on Sino Iron and Korean Steel the right to develop and operate the Group's Sino Iron project in Western Australia ("Sino Iron Project") and to take and process one billion tonnes each of magnetite ore for that purpose.

Option Agreement Dispute

The Company is a party to an Option Agreement with Mineralogy and Mr. Clive Palmer pursuant to which it has options to acquire up to four further companies, each holding the right to mine one billion tonnes of magnetite ore in the vicinity of the Sino Iron Project. The Company exercised the first option under the Option Agreement on 13 April 2012. Following the exercise of the first option, Mineralogy alleged that the Option Agreement had been repudiated by the Company, purported to accept that repudiation and stated that the Option Agreement was at an end.

The Company (and its affected subsidiaries, Sino Iron and Korean Steel) (together referred to as the "CITIC Parties") commenced a legal proceeding in the Supreme Court of Western Australia. On 30 September 2015, the Court made declarations by consent, including that the Company had not repudiated the Option Agreement in the manner initially asserted by Mineralogy and Mr. Palmer.

Notwithstanding the making of these declarations, Mineralogy and Mr. Palmer have not taken the steps necessary to complete the option. On 31 March 2016, the CITIC Parties commenced a new proceeding in the Supreme Court of Western Australia in relation to the Option Agreement (“Proceeding CIV 1514/2016”). Cape Preston Resource Holdings Pty Ltd was later added as a plaintiff. The plaintiffs seek an order for specific performance of the Option Agreement by Mineralogy and Mr. Palmer and an order that Mineralogy and Mr. Palmer complete the first option by taking the steps required by the Option Agreement to complete the transfer of a further company having the right to mine one billion tonnes of magnetite ore.

In its amended defence and counterclaim, Mineralogy makes allegations of breach, repudiation, frustration and termination of the Option Agreement on various grounds, among other allegations. Mr. Palmer filed his own defence, which repeats and relies on the matters pleaded by Mineralogy in its defence.

Mineralogy’s counterclaim seeks damages of US\$205,000,000 (which it says is the purchase consideration for the further company) and damages equating to the royalties that would have been payable by the further company to Mineralogy on the amount of magnetite ore required to produce six million tonnes of iron ore concentrate.

Pleadings have closed but no trial date has been set for Proceeding CIV 1514/2016.

Royalty Component B Dispute

The MRSLAs provide that Sino Iron and Korean Steel must pay a royalty to Mineralogy, a component of which (“Royalty Component B”) is payable on products produced and calculated by reference to “prevailing published annual FOB prices” (expressed in US dollars per dry metric tonne unit) for Brazilian pellets and Mount Newman fines. In Proceeding CIV 1808/2013 (originally commenced in the NSW Courts but moved to WA), Mineralogy pursued a claim against Sino Iron and Korean Steel for payment of sums in respect of unpaid Royalty Component B on products produced up to 31 March 2017 together with a claim against the Company pursuant to a guarantee given in the Fortescue Coordination Deed (“FCD”).

The trial in Proceeding CIV 1808/2013 ran for 10 sitting days from 14 June 2017. Justice Kenneth Martin delivered his reasons for decision on 24 November 2017, finding in favour of Mineralogy. His Honour’s reasons also addressed certain technical issues as to the availability of the relief sought, leading Mineralogy to commence a further proceeding against the CITIC Parties (“Proceeding CIV 3024/2017”) seeking the same relief as that sought in Proceeding CIV 1808/2013. On 18 December 2017, Justice Kenneth Martin made orders that, among other things:

- Proceeding CIV 1808/2013 and Proceeding CIV 3024/2017 be consolidated and that all claims be determined in the as consolidated proceeding (“Consolidation Orders”); and
- that judgment (the “Final Orders”) be entered for Mineralogy:
 - (i) against each of Sino Iron and Korean Steel in the amount of US\$82,409,227.91 (including US\$7,702,492.91 interest); and
 - (ii) against the Company in the amount of US\$153,859,032.00 (including US\$4,445,562.00 interest), pursuant to the guarantee in the FCD.

On 12 January 2018, Sino Iron paid to Mineralogy the judgment sums plus interest ordered by Justice Kenneth Martin on behalf of itself and Korean Steel. Since then, Sino Iron has also made payments of Royalty Component B for quarters subsequent to March 2017, in conformity with the judgment.

The CITIC Parties appealed the Consolidation Orders (“Proceeding CACV 5 and 6/2018”) and Final Orders (“Proceeding CACV 9/2018”). These appeals were heard on 4 and 5 December 2018 by the Court of Appeal of the Supreme Court of Western Australia. Judgment has been reserved.

FCD Indemnity Disputes

Mineralogy and Mr. Palmer have commenced proceedings to pursue claims pursuant to an indemnity given by the Company under the FCD to Mineralogy and Mr. Palmer against any loss suffered by it in relation to the failure by Sino Iron and Korean Steel to perform their obligations under the project agreements.

(i) Queensland Nickel FCD Indemnity Claim

On 29 June 2017, Mr. Palmer commenced a proceeding against the Company in the Supreme Court of Western Australia (“Proceeding CIV 2072/2017”) claiming damages in the sum of AUD2,324,000,000 (now reduced by an amended statement of claim to AUD1,806,438,000). This amount is alleged to represent the reduction in the value of the assets of the joint venture business carried on by the Queensland Nickel group of companies controlled by Mr. Palmer. The joint venture business was a nickel and cobalt refinery located at Yabulu in North Queensland.

As Sino Iron and Korean Steel had not paid amounts sought by Mineralogy on account of Royalty Component B, Mr. Palmer claims that Mineralogy did not, and was unable to, provide the funds to Queensland Nickel Pty Limited to enable it to continue managing and operating the joint venture business. Mr. Palmer alleges that Queensland Nickel Pty Limited was subsequently placed in administration, followed by liquidation, because it did not receive those funds from Mineralogy.

After commencing this proceeding, Mr. Palmer joined Mineralogy as a second plaintiff and Sino Iron and Korean Steel as second and third defendants.

No trial date has been set for Proceeding CIV 2072/2017.

(ii) Palmer Petroleum FCD Indemnity Claim

On 16 February 2018, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia (“Proceeding CIV 1267/2018”) in which it claims damages in the sum of AUD2,675,400,000. The statement of claim pleads that Mineralogy had agreed to provide funding from December 2009 and all future working capital in or around 2013 to its wholly owned subsidiary, Palmer Petroleum Pty Ltd (now named Aspenglow Pty Ltd) (“Palmer Petroleum”). As Sino Iron and Korean Steel had not paid Royalty Component B from the fourth quarter of 2013 to the second quarter of 2016, it is claimed that Mineralogy did not, and was unable to, provide the funds to Palmer Petroleum.

Mineralogy alleges that as a result, Palmer Petroleum was wound up in insolvency. The statement of claim pleads that Palmer Petroleum subsequently lost rights to a Papua New Guinea exploration licence and suffered a diminution in value, equivalent to the sale value of oil that allegedly would have been recoverable from within the exploration licence. Mineralogy claims that it suffered a loss equivalent to the diminution in value of its shareholding in Palmer Petroleum.

On 24 April 2018, the CITIC Parties filed and served their defence in the proceeding, which is in similar terms to the defence in the Queensland Nickel FCD Indemnity Claim. Among other things, the CITIC Parties contend that there was no breach of the project agreements and advance construction, causation and mitigation arguments.

No trial date has been set for Proceeding CIV 1267/2018.

Tenure claim

Mineralogy has granted each of Sino Iron and Korean Steel the contractual right to mine magnetite ore within mining tenements held by Mineralogy. Mining operations began in 2008, with trial production commencing in November 2012 and commercial production commencing from 1 July 2016.

The continued operation of the Sino Iron Project requires it to expand beyond the footprint it currently occupies. The need for expansion is primarily driven by the need to accommodate waste rock and tailings, which are necessary by-products of the mining process. The mining tenements upon which the Sino Iron Project is currently conducted, and those into which the CITIC Parties wish to expand in order to continue operation, are all held by Mineralogy. Without an expanded footprint, it will be necessary to suspend operations at the Sino Iron Project.

The CITIC Parties have sued Mineralogy and Mr. Palmer in the Federal Court of Australia (“Proceeding WAD 471/2018”) in relation to the failure and refusal of Mineralogy to:

- submit Mine Continuation Proposals for the Sino Iron Project to the State under the State Agreement;
- grant further necessary tenure for the Sino Iron Project;
- take steps to secure the re-purposing of general purpose leases for the Sino Iron Project; and
- submit a Programme of Works for the Sino Iron Project to the State.

The CITIC Parties bring claims for breach of contract, of unconscionable conduct under the Australian Consumer Law, and in estoppel. Mr. Palmer is sued as an accessory to the unconscionable conduct claim. The CITIC Parties seek orders requiring Mineralogy to take the four steps listed above, and to pay the CITIC Parties damages for its failure and refusal to do so. Damages are also sought from Mr. Palmer. The State is joined to the proceeding as a necessary party, because it is a party to the State Agreement, but no relief is sought against it.

Mineralogy has made a cross-vesting application (seeking orders that Proceeding WAD 471/2018 be transferred to the Supreme Court of Western Australia). That application will be heard on 15 April 2019.

Pleadings have not yet concluded and no trial date has been set for Proceeding WAD 471/2018.

Minimum Production Royalty Disputes

The MRSLAs required each of Sino Iron and Korean Steel to produce a minimum of six million tonnes of product by 21 March 2013, unless prevented from doing so by any of the reasons set out in clause 6.3(a) of the MRSLAs. If Sino Iron and Korean Steel failed to do so, they were each required, within one month of that date, to pay Mineralogy the equivalent of the Mineralogy Royalty on six million tonnes of iron ore concentrate (“Minimum Production Royalty”).

Mineralogy has made four previous attempts to bring a claim for payment of the Minimum Production Royalty under clause 6.3(b) of the MRSLAs. Each of those claims was either discontinued by Mineralogy or struck out. On 11 December 2018, Mineralogy and Mr. Palmer commenced a new proceeding against the CITIC Parties and Sino Iron Holdings Pty Ltd (“SIH”) in the Supreme Court of Western Australia (“Proceeding CIV 3129/2018”), in which the claim for the Minimum Production Royalty was again revived.

In their statement of claim in Proceeding CIV 3129/2018, Mineralogy and Mr. Palmer plead that each of Sino Iron and Korean Steel failed to produce at least six million tonnes of product by 21 March 2013 (and were not prevented from doing so for any of the reasons set out in clause 6.3(a) of the MRSLAs), and accordingly became liable to pay the Minimum Production Royalty by 21 April 2013. Mineralogy seeks, among other relief, an order that each of Sino Iron and Korean Steel pay Mineralogy AUD6,865,985, plus US\$87,104,633, plus default interest, and that the Company pay AUD13,731,970, plus US\$174,209,266, plus interest and/or is liable to indemnify Mineralogy in respect of any amount payable by Sino Iron and Korean Steel (pursuant to the guarantee and the indemnity under the FCD).

In the event that Mineralogy is estopped or precluded from seeking the above relief in Proceeding CIV 3129/2018, Mr. Palmer seeks payment by the Company of US\$187,941,236 pursuant to the indemnity under FCD.

On 23 January 2019, the CITIC Parties and SIH filed and served an application to stay or permanently dismiss Proceeding CIV 3129/2018, or strike out the statement of claim, on grounds including that it is an abuse of process. No date has been fixed for the hearing of that application.

Site Remediation Fund Dispute

On 22 October 2018, Mineralogy commenced a proceeding against the CITIC Parties in the Supreme Court of Western Australia (“Proceeding CIV 2840/2018”) concerning the Site Remediation Fund.

Under clause 20.5 of the MRSLAs, Mineralogy may require Sino Iron and Korean Steel to provide reasonable security for the performance obligations relating to the protection of the environment and rehabilitation following Mine Closure, to be provided by way of an annual contribution into the Site Remediation Fund, which must be maintained by Mineralogy in a separate interest-bearing trust account, designated as a trust account.

Under clause 20.6(e) of the MRSLAs, for each Operating Year, Mineralogy will “determine an annual charge on account of future Site Remediation Costs ... having regard to ... Mineralogy’s best prevailing estimate of the amount of future Site Remediation Costs ... and the number of years remaining until Mine Closure”.

In Proceeding CIV 2840/2018, Mineralogy claims that the CITIC Parties are required to contribute AUD529,378,207 into the Site Remediation Fund. The CITIC Parties dispute that they are required to make this contribution.

The CITIC Parties have filed a defence and counterclaim in Proceeding CIV 2840/2018 seeking, among other things, orders appointing a new trustee in place of Mineralogy and a declaration that the annual charge to be made by Sino Iron and Korean Steel in the operating year commencing on 1 July 2018 is AUD6,000,000 or such other amount determined by the Court.

No trial date has been set for Proceeding CIV 2840/2018.

(c) Metallurgical Corporation of China (“MCC”) claim

MCC was appointed as the EPC (engineering, procurement and construction) contractor for the processing area and related facilities at the Sino Iron Project. The fixed price contract amount was US\$3.4 billion.

On 30 January 2013, MCC announced that it had incurred costs over the value of the contract and had provided additional funding of US\$858 million to MCC Mining (Western Australia) Pty Ltd (“MCC WA”), its wholly owned subsidiary company responsible for delivering MCC’s obligations under the contract.

As at the date of issuance of the financial statements, MCC has not claimed any additional costs from Sino Iron or its subsidiary companies, other than minor contract variations in the normal course of operations, and the Group believes it has satisfied all of its obligations under the contract.

Under the contract, the Group has a right to claim liquidated damages from MCC WA for certain delays in the completion of their project scope at a daily amount of 0.15% of the value of the main contract (approximately US\$5 million per day, with a cap of approximately US\$530 million in total). As at balance sheet date the cumulative days delay that has been incurred has resulted in the contractual cap to the liquidated damages being reached.

As set out in the Company's announcement dated 24 December 2013, Sino Iron and MCC WA entered into a supplemental contract pursuant to which Sino Iron will take over the management of the construction and commissioning of the remaining four production lines of the Sino Iron Project. An independent audit will opine on various matters including the contract price for the hand over pursuant to the supplemental contract and related fees and expenses, the value of the supporting services provided by Sino Iron to MCC WA in carrying out its responsibilities under the contract, the extent of the works completed by MCC WA in respect of the first two production lines, and the liability of MCC WA in respect of the extensive delays on completion of the works under the contract. By reference to such findings of the independent audit, Sino Iron and MCC WA expect to enter into further negotiations to determine the amount of liabilities to be borne between the parties. Outcomes are not yet known as at 31 December 2018.

Note:

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622) and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

FINANCIAL REVIEW AND ANALYSIS

<i>In HK\$ million</i>	For the year ended 31 December		Increase/ (Decrease)
	2018	2017	
Revenue	533,285	450,536	82,749
Profit before taxation	93,969	82,783	11,186
Profit attributable to ordinary shareholders	50,239	43,902	6,337
Basic earnings per share (HK\$)	1.73	1.51	0.22
Diluted earnings per share (HK\$)	1.73	1.51	0.22
Dividend per share (HK\$)	0.41	0.36	0.05
Net cash generated from operating activities	151,899	107,133	44,766
Capital expenditure	43,802	45,323	(1,521)
	As at 31 December	As at 31 December	Increase/ (Decrease)
	2018	2017	
Total assets	7,660,713	7,520,739	139,974
Total liabilities	6,850,053	6,727,098	122,955
Total ordinary shareholders' funds and perpetual capital securities	558,545	550,951	7,594
Return on total assets (%)	1.4%	1.3%	0.1%
Return on net assets (%)	9.1%	8.6%	0.5%

Profit/(loss) and assets by business

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

Revenue by business

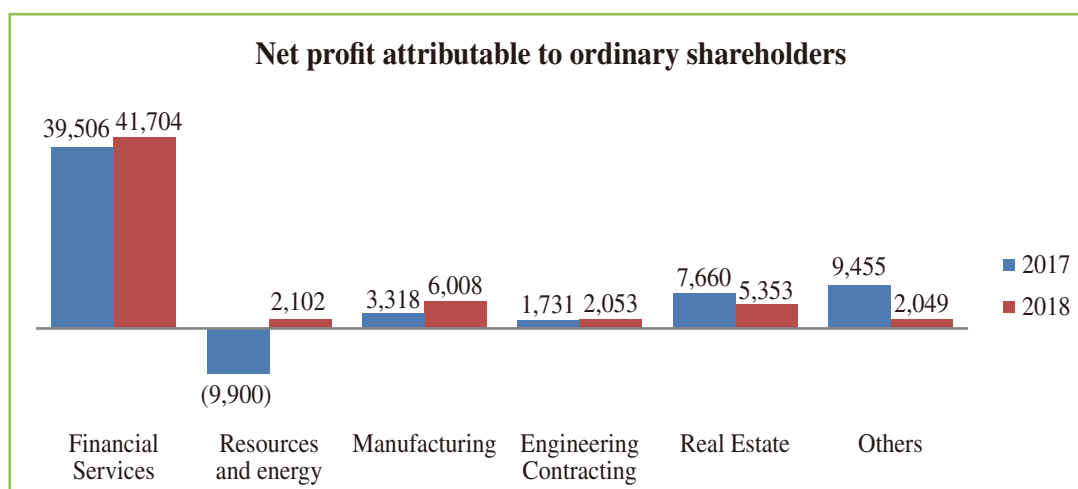
<i>In HK\$ million</i>	For the year ended 31 December		Increase/(decrease)	
	2018	2017	Amount	%
Financial services	202,949	190,028	12,921	6.8%
Resources and energy	78,722	63,456	15,266	24%
Manufacturing	121,939	97,432	24,507	25%
Engineering contracting	19,700	14,653	5,047	34%
Real estate	8,968	3,227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

Revenue by nature

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

Profit Attributable to Ordinary Shareholders by Business

In HK\$ million



Capital Expenditures

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

Group Financial Position

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

Loans and advances to customers and other parties

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

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

Deposits from customers

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

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

RISK MANAGEMENT

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

Financial Risk

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

Asset and liability management

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

1. Debt

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

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

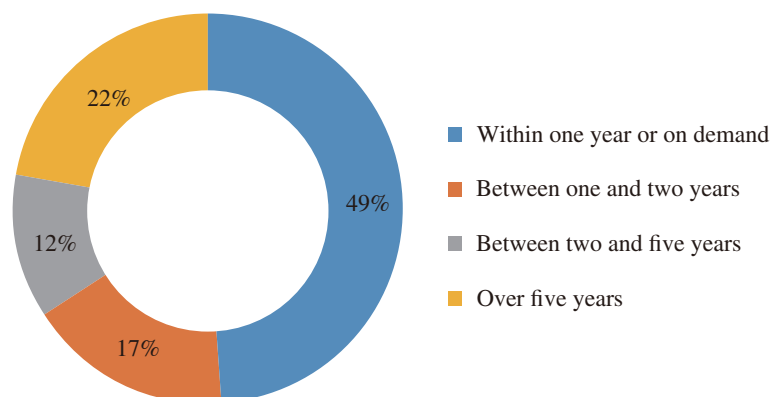
The details of debt are as follows:

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

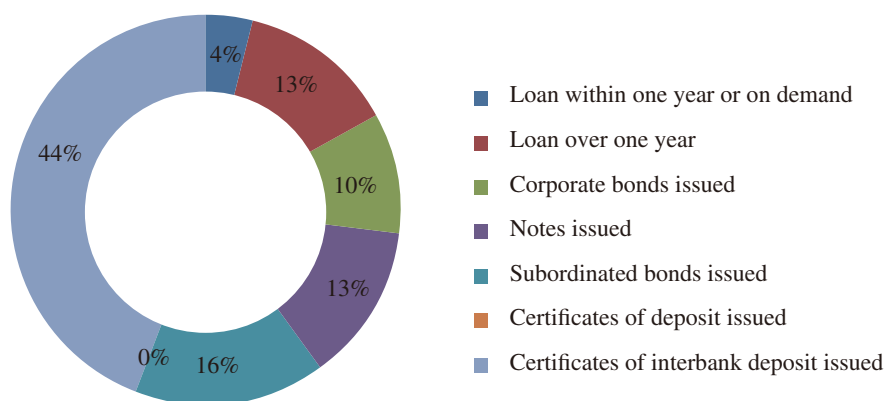
Note:

- (1) Consolidated debt of CITIC Limited is the sum of "bank and other loans" and "debt instruments issued" in the Consolidated Balance Sheet of CITIC Limited excluding interest accrued;
- (2) Debt instruments issued include corporate bonds, notes, subordinated bonds, certificates of deposit and certificates of interbank deposit issued excluding interest accrued;
- (3) Debt of the head office of CITIC Limited is the sum of "bank and other loans", "long-term borrowings" and "debt instruments issued" in the Balance Sheet of CITIC Limited excluding interest accrued;
- (4) Debt of CITIC Bank refers to CITIC Bank's consolidated debt securities issued, including long-term debt securities, subordinated bonds, certificates of deposit and certificates of interbank deposit issued excluding interest accrued.

Consolidated debt by maturity as at 31 December 2018



Consolidated debt by type as at 31 December 2018



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

<i>In HK\$ million</i>	Consolidated	Head office
Debt	894,313	104,198
Total equity ⁽⁵⁾	810,660	393,005
Debt to equity ratio	<u>110%</u>	<u>27%</u>

Note:

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

2. *Liquidity risk management*

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

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

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

3. *Credit ratings*

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

Treasury risk management

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

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

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

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

1. Interest rate risk

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

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

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

2. Currency risk

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

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

3. Counterparty risk for financial products

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

4. Commodity risk

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

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

5. Market price risk

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

Economic Environment

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

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

Operational Risk

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

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

Credit Risk

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

Competitive Markets

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

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

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

Other External Risks and Uncertainties

Impact of local, national and international laws and regulations

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

Impact of new accounting standards

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

Natural disasters or events, terrorism and diseases

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

Environmental, Social and Governance Report

In 2018, CITIC Limited continued to fulfil its social responsibilities, protect the environment, and deliver projects that benefit society and contribute to prosperity. Highlights of the year included the implementation of a talent development strategy, promotion of a shareholding scheme for core staff of subsidiaries, and continuous improvement of our mid- to long-term incentive programmes. We also continued to promote green management in our operations and offices and to provide eco-friendly products and services for our customers. Recognition for our environmental work included a gold award at the Global Project Innovation Awards by the International Water Association for CITIC Envirotech's Beijing Huaifang Reclaimed Water Plant, the only Asian project to win this award. CITIC Trust was also named China's Best Trust Company by *The Asian Banker*, the first international award won by a company in China's trust industry. CITIC Construction received the Road Engineering Award in the Tien-yow Jeme Civil Engineering Prize for its East-West Expressway (West Section) project in Algeria. The on-line retail platform-*One CITIC* offers customers with access to internal and external resources for more premium goods and services. As a state-owned enterprise, we understand that we have a responsibility to alleviate poverty and, accordingly, encourage our more than 13,000 volunteers to provide their services to the community. In 2018, nearly 10,000 staff were involved in volunteer services across mainland China, Hong Kong and Macau. One of the volunteer projects by the CITIC Bank Credit Card Centre was named an Excellent Project in the National Volunteer Service Project Competition.

Staff Support

At CITIC, we are committed to building platforms for our staff to live up to their talent and take systematic measures to help our staff grow with our company. As of the end of 2018, CITIC Limited employed a total of 273,344 people (including 143,867 from M China Management Limited). Of these, 49.09% were women and 68.25% were age 35 or below.

During the year, we complied fully with all relevant laws, regulations and policies with regard to our employment and remuneration practices. These included labour contracts, as well as protection for the rights and interests of our staff, which enabled us to maintain harmonious and stable relations with our workforce. We also continued to provide innovative incentive programmes for our employees. At CITIC Pacific Special Steel, we offered a shareholding scheme for core staff that allows the Company to share the benefits of growth with them. In addition, we optimised our performance appraisal and remuneration systems for our subsidiaries, which were tailored according to the type and development stages of their businesses. Staff remuneration and incentives are now tied to performance appraisal results, with a strong emphasis on value creation and contributions to shareholder returns. At CITIC Industrial Investment, the appraisal and incentive system, quantitative performance assessments and contractual management for professional managers were established. As required by the Hong Kong SAR Government, we made contributions to the Mandatory Provident Fund for all staff based in Hong Kong and provided basic social insurance coverage for our staff in mainland China according to the requirements of local governments. In addition, most of our mainland subsidiaries offered a corporate annuity (supplemental pension insurance) and supplemental medical insurance for their more than 130,000 staff.

To develop our staff, we continued to promote our Five Talent Teams programme, which includes staff postings, internal rotations and exchanges between our headquarters and subsidiaries, CITIC and provincial and municipal governments, and with our strategic partner companies. We also improved our staff training system. In 2018, CITIC Limited and its subsidiaries organised over 6,000 training programmes that reached more than 700,000 people. We also hosted our third vocational skills competition for our production subsidiaries as well as the third financial business skills competition for our professional staff.

For the health and safety of our staff, we have various safe and effective production policies and measures in place. During the year, CITIC Construction furthered its collaboration with International SOS, an international medical and travel security services firm; increased communication with domestic government authorities; and promoted exchanges with relevant associations and other Chinese companies. In 2018, one of the affiliated companies of CITIC Resources, KBM, entered into a medical service contract with Sofie Med Group, a local firm specialising in advanced medical technology, to offer a high-quality medical service for its staff.

Environmental Protection at CITIC

During the year, we complied with all environmental laws and regulations in the countries and regions where we operate and increased our environmental protection efforts in line with our environmental management policies. In 2018, CITIC Mining International organised 15 projects for monitoring the impacts of its operations on the environment and identifying potential environmental risks. CITIC Bank gave priority to upgrading and reforming strategic emerging industries and high-end manufacturing industries, while also lending credit support to green initiatives such as energy saving, emissions reduction and renewable energy. In 2018, CITIC Bank increased green lending by 4.27% over the previous year. CITIC Trust launched trust schemes that enabled Changxing Economic and Technology Development Zone in Huzhou, Zhejiang Province to proceed with the first phase construction of its Green Industry Sustainable Development Project. The aim of this project is to help Changxing Economic and Technology Development Zone develop into a green industry zone. China Securities capitalised on its competitive advantage in the securities underwriting market by assisting 8 enterprises to issue 14 green bonds, while CITIC Environment joined local governments to build an environmental public education zone in the Yellow River delta.

In order to reduce pollution, CITIC Bank, Lanzhou Branch and CITIC Environment entered into a Public-private Partnership (PPP) Project with local governments for the renovation and expansion of Qilihe Annin sewage treatment plants in Lanzhou City. The completion of the project will promise a greener Lanzhou City. At Yuedong Oilfield, CITIC Resources replaced traditional workover rigs powered by diesel engines with three grid-powered workover rigs. Together with other measures, this reduced electricity consumption by 490,000 kWh and fuel oil consumption by 711.08 tonnes as compared with the previous year, while also cutting air pollutants such as sulphur dioxide, nitrogen oxide, smoke and dust.

During the year, CITIC Heavy Industries initiated an appraisal method, with indicators covering major energy-consuming production entities and more than 100 energy consumption quotas. Xin Yegang of CITIC Pacific Special Steel also examined energy sources such as gas, steam and electricity with the objective of increasing self-generated power. As a result, energy consumption by this factory's electric furnace plant and rotating furnace plant decreased by 1.3% and 2.9%, respectively, as compared with the year before. Gas consumption used for forging fell by 18.3% as compared with the previous year, while power generated from gas amounted to 260 million kWh, an increase of 9.03% over 2017.

In our offices, we reduced waste energy and pollution by upgrading high energy-consumption equipment. We also cooperated with non-profit environmental organisations to explore new green practices as part of our effort to implement a paperless office. CITIC Telecom International has been a corporate member of WWF Hong Kong for two consecutive years. Dah Chong Hong, which joined the Carbon Audit • Green Partners scheme of the Environmental Protection Department of Hong Kong in 2017, became a pearl member as well as a participant in the Low-carbon Office Operation Programme of the World Wide Fund for Nature Hong Kong in 2018.

Promoting the CITIC Brand

To maintain a positive image for our brand, we continued to implement regular quality controls in our operations to ensure the high quality of our products and services. CITIC Trust's Investment + Poverty alleviation programme during the year helped to improve its image as a socially responsible company that cares for the welfare of the community. CITIC-Prudential launched over 40 new products in response to customer needs for products covering critical illness, children's education, old-age insurance and cancer risk for elderly people, all of which achieved satisfactory sales in 2018. At the Geely automobile factory in Belarus, the company passed the inspection of the National Acceptance Committee of Belarus, making it the first independent automobile assembly factory in the country. In northern Africa, the west section of the Algerian East-west Expressway Project won the 15th Tien-yow Jeme Civil Engineering Prize for highway engineering projects.

To protect consumers' data privacy, CITIC Securities introduced data masking, restricted the use of USB sticks to certain authorised departments and staff, and installed monitoring systems, including 1M monitor tool and online behavior monitor and control tool, to prevent leaks of customers' data and other sensitive information.

We also carried out various financial educational initiatives to remind the public of investment risks and provide basic information on financial markets and investment fraud. During the year, the Shenzhen branches of CITIC Securities organised more than 10 educational activities targeting elderly investors that reached over 270 people. China Securities also established China's first financial education centre in Beijing, which received over 8,300 student visitors.

Working with our Partners

The launch of the *One CITIC* platform in 2018 brought together CITIC companies and external partners in an online community that gives users access to banking, brokerage, wealth management, insurance, retail and other services under the CITIC brand. As of the end of 2018, the total number of registered users was over 10 million.

At CITIC Mining International, policies were set up to manage imports by its supply chain partners and ensure that all goods brought into Australia meet the country's strict requirements for biological safety, ongoing support along with regular training and recurrent training sessions are conducted with overseas vendors to ensure everyone in the supply chain is up-to-date and understand Australia's latest Biosecurity requirements.

CITIC Envirotech held the 2018 Chinese City and Region Eco Environment Development Forum together with the Chinese Society for Environmental Science to discuss environmental planning and other related topics. A total of about 200 participants from government, environmental protection groups and industry attended the forum. CITIC Press worked with publication authorities in Beijing, Guangdong and Henan to accredit books and combat piracy and intellectual property infringements. CITIC Press also signed a book copyright agreement with Alibaba Group to prevent the copying of new books immediately after their release.

To prevent corruption, we review our Code of Conduct for employees of CITIC Limited and our subsidiaries on a semi-annual basis with 100% coverage. What's more, we monitor the integrity of our overseas employees and organise anti-corruption education for our overseas engineering construction subsidiaries, including training in international laws and regulations. CITIC Trust initiated an OA supervision software to standardize supervision in a digitalized and integrated way.

Contributing to the community

As a socially-responsible company, we are fully committed to giving back to the community and contributing to the welfare of those in need. One of our initiatives in this regard is an exchange programme that allows young people in Hong Kong to learn more about the economic and social development of mainland China. Another activity, a summer internship programme for Hong Kong university students, was held for a fourth consecutive year in 2018, which included placements for 39 students at CITIC financial companies such as CITIC Bank, CITIC Securities and CITIC Trust. Our companies also participate in public welfare initiatives that contribute to the prosperity and stability of Hong Kong and Macau. Dah Chong Hong, for example, has supported Oxfam rice events over the past 12 years with donations of more than 12 tons of rice. Companhia de Telecomunicações de Macau, S.A.R.L. (CTM) under CITIC Telecom International, provided a typhoon emergency plan that ensures uninterrupted communications throughout Macau during severe storms.

At CITIC, we have organised various charity events, which are industry-specific and unique to CITIC. CITIC Bank's 104 multi-media classrooms, known as Dream Centres, are now in operation across 28 regions of China. During the year, the bank organised nine Volunteer Teachers Trips for students in need and set up The Love, Trust, Be Together community welfare programme. CITIC Bank has organized 9th Volunteer Teacher Program and charitable summer camps. CITIC Trust's ABC 2018 Yu Ai Charitable Trust, which was registered with the Department of Civil Affairs of Guangdong Province, is now the largest charitable trust in China. Also during the year, CITIC Prudential Life Insurance organised a nation-wide lecture tour to help parents of prospective foreign students understand studying abroad for better life planning.

In 2018, CITIC Limited had more than 13,000 volunteers donating their time in more than 30 cities and regions, including Beijing, Shanghai, Chongqing and Luoyang. They participated in over 60 volunteer activities involving nearly 10,000 participants during the year, such as caring for the children of migrant workers, aiding the disabled and raising fund for schools and students.

CORPORATE GOVERNANCE

CITIC Limited is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to promote investor confidence and protect the interests of our shareholders. Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments. A full description of CITIC Limited's corporate governance will be set out in the section of Corporate Governance contained in the 2018 Annual Report.

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

AUDIT AND RISK MANAGEMENT COMMITTEE

The audit and risk management committee of the board, consisting of five non-executive directors of whom three are independent, reviewed the 2018 consolidated financial statements and the annual results for the year ended 31 December 2018 in conjunction with the management and CITIC Limited's external auditor and recommended its adoption by the board.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have resolved to recommend to shareholders the payment of a final dividend of HK\$0.26 per share (2017: HK\$0.25 per share), which together with the interim dividend of HK\$0.15 per share (2017: HK\$0.11 per share) already paid makes a total dividend of HK\$0.41 per share (2017: HK\$0.36 per share) for the year ended 31 December 2018. The total dividend of HK\$0.41 per share will amount to HK\$11,927 million of CITIC Limited's profit for the year ended 31 December 2018 (2017: HK\$10,473 million).

The proposed final dividend of HK\$0.26 per share, the payment of which is subject to approval of the shareholders at the annual general meeting of CITIC Limited to be held on Wednesday, 5 June 2019 ("2019 AGM"), is to be payable on Wednesday, 26 June 2019 to shareholders whose names appear on the Register of Members of CITIC Limited on Friday, 14 June 2019.

The Register of Members of CITIC Limited will be closed during the following periods:

- (i) from Thursday, 30 May 2019 to Wednesday, 5 June 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2019 AGM. In order to be eligible to attend and vote at the 2019 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with CITIC Limited's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 29 May 2019; and

- (ii) from Wednesday, 12 June 2019 to Friday, 14 June 2019, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with CITIC Limited's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 11 June 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

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

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

FORWARD LOOKING STATEMENTS

This announcement contains certain forward looking statements with respect to the financial condition, results of operations and business of the Group. These forward looking statements represent CITIC Limited's expectations or beliefs concerning future events and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Forward looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some cases materially, from those implied or anticipated in any forward looking statement or assessment of risk.

ANNUAL REPORT AND FURTHER INFORMATION

A copy of the announcement is posted on CITIC Limited's website (www.citic.com) and Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk). The full Annual Report will be made available on the respective websites of CITIC Limited and Hong Kong Exchanges and Clearing Limited around 18 April 2019.

By Order of the Board
CITIC Limited
Chang Zhenming
Chairman

Hong Kong, 29 March 2019

As at the date of this announcement, the executive directors of CITIC Limited are Mr Chang Zhenming (Chairman), Mr Wang Jiong and Ms Li Qingping; the non-executive directors of CITIC Limited are Mr Song Kangle, Ms Yan Shuqin, Mr Liu Zhuyu, Mr Peng Yanxiang, Mr Liu Zhongyuan and Mr Yang Xiaoping; and the independent non-executive directors of CITIC Limited are Mr Francis Siu Wai Keung, Dr Xu Jinwu, Mr Anthony Francis Neoh, Mr Paul Chow Man Yiu, Mr Shohei Harada and Mr Gregory Lynn Curl.